

Calculation of Profit

The procedure for profit determination under marginal costing as under:

- Under this technique of costing, sales value is compared to its variable cost and the difference between the two is called “Contribution”.
- It is significant to note that only variable cost of units sold are taken into account
- Fixed cost for the period is deducted from contribution and the balance is known as “Profit”.

Cont....

- Units remaining unsold (i.e stocks) are valued at marginal cost no portion of fixed cost is carried over to the next period through inventory valuation. As such closing stocks are not taken into account while calculating profit under this approach.

Proforma to ascertain the profit

Sales - units @

Less: Variable Cost - units @

Contribution

Less: Fixed Cost

Profit

Practical Question

From the following information, compute the amount of profit earned using the technique of marginal costing:

Production 1,00,000 units

Fixed Cost ₹ 2,00,000

Selling Price ₹ 10 per unit

Variable Cost ₹ 6 per unit

Solution:

Statement of Marginal Cost and Profit

Particulars	₹
Sales : 1,00,000 units @ ₹ 10 per unit	10,00,000
Less: Variable Cost @ ₹ 6 per unit	<u>6,00,000</u>
Contribution	4,00,000
Less: Fixed Cost	<u>2,00,000</u>
Profit	<u>2,00,000</u>

To do activity

From the following information, compute the amount of profit earned using the technique of marginal costing:

Fixed Cost ₹ 2,500

Sales 5000 units at ₹ 2.50 per unit

Variable Cost ₹ 7,500

Thank You