20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **Marginal costing charges only variable costs to production and treats fixed costs as period costs.**
   This is the core definition of marginal costing tested throughout JAIIB AFM Module D Chapter 34.

2. **Marginal costing is covered under JAIIB AFM Module D, Chapter 34.**
   It is a repeat favourite topic for the examiner because it is highly numerical and formula-driven.

3. **Contribution equals Sales Revenue minus Variable Cost.**
   Contribution is the amount left over after variable cost to cover fixed cost and generate profit.

4. **Contribution can also be calculated as Fixed Cost plus Profit.**
   This alternate form shows contribution first covers fixed cost, with the remainder becoming profit.

5. **Break-even point in units equals Fixed Cost divided by Contribution per unit.**
   BEP in units is the sales volume at which total revenue equals total cost.

6 **Break-even point in value equals Fixed Cost divided by P/V Ratio.**

BEP in value gives the break-even sales figure in rupees rather than units.

7 **P/V Ratio equals Contribution divided by Sales, multiplied by 100.**

The P/V ratio, also called contribution-to-sales ratio, measures profitability per rupee of sales.

8 **Margin of Safety equals Actual Sales minus Break-Even Sales.**

It shows how far sales can drop before the business starts making a loss.

9 **Margin of Safety Ratio equals Margin of Safety divided by Actual Sales, multiplied by 100.**

This expresses the margin of safety as a percentage of actual sales.

10 **Fixed costs like rent, depreciation and insurance stay constant in total regardless of output.**

Fixed costs do not rise when one extra unit is produced, which is why marginal costing excludes them from product cost.

11 **Variable costs such as raw materials and direct labour change in direct proportion to output.**

Variable cost per unit stays constant while the total varies with production volume.

12 **Semi-variable costs, like an electricity bill, contain both a fixed and a variable component.**

Correctly splitting semi-variable costs into fixed and variable parts is essential before applying marginal costing.

13 **In marginal costing, product cost includes only variable costs.**

Fixed costs are written off in full against the profit and loss account of the period instead.

14 **In absorption costing, product cost includes both variable and fixed costs.**

This is the key point of contrast the examiner uses to test marginal versus absorption costing.

15 **Absorption costing is generally used for external financial reporting.**

Absorption costing values inventory at full cost, which is the basis financial statements typically require.

16 **Marginal costing is generally used for internal management decisions.**

It supports pricing, make-or-buy and product-profitability decisions inside a business.

17 **A special order below normal price should be accepted only if it covers variable cost and spare capacity exists.**

Any price above variable cost adds positive contribution without disturbing regular sales.

18 **Required Sales for a target profit equals Fixed Cost plus Target Profit, divided by P/V Ratio.**

This formula extends the break-even logic to find the sales level needed for a desired profit.

19 **Marginal costing ignores fixed costs in inventory valuation, which can distort inventory values.**

This is one of the commonly cited limitations of the marginal costing technique.

20 **Marginal costing assumes fixed costs stay constant, which does not always hold true in the long run.**

This assumption is a key limitation that makes marginal costing less suited to long-term pricing decisions.