

Break-even point

What is break even point ?

The study of cost volume profit relationship is often referred to as break even analysis . the term break even analysis is interpreted in two senses , in its narrow sense , it is concerned with finding break even point unit and sales

BEP is the point at which total revenues is equal to total cost . it is the point of no profit , no loss . in its broad sense, it means a system of analysis that can be used to determine the probable profit at any level of production.

Assumptions ;

- ⇒ All costs are classified into two fixed and variable
- ⇒ Fixed cost remain constant at all levels of output
- ⇒ Variable costs vary proportionally with the volume of output
- ⇒ Selling price per unit remains constant in spite of competition or changes in the volume of production
- ⇒ There will be no change in operating efficiency
- ⇒ There will be no change in general price level
- ⇒ Volume of production is the only factor affecting the cost

Advantages and limitations :

Advantages :

- ⇒ Total cost variable cost and fixed cost can be determined
- ⇒ Break even output or sales value can be determined
- ⇒ It is useful for forecasting plans and profits

Disadvantages

- ⇒ Exact and accurate classifications cost into fixed cost and variable is not possible
- ⇒ Constant selling price is not true
- ⇒ Various product mixes on profits cannot be studied

Explain in brief cash flow statement and techniques ?

It is an analysis based on the movement of cash and bank balances. Under cash flow analysis all movements of cash , rather than the movement of working capital

would be considered . such movements of cash are depicted in a statement of changes in financial position prepared on cash basis

What are the advantages limitations of cash flow statements ?

Advantages :

- ⇒ Historical analysis as guide to forecasting : cash flow presents in detail the movements of cash in the recent past . this can provide clear indications for the cash flow in the future period, thus helping forecasting the future commitments and needs
- ⇒ Effective cash management : cash flow statement can act as a guide for co ordinating the inflows and outflows of cash, the matching of future cash receipt with payments results in effective cash management
- ⇒ Formulation of financial policies ; a clear insight into the cash flows of the firm in the basis for financial policies like dividend policy , cash discount, credit terms etc
- ⇒ Preparations of cash budgets: cash flow statement is almost like the foundation for cash budget . the cash flow in the recent past indicates the quantum and directions of such flows and form the basis for preparing monthly or quarterly budgets for cash or even the annual cash budget for ensuring year
- ⇒ Short term financial decisions : like repayment of overdraft or loans , payments of bonus, advertising campaigns , investments outside the firms etc , may be taken on the basis from the analysis provided by the cash flow statement
- ⇒ Liquidity positions : it reveals the liquidity position of the firm by highlighting the various sources of cash and its uses
- ⇒ Revaluations : it can reveal the causes for profitable firms experiencing acute cash shortage . the reasons for many mismanagement for creating such a position can be analysed and its recurrence can be avoided

Limitations ;

- ⇒ Cash flow statement is useful tool at financial analysis. However ,it suffers from some limitations ,which are as follows

- ⇒ A cash flow statement only reveals the inflow and out flow of cash . the cash balance disclosed by this statement . may not depict the true liquid position . there are controversies over a number of items like cheques , stamps , postal order etc
- ⇒ A cash fund statement cannot be equated with the income statement
- ⇒ Working capital being a wider concept of funds , a funds flow statement presents a more complete picture than cash flow statement