Advanced cost accounting (unit - 1) 8 marks

Study material.

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WRITE SHOT NOTE ON THE FOLLOWING :-

1. Fixed cost :-

It is the total of all those costs which are termed " period costs" or " time costs". They do not depend on the volume of production and sales. They must be incurred irrespective of the actual activity or operations.

Examples :- office rent, factory rent, manager's salary, etc, ...

2. Variable cost :-

Variable cost are the costs which increase or decrease in proportion to the output and sales. variable cost are called " product cost" or "marginal costs". Usually they vary in direct proportion to the output. They include all the direct cost, direct material, direct wages, direct expenses and variable overheads.

3. Marginal cost :-

Marginal cost is the additional cost of producing an additional unit of a product. The amount at any given volume of output by which aggregate costs are changed if the volume of output is increased or decreased by one unit.

marginal cost = prime cost + Total variable overhead
(or) total cost - fixed cost.

4. Margin of safety :-

margin of safety is the difference between actual sales and break even sales. margin of safety is calculated in rupees, units or even in percentage form. margin of safety indicates the value / volume of sales which directly contribute to profit, as fixed costs have already been recovered at break even point.

margin of safety = Actual sales - Break even sales.

(or)

$$= \frac{\text{profit}}{\text{PV ratio}} = \frac{P}{P/V}$$

5. cost - volume - profit analysis :-

cost - volume - profit analysis is the analysis of three variables viz, cost, volume and profits. This analysis measures variations of cost

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and volumes and their impact on profit. profit is affected by several internal and external factors which influence sales revenue and costs.

6. P/V (Profit volume) Ratio :-

The high P/V ratio indicates high profitability and low pv ratio indicates low profitability. This ratio helps in comparison of profitability of various products.

$$\text{PV ratio} = \frac{\text{contribution}}{\text{sales}} = \frac{C}{S}.$$

7. Break even analysis :-

" A break even analysis determines at what level cost and revenue are in equilibrium." Thus break even analysis refers to a system of determination of that level of activity where total sales are just equal to total costs.

$$\text{Break even analysis (in units)} = \frac{\text{Fixed costs}}{\text{contribution per unit}}$$

$$\text{Break even analysis (in rupees)} = \frac{\text{Fixed cost}}{\text{P/V ratio}}$$

8. contribution:-

contribution is difference between sales and marginal cost. It is the contribution towards fixed cost and profit.

contribution = selling price - marginal cost

contribution = fixed expenses + profit

contribution - fixed expenses = profit.

9. Angle of incidence:-

In graphic of marginal cost data, a break even chart, the total cost line and sales line cross each other. The point of their crossing is termed " Break-even point ".
The angle at which the sales line crosses the total cost line is called the " Angle of incidence ".

10. semi variable cost:-

A semi variable cost, also known as a semi fixed cost or a mixed cost, is a cost composed of a mixture of both fixed and variable components. cost are fixed for a set level of

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production or consumption and become variable after the production level is exceeded.