

# YESHWANTRAO CHAPHEKAR COLLEGE, PALGHAR

PRESENTATION

ON

CHAPTER-11. BREAK EVEN ANALYSIS

PRESENTED BY:

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# Concepts to be discuss.....

- ▶ **CONCEPT OF BREAK- EVEN POINT**
- ▶ **FORMULA**
- ▶ **BUSINESS APPLICATION OF BREAK – EVEN ANALYSIS**
- ▶ **LIMITATIONS OF BREAK – EVEN ANALYSIS**

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# Concept of Break– Even point

- ▶ Break- Even analysis is also known as cost- volume-profit analysis.
- ▶ It is used to study the relationship between the total cost, total revenue and total profit and losses over the whole range of output.
- ▶ It helps to determine the levels of sales that is required to meet operating costs.

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- ▶ Break -Even point shows that the total revenues equal to total costs.
- ▶ Break- Even point shows the price at which the firms makes zero profits, with revenue just covering costs.

# BUSINESS APPLICATION OF BREAK-EVEN ANALYSIS

## **1>Returns on Capital Employed (ROCE):-**

- Capital expenditures usually expensive and give returns in long run.
- Break Even analysis can be used to determine how long it will take a firm to start generating returns on capital invested.
- Every firm would be interested in knowing the ROCE in order to determine its profitability.
- Shareholder's interests are linked to ROCE.

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## 2. Cost Recovery:-

- Break Even analysis is used to determine the sales volume that will help a firm to recover both fixed and variable costs.
- At break even point the firm recovers all its cost.
- A firm may use technology to lower costs.

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## 3. Profit Forecast:-

- Generally firms make short and long term profit targets.
- It is important for shareholders interest as well as for survival.
- The break even point is the starting point of profit.

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## 4. Effects of changes:-

- Firms has to make constant changes in their pricing, marketing, sourcing and staffing policies.
- All changes have an impact on costs and revenue of the firm.
- Break Even point will change with any change in either cost or price or both.

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## 5. Determine Sales and Marketing strategies:-

- A firm can lower the break even point by using innovative marketing strategies. Eg- Amul, Asian Paints, etc.
- Marketing cost may push the total cost and will raise the BEP. Thus firm has to find appropriate marketing strategy.

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## 6. Capacity Utilisation:-

- When firm utilises its capacity, it produces at a lower cost.
- This helps to reach the break even sales volume faster.
- Full utilisation minimises wastage and improves efficiency of resources used.

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## **7. Raising Capital:-**

- ▶ After achieving BEP it is for firm to raise funds for further expansion.
- ▶ Financial institutions are ready to give loan.
- ▶ The successful start-up undertaking find it easier to raise capital for further expansion.

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# Limitation of Break Even Analysis

- ▶ Applied to single product unit.
- ▶ Information may not be appropriate.
- ▶ Sometimes some costs cannot be clearly categorised into fixed and variable costs.