Break Even Analysis

Meaning of Break Even Point

Breakeven point is that point of production or sales at which firm neither earn profit not incur any losses. It is also known as no profit point or Zero loss Point.

Characteristics

- There is no profit and no loss to the firm
- Total revenue is equal to total cost
- Contribution is equal to fixed cost.

Break Even Analysis

Break-even analysis is a specific method of presenting and studying the inner relationship between costs, volume and profits. (hence, the name c-v-p analysis). It is an important tool of financial analysis whereby the impact on profit of the changes in volume, price, costs and mix can be found out with a certain amount of accuracy. A business is said to break even when its total sales are equal to its total costs. It is a point of no profit or no loss. At this point contribution is equal to fixed costs

Break-even point, can be calculated thus:

$$\text{B.E.P. (In Units)} = \frac{\text{Fixed Cost}}{\text{Contribution Per Unit}}$$

$$= \frac{\text{Fixed Cost}}{\text{Selling Price/Unit} - \text{Marginal Cost/Unit}}$$

At sales….

$$\text{B.E.P. (Sales)} = \frac{\text{Fixed Cost}}{\text{Contribution Per Unit}} \times \text{Selling Price/Unit}$$

Assumptions of Break even Analysis

- Cost divided into two parts i.e. Fixed and Variable cost
- Variable cost fluctuates directly in proportion to changes in volume of production
- Fixed cost remains constant at any level of production
- Selling price per unit remains constant
- Technology of production does not change

so on…

Thank You