

PROFIT/VOLUME CHART

Also called Contribution/sales chart.

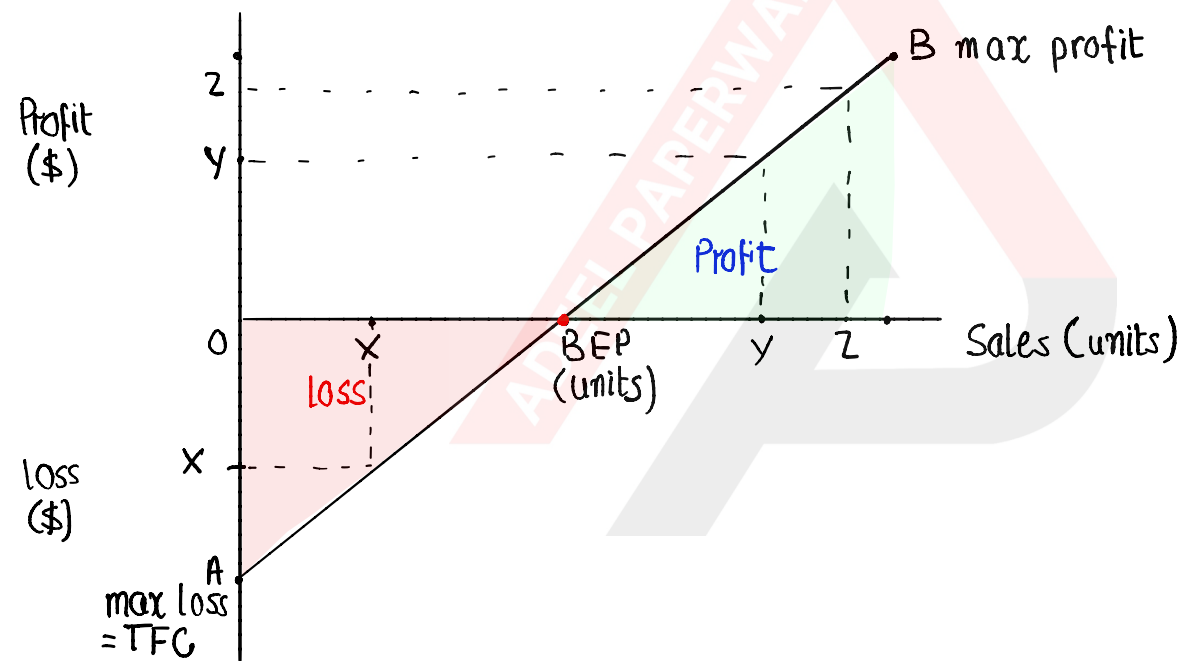
Purpose: Determines the breakeven point and also calculates profit/loss at different activity or output level

On x axis: sales in units or sales in value (quantity sold \times price)

on y axis: positive region: profit
negative region: loss

maximum loss: i. when output level = zero
ii. Total revenue = zero
iii. Variable cost = zero
iv. But the firm is paying for fixed cost

therefore, maximum loss = total fixed cost



Example

Selling Price = \$10/unit

Variable cost = \$6/unit

Total Fixed Cost = \$40,000

Total Output = 15000 units

Calculations

$$\text{Cont./unit} = \$10 - \$6 = \$4/\text{unit}$$

$$\text{Breakeven point} = \frac{\$40000}{\$4} = 10000 \text{ units}$$

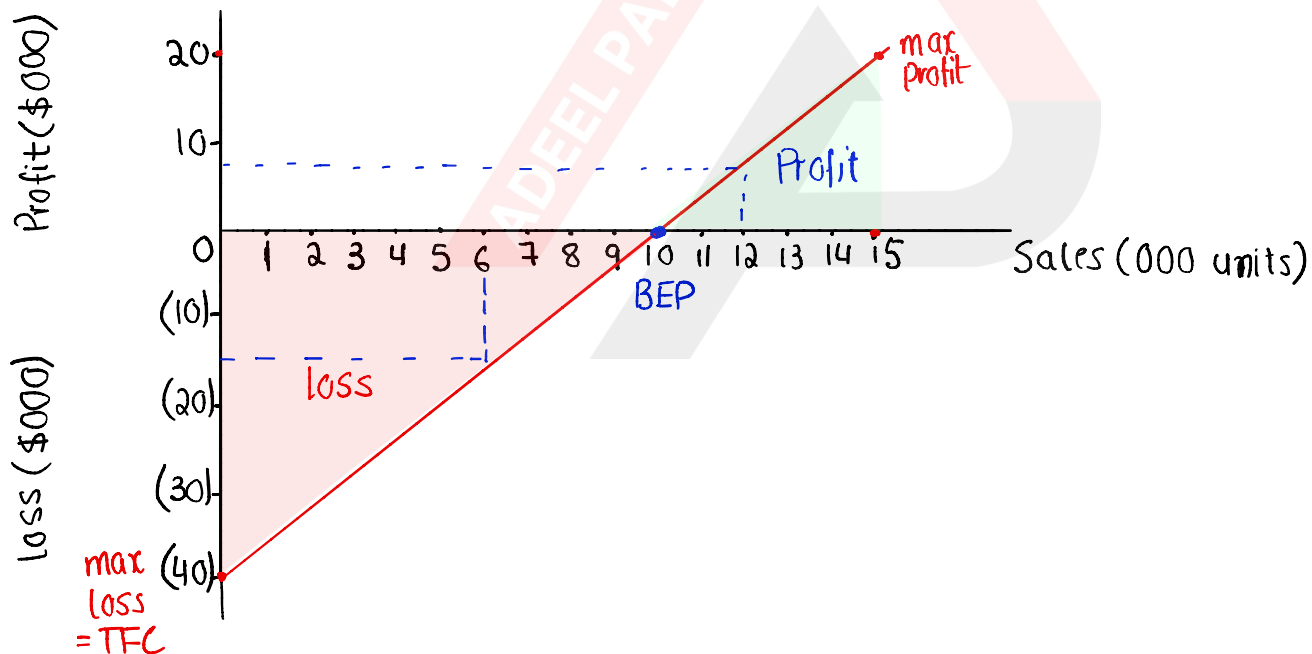
$$\text{Total Revenue} = 15000 \text{ units} \times \$10 = \$150000$$

$$\text{Total Variable Cost} = 15000 \text{ units} \times \$6 = \$90000$$

$$\text{Total Cost} = \$90000 + \$40000 = \$130000$$

$$\text{Maximum Profit} = \text{TR} - \text{TC} = \$150000 - \$130000 = \$20000$$

$$\text{Maximum Loss} = \text{Fixed cost} = \$40000$$



PROFIT STATEMENTS

Marginal Costing/
Variable Costing



Prepared for internal
management for Decision
making purpose

Absorption Costing/
Total Costing / Full Costing



Prepared for reporting
the performance of
the business

Marginal Costing			Absorption Costing		
	\$	\$		\$	\$
Sales Revenue		x	Sales Revenue		x
(-) Variable Production Cost			(-) Cost of Sales		
opening inventory	x		opening inventory	x	
+ production	x		+ production	x	
(-) closing inventory	(x)	→ (x)	(-) closing inventory	(x)	→ (x)
		x	Gross Profit		x
(-) Variable Non Production Cost			(-) Non Production Expenses		
variable sales overheads		(x)	variable sales overheads	x	
Total Contribution		x	fixed admin. overheads	x	
			fixed sales overheads	x	→ (x)
(-) Total Fixed Cost			Net Profit		x
fixed production overheads	x				
fixed admin. overheads	x				
fixed sales overheads	x	→ (x)			
Net Profit		x			

INTRODUCTION TO COST AND MANAGEMENT ACCOUNTING

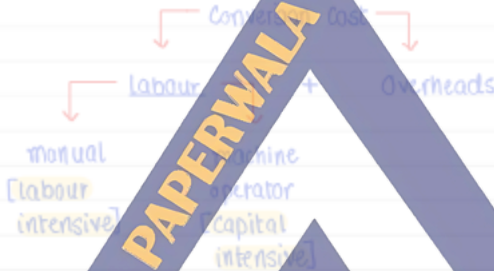
Cost/Expense: Outflow of resources.

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Stages of Manufacturing

1. Input [raw material] → 2. Process → 3. Output [finished goods]



Labour intensive business: Business organisations dependant on manual labour rather than technology or machinery.

Capital intensive business: Business organisations which are more dependant on machines rather than manual labour.