Marginal Costing Job Interview Questions And Answers

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Marginal Costing Interview Questions And Answers Guide.

Question - 1:
What is Flexible Budget preparation?

Ans:
Flexible Budget preparation: As the marginal costing particularly classifies costs as fixed and variable costs which facilitates the preparation of flexible budgets.
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Question - 2:
What is Cost Control?

Ans:
Cost Control : Marginal Costing is a technique of cost classification and cost presentation which enable the management to concentrate on the controllable costs.
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Question - 3:
What is Optimizing Product Mix?

Ans:
Optimizing Product Mix : To maximise profits and increase sales volume it is necessary to decide an optimized mix or proportion in which various products of a company can be sold.
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Question - 4:
Explain Make or Buy decision?

Ans:
Make or Buy decision : Marginal cost analysis helps the management in making or buying decision.
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Question - 5:
What is Fixation of Selling Price?

Ans:
Fixation of Selling Price : The technique of marginal costing assists the management to fix the price in such a way so that prices fixed can cover at least the variable cost.
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Question - 6:
What is Profit Planning?

Ans:
Profit Planning : This technique through the calculation of P/V Ratio helps the management to plan the activities in such a way that the profit can be maximised.
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Question - 7:
What is Contribution?

Ans:
Contribution:
It is the difference between sales revenue and variable cost (also known as variable cost). Variable cost is the important cost in deciding profitability as fixed costs are ignored by marginal costing.
It can be expressed in two ways:

• Sales Revenue - Variable Cost
• Fixed Cost + Profit
The situation generating higher contribution is treated as a profitable situation.

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Question - 8:
What is P/V Ratio?

Ans:
P/V Ratio:
P/V Ratio (Profit Volume Ratio) is the ratio of contribution to sales which indicates the contribution earned with respect to one rupee of sales. It also measures the rate of change of profit due to change in volume of sales. Its fundamental property is that if per unit sales price and variable cost are constant then P/V Ratio will be constant at all the levels of activities. A change is fixed cost does not affect P/V Ratio. It is calculated as under:
(Contribution * 100) / Sales
(Change in profits * 100) / (Change in sales)
A high P/V Ratio indicates that a slight increase in sales without increase in fixed costs will result in higher profits. A low P/V ratio which indicates low profitability can be improved by increasing selling price, reducing marginal costs or selling products having high P/V ratio.

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Question - 9:
Explain Evaluation of Performance?

Ans:
Evaluation of Performance : The evaluation of the performance of various departments or products can be evaluated with the help of marginal costing which is based on contribution generating capacity.

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Question - 10:
How is the concept of marginal costing practically applied?

Ans:
The concept of marginal costing is practically applied in the following situations:
- Evaluation of Performance : The evaluation of the performance of various departments or products can be evaluated with the help of marginal costing which is based on contribution generating capacity.
- Profit Planning : This technique through the calculation of P/V Ratio helps the management to plan the activities in such a way that the profit can be maximised.
- Fixation of Selling Price : The technique of marginal costing assists the management to fix the price in such a way so that prices fixed can cover at least the variable cost.
- Make or Buy decision : Marginal cost analysis helps the management in making or buying decision.
- Optimizing Product Mix : To maximise profits and increase sales volume it is necessary to decide an optimized mix or proportion in which various products of a company can be sold.
- Cost Control : Marginal Costing is a technique of cost classification and cost presentation which enable the management to concentrate on the controllable costs.
- Flexible Budget preparation: As the marginal costing particularly classifies costs as fixed and variable costs which facilitates the preparation of flexible budgets.

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Question - 11:
What are the limitations of Marginal Costing?

Ans:
The limitations of Marginal Costing:
- The classification of total costs into fixed and variable cost is difficult.
- In this technique fixed costs are totally eliminated for the valuation of inventory of finished and semi-finished goods. Such elimination affects the profitability adversely.
- In marginal costing historical data is used while management decisions are related to future events.
- It does not provide any standard for the evaluation of performance.
- Selling price fixed on the basis of marginal cost will be useful only for short period of time.
- Assessment of profitability on the marginal cost base can be used only in the short period of time.

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Question - 12:
Explain Features of Marginal costing?

Ans:
Features of Marginal costing:
- It is a method of recoding costs and reporting profits.
- It involves ascertaining marginal costs which is the difference of fixed cost and variable cost.
- The operating costs are differentiated into fixed costs and variable costs. Semi variable costs are also divided in the individual components of fixed cost and variable cost.
- Fixed costs which remain constant regardless of the volume of production do not find place in the product cost determination and inventory valuation.
- Fixed costs are treated as period charge and are written off to the profit and loss account in the period incurred.
- Only variable costs are taken into consideration while computing the product cost.
- Prices of products are based on variable cost only.
- Marginal contribution decides the profitability of the products.

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Question - 13:

What is Marginal Costing? What are the basic assumptions made by Marginal Costing?

Ans:

Marginal Costing is ascertainment of the marginal cost which varies directly with the volume of production by differentiating between fixed costs and variable costs and finally ascertaining its effect on profit.
The basic assumptions made by marginal costing are following:
- Total variable cost is directly proportion to the level of activity. However, variable cost per unit remains constant at all the levels of activities.
- Per unit selling price remains constant at all levels of activities.
- All the items produced by the organisation are sold off.

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Question - 14:

What is Margin of Safety?

Ans:

Margin of Safety is the amount of sales which generates profit. In other words, sales beyond Break Even Point are known as Margin of Safety. It is calculated as the difference between total sales and the break even sales. It can be expressed in monetary terms or number of units. It can be expressed as below:
Margin of Safety = Sales - Break Even Sales
= Sales - {(Fixed Cost) / (P/V Ratio)}
= ((Sales * (P/V) Ratio) - Fixed Cost) / (P/V) Ratio
= (Contribution - Fixed Cost) / (P/V) Ratio
= Profit / (P/V) Ratio
The size of margin of safety is an extremely important guide to the financial strength of a business. If margin of safety is large, which indicates that BEP is much below the actual sales, that means business is in a sound condition and reduction in sales will not affect the profit of the business. On the other hand, if margin of safety is low, any loss of sales may be a serious matter. Thus, efforts need to be made to reduce fixed costs, variable costs or increasing the selling price or sales volume to improve contribution and overall P/V Ratio.

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Question - 15:

What is Cost Volume-Profit relationship?

Ans:

Cost Volume-Profit (CVP) relationship is an analysis which studies the relationships between the following factors and its impact on the amount of profits.
-Selling price per unit and total sales amount • Total cost which may be in any form i.e. fixed cost or Variable cost.
-Volume of sales
In simple words, CVP is a management accounting tool that expresses relationship among total sales, total cost and profit. Cost Volume-Profit relationship is one of the important techniques of cost and management accounting. It is a powerful tool which furnishes the complete picture of the profit structure and helps in planning of profits. It can also answer what if type of questions by telling the volume required to produce. This concept is relevant in all decision making areas, particularly in the short run.

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Question - 16:

Explain P/V ratio and Contribution?

Ans:

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The situation generating higher contribution is treated as a profitable situation.

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Question - 17:

Explain Break Even Point. How does BEP help in making business decision?

Ans:

Break Even Point (BEP) is a volume of sales where there is neither loss nor profit. That means contribution is enough to cover the fixed costs.
Thus, we can say that Contribution = Fixed Cost
Any contribution generated after BEP will directly result into profits as the fixed costs are fully covered now. BEP can be computed in two ways:
In terms of Quantity-
Fixed Costs / Contribution per unit
In terms of Amount-
(Fixed Costs) / (P/V Ratio)
BEP (Break Even Point) is the situation where there is neither loss nor profit. At this stage, the contribution is enough to cover the fixed costs i.e contribution is equal to fixed cost. Contribution generated after the break even point will result in profits for the organisation. Profit maximization is the motive of every organisation. Thus, every organisation use BEP as a base to take various decisions in regard to its sales volume and tries to increase it so that total fixed costs can be covered as early as possible and more profits can be earned.

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