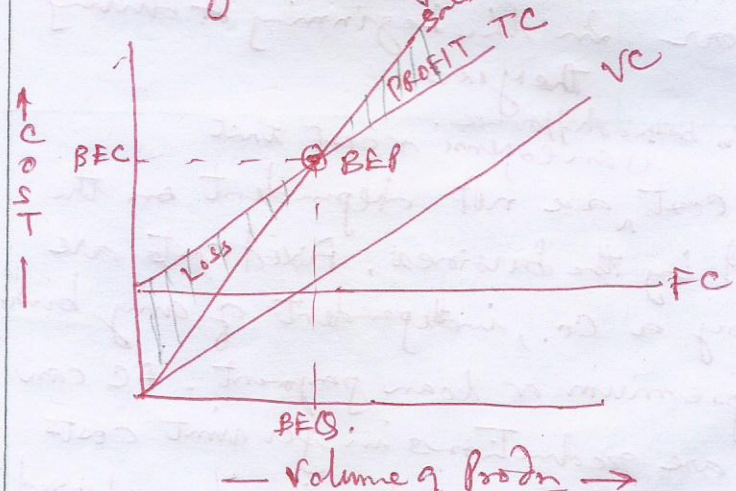
limit, then a second class group is formed, necessitating the employment of another tutor.

As the level of business activity changes, some costs change while others don't. The response of a cost to a change in business is known as 'COST BEHAVIOUR'. Managers should be able to predict the behaviour of a particular cost in response to a change in particular business activity. For this purpose, costs are classified as variable, fixed and mixed costs.

(iii) <u>CVP (COST-VOLUME-PROFIT)</u>: The cost volume profit analysis, commonly referred to as CVP, is a planning process that mgmt uses to predict the future volume of activity, costs incurred, sales made and profits recd. In other words, it's a mathematical eqn that computes how changes in costs and sales will affect income in future periods. CVP analysis classifies all costs as either fixed or variable.



TOTAL Cost (TC) = Total FC (TFC) + Total VC (TVC)

TOTAL REVENUE = SALES = TR

P = UNIT Sales Price

X = No. of units, V = VC per unit

So, TC = TFC + V × X

TR = P × X

PROFIT = TR − TC

At BEP, TC = TFC + TV = TR

<u>Contribution Margin</u> - Is the revenue excess from sales over VC. The concept of contribution margin is particularly useful in the planning of business because it gives an insight into the potential profit that a business can generate.

<u>Contribution Margin Ratio</u>: (Sales − VC) / Sales.

<u>Ex:</u> If Sales = Rs. 10,00,000, VC = Rs. 6,00,000, FC = Rs. 3,00,000

<u>Soln</u>: Contribution Margin = Sales − VC = 10,00,000 − 6,00,000 = 4,00,000

" " Ratio = (Sales − VC) / Sales = 4,00,000 / 10,00,000

Income from operation = contribution − FC = 4,00,000 − 3,00,000 = 1,00,000