

CVP

MAC2601 ASSUMED PRIOR KNOWLEDGE:

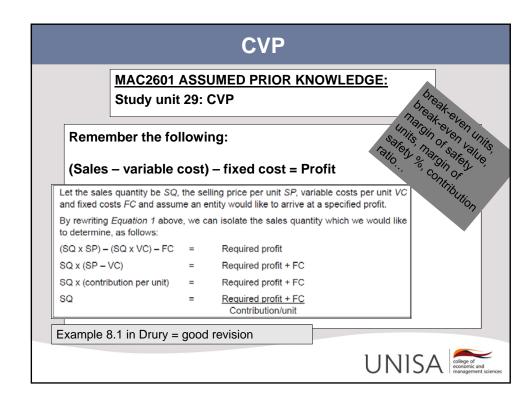
Study unit 29: CVP

Make sure you know & understand the CVP formulas and the format of a contribution statement of profit or loss and other comprehensive income

The basic format of a contribution statement of profit or loss and other comprehensive income is as follows:

	R
Sales	XXX
Less: Variable costs	(xx)
Contribution	XXX
Less: Fixed costs	(xx)
Profit	XXX





CVP

MAC3701

New in third year:

Multi-product cost-volume-profit analysis [Example 8.2 in Drury; TL102 (Q2b)] Q8.15 Drury

Graphs

Operating leverage = measure of the sensitivity of profits to changes in sales

Standard deviation and coefficient of variation

(You do not need to know how to calc std deviation or coefficient of variation, but you must be able to interpret them. You need to know how to calculate expected value).



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New in third year:

Multi-product cost-volume-profit analysis

Where more than one product is marketed, you have to bear in mind that each product has its own contribution ratio.

A sales mix must be established in order to calculate the contribution ratio on a weighted average basis.



CVP

MAC3701 Example multi-product CVP Calculate the breakeven quantity and value

Example: DEF manufactures and sells three products, D, E and F.

		Total		
	D	E	F	
Selling price per unit	R10	R15	R20	
Variable cost per unit	R7	R12	R18	
Common fixed cost in total				R26 000
Direct avoidable fixed cost				R30 000
Sales mix	5	3	2	



CVP							
MAC3701 Suggested solution to example							
	Products		Total				
	D	E	F				
Selling price per unit	R10	R15	R20				
Variable cost per unit	R7	R12	R18				
Contribution	R3	R3	R2				
Sales mix	5	3	2	10			
Contribution per ba	tch: (5 x R	3) + (3 x R3) -	+ (2 x R2) = R28	3			
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