

Essay on cvp analysis

[Business](#), [Company](#)



In CVP analysis profit is calculated by subtracting total costs which are both fixed costs and variable costs from total revenue which is gotten from total sales. In our current case the total revenue from Video game sales amount to \$25000000. The cost of advertising which can be assumed to be the fixed cost amounted to \$6000000; the variable costs amounted to \$5000000 while the production costs were \$14000000 taking the total costs to 25000000. This cost is equal to the total cost hence the firm makes no profit. Where the sales are equal to the cost of production it is said that the sales are at the breakeven point. Mark suggested to Michele to lower the sale price per unit to \$35 from \$50 but if this happens the unit sales will go up by 500000 units raking in sales revenue of \$35000000 in turn raising the profit to \$10000000. In conclusion when a firm lowers its selling price in anticipation of more sales is a way of increasing the profits of a firm.

CP 20-4

For Beatty

The manufacturing margin as a percentage of sales is 68% while as a percentage of contribution margin is 212.5%

For Canace

The manufacturing Margin as a percentage of sales is 52% while as a percentage of contribution margin is 260%

For Herbst

The manufacturing margin as a percentage of sales is 52% while as a percentage of the contribution margin is 260%

For Saladin

The manufacturing margin as a percentage of sales is 52% while as a percentage of contribution margin is 260%

Contribution is gotten by subtracting variable costs from total sales revenue. Manufacturing margin was gotten from subtracting part of the variable costs ; only those that are related to manufacturing from the total sales revenue while the contribution margin encompasses total variable costs both in manufacturing, variable selling expenses including promotion costs and commissions from the total revenue. This explains why the manufacturing margin appears be more than the final contribution margin. As a percentage of sales the manufacturing margin will be lesser as compared to as a percentage of contribution since it is assumed that the firm is making a profit and the more the costs increase the profit margin decreases. From CVP profit is gotten from subtracting total costs from total revenue. The lower the cost the higher the profits, in conclusion a low manufacturing margin the higher the chances for the firm to maximize on their profits same applies to the actual contribution margin.

CP 21-2

The new budgeting approach uses the activity based costing method or operation based costing method. Previously they used the traditional methods of costing namely absorption costing which over the years has proved to have many demerits as compared to merits. Before I delve into the advantages of activity based costing method (ABC) I will begin by defining what activity based costing is; Activity based costing found its true place in the world of commerce round about the 1980's where it rose to fame due to

the lack of application or significance that traditional methods of costing presented. This is a unique costing replica that recognizes activities in a firm and delegates the cost of an individual activity with funds to all commodities and services in regards to the definite utilization by each. This representation assigns more overheads into mainstream (direct) costs contrasting to traditional costing models. Some of the characteristics that make this costing method superior include;

It identifies and discards those commodities and services that do not yield and lowers the prices of those that are highly priced going hand in hand with the product and services portfolio objective of the firm.

It also detects and discards manufacturing or service procedures that are unproductive and innovates dispensation notions that make the same commodity yield favorably complementing the process re-engineering goals of the company.