MARGINAL COSTING

Time Allowed : 35 Minutes	TEST-8	Total Marks: 20 Marks

Q.1: Distinguish between Marginal Costing and Absorption Costing. **(5 Marks)**

Q.2: LR Ltd. is considering two alternative methods to manufacture a new product it intends to market. The two methods have a maximum output of 50,000 units each and produce identical items with a selling price of ₹ 25 each. The costs are:

	Method – 1 Semi-Automatic (₹)	Method – 2 Fully-Automatic
Variable cost per unit	15	10
Fixed costs	1,00,000	3,00,000

You are required to calculate:

(1) Cost Indifference Point in units. Interpret your results.

(2) The Break-even Point of each method in terms of units.

(5 Marks)

Q.3 The management of your organization is considering a wage increase of 20%, effective from the beginning of next year. By virtue of various cost drives already implemented, it is expected that there would be no furthered increase in any other cost. The management seeks your feedback on the following-

(i) Increase in selling price required for maintaining the existing profit-volume ratio.

(ii) Assuming no increase in selling price is possible under the prevailing competitive environment, the extent to which the reduction in overall profit (following wage increase) may be recovered by utilizing the extra capacity.

(iii) The effect on overall profitability if the present capacity is increased by 30% accompanied by an increase in fixed overheads by ₹ 1,00,000, selling price remaining at the present level.

The **following data** are readily available:

Present selling price	₹ 80 per unit
Variable cost: Material	₹ 30 per unit
Labour	₹ 20 per units
Variable overhead	₹ 10 per unit
Sales (at present)	50,000 units
Fixed overheads	₹ 2,00,000

(10 Marks)