Indifference point → is that level where both options are providing same result, so, we can select any one of the option at this point.

Formulae:

$$\text{Indiff point} = \frac{\text{Diff in FC}}{\text{Diff in VC}} \quad (\text{units})$$

$$\text{Indiff point} = \frac{\text{Diff in FC}}{\text{Diff in PV ratio}} \quad (\text{in } ₹)$$

Decision Table	Select
① Level of operation < Indiff point	option with lower FC
② Level of operation = Indiff point	Select any option
③ Level of operation > Indiff point	option with higher PV ratio (lower VC)

New subtopic

Marginal VS Absorption Costing.

Marginal

* only Variable cost are included in Product cost (Inventory cost)

* Hence fixed cost are considered as Period cost

* Hence decision making on basis of Contribution

* The difference between closing stock and opening stock does not affect the unit cost of Production

Absorption

* Both Variable & fixed cost are included in Product cost (Inventory Value)

* Fixed cost is charged in cost of Production.

* Hence Decision making on basis of Profit.

* The Difference between opening & closing stock affects the unit cost of Production due to impact of fixed cost.

Marginal costing

Sales (Actual Sold × SP) (X)

Less Variable Manufacturing cost

Direct Material xxx
Direct Labour xxx
Variable Manufacturing o/H xxx
± Increase/Decrease in Variable Cost o/H

} on Produced units (not just sold)

Cost of Goods Produced (Variable) (A)

+ Opening FG (Previous year value) at Variable cost

− Closing FG (Current year Value) at Variable cost

(A) / Total Production × closing stock units = (−)

COGS (at VC) *

+ Variable Admin o/H +
+ Variable selling & dist o/H +
Total Variable cost (V)

Contribution (X) − (V)
(Sales − Total Variable cost)

less Fixed cost (−)
- Manufacturing o/H
- Selling & Dist o/H
- Admin o/H

Net Profit (*)

Absorption costing

Sales (Actual Sold × SP) X

Less Production cost

Direct Material xxx
Direct Labour xxx
Variable Manufacturing o/H xxx
Fixed Manufacturing o/H xxx
± Increase/Decrease in Variable Cost o/H

} on Produced units (not just sold)

Cost of Production xxx (B)

+ Opening FG (Previous year value) At Total Cost

− Closing FG (Current year Value) At Total Cost

(B) / Total Production × closing stock units (−)

COGS (at Total cost) *

+ Under absorbed Fixed o/H Manufacturing
− over absorbed Fixed o/H Manufacturing

+ Admin costs
+ Selling & Distribution cost

Total cost Z

Profit (X − Z) **

Note: Marginal VS absorption costing

Situation (I) If closing stock units > opening stock units

Then Profit as per absorption costing > Profit as per marginal costing

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Situation (II) If closing stock units < opening stock units

Profit as per absorption costing < Profit as per marginal costing

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Situation (III) If closing stock = opening stock

or Closing stock = opening stock = 0

Profit as per absorption costing = Profit as per marginal costing

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Next Topic — Key factor / Limiting factor

→ when one or more factors are in limited supply, because of which they don't allow the production to be raised beyond a certain limit, in such a case we can say it is a limiting factor / key factor.

* So, we have to estimate the units which should be produced and which units should not be produced, to maximise profit

Step ①

	output A	B	C
Sale Price P.U	✓	✓	✓
− VC Material	(−)	(−)	(−)
Labour	(−)	(−)	(−)
O/H	(−)	(−)	(−)
Contribution P.U	₹20	₹30	₹40
÷ Key factor usage	÷ 2 hrs	÷ 4 hrs	÷ 8 hrs
Contribution / Key factor	₹10/hr	₹7.5/hr	₹5/hr
Ranking	I	II	III

first calculate contribution,
Then divide contribution by key factor usage

Then establish Ranking,

Step ② Start using resources as per Ranking