Assignment - 3

Sec - A

1. What is margin of Safety?

ans margin of safety is the difference between actual or expected sales and the breakeven sales. It indicates how much sales can drop before the business reaches its breakeven point.

2. What is breakeven point?

ans The breakeven point is the level of sales at which total revenue equals total cost, resulting in no profit or loss.

3. What do you mean by P/V ratio?

ans The Profit/Volume (P/V) ratio is the ratio of contribution to sales. It shows the relationship between profit and sales and is calculated as:

P/V Ratio = (contribution / sales) x 100.

4. Distinguish between short period and long period.

ans Short Period: A time frame where at least one input is fixed, and firms cannot enter or exit the industry.

- Long Period: A time frame where all inputs are variable, and firms can freely enter or exit the industry.

Sec-B

1. What is the significance of breakeven Point for an enterpreneur?

Ans
- Helps determine minimum Sales needed to avoid Losses.
- Aids in setting Sales targets and pricing Strategies.
- Supports decision-making on cost control and budgeting.
- Useful for assessing the financial viability of a business.
- Helps in Profit planning and understanding the impact of changes in costs or Prices.

2. Explain the characteristics of Perfect market structure.

Ans
- large number of buyers and sellers.
- Homogeneous Products.
- Free entry and exit of firms.
- Perfect knowledge of market conditions.
- NO government intervention
- Price is determined by market demand and supply (firms are price takers.)

Sec - C

1. Determine the equillibrium ~~p~~ price of goods in a Perfect market:

ans In a Perfect market, equilibrium Price is determined where the quantity demanded equals the quantity supplied.

- Equilibrium Price occurs when Demand = Supply
- Graphically, It's the Point where the demand curve intersects the supply curve.
- changes in demand or supply shift the Curves, changing the equillibrium.

2. How to measure breakeven point arithmatically?

ans Breakeven Point (units) = fixed costs / (Selling Price Per unit - Variable Cost Per unit)

- Contribution Per unit = Selling Price - Variable Cost
- Breakeven Sales ~~(₹)~~ (₹) = fixed costs / P/V Ratio
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This calculation helps identify the minimum sales needed to avoid losses.