MTH302 GDB Idea Solution:

"What are the Cost Volume Profit and Break Even Analysis and their uses in business?

Solution:

Cost-Volume-Profit Analysis enables to study the inter-relationship of three basic factors of business operations viz., Cost of production, Volume of sales and Profit.

It is a technique or tool used in Management Accounting.

It is used by the management of a firm in Budgeting and Profit planning.

This technique helps to examine the impact of the following on the net profit of a firm.

a) Changes in selling prices

b) Changes in Volume of sales

c) Changes in Variable Costs

d) Changes in Fixed Costs

Break-even analysis is also a technique or tool used in Management Accounting.

This technique is used :

a) To determine the Break-even Point

b) To determine the selling price to achieve the desired level of profit

c) To determine the Volume of sales to earn a desired amount profit

d) To deterrmine the costs and revenue at different levels of output

e) To deterrmine the most profitable sales mix

f) To study the effect of change in selling price in home market and foreign market

g) To study the impact of change in changes in fixed costs / variable costs on profits

h) To compare the profitability of two or more departments or firms

i) To take wise or profitable deccisions like Make or Buy decision, Discontinuation of a product line, Acceptance of a speccial job

j) To determine cash requirements at different levels of operation