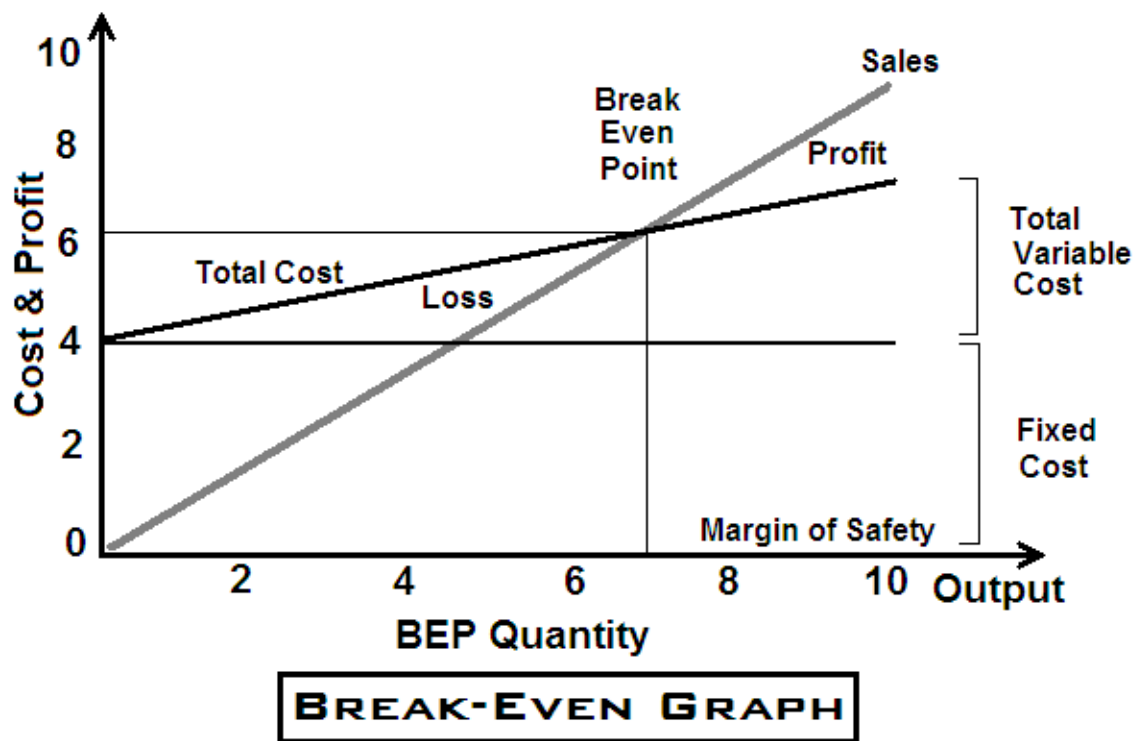


## BREAK EVEN POINT

The Break even point is that point at which the organisation makes no profit and no loss. At this point revenue is just sufficient to cover all costs without resulting in either a profit or a loss. If the volume of production exceeds this level (B.E.P. Level), there will be profit and if the volume of production falls below this level, there will be loss. The BEP is the indicator of the production level and so it is considered as an important tool in the hands of the management.



### Advantages of Breakeven Analysis:

- It helps the management to decide on the exact volume of goods to be manufactured.
- It helps the management to decide on the make or buy policies.
- It helps the management to decide on the exact selling price of goods manufactured.

- It helps the management to take decisions regarding current as well as new production systems (Technology).

### **Contribution**

Contribution is not the profit. It is called total margin in excess of sales over variable cost.

Contribution = Total Sales – Total Variable cost

Contribution Margin Ratio=  $\frac{\text{Sales} - \text{Variable Cost}}{\text{Sales}} \times 100$ .



IHM NOTES