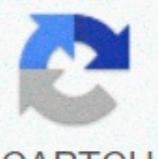


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## **Variable cost formula managerial accounting**

Direct Labor - \$10.20 Direct Material - \$11.13 Variable Overheads - \$10.67 The total number of units produced was 1,000 units. You must calculate the total variable cost of the product X. Solution Here we get all variable costs per unit, and therefore we can use the formula below to calculate the total variable cost per unit. Direct Labor per Unit: \$10.20 Direct Material Cost per Unit: \$11.13 Variable Overhead per Unit: \$10.67 Therefore, the calculation will be as follows =  $1,000 \times (10.20 + 11.13 + 10.67) = 1,000 \times 32.00$ . Example #2 Company HUL produces many different types of products and is a large company. It is one of the largest FMCG companies in India. Recently it was hit by competition in the market. Now it is considering reevaluating products to survive the competition. It first wants to calculate the total production costs of its three main products, including Lux, Clinic Plus and Fair and lovely. Below is the statement from its latest share statement, submitted to the bank. Popular Course in this category All in One Financial Analyst Bundle (250+ Courses, 40+ Projects)4.9 (1,067 ratings) 250+ Courses | 40+ Projects | 1000+ hours | Full lifetime access | Certificate of Completion Details Lux Clinic Plus Fair & Lovely No of Units Sold 100000.00 80000.00 20000.00 Closing Stock 10000.00 20000.00 22000.00 Fixed Costs for full 1500000.00 15000.00 1500000.00 Direct unit labour costs 5.00 10.00 12.00 Direct material costs per unit 3.00 4.00 5.50 Sales price per unit 35.00 72.00 110.00 Based on the above information, you must calculate the total cost of production. You assume that there is no W&S. Solution Here the company produces three products, namely Lux, Clinic Plus and Fair &amp; Lovely. In order to come up with a total cost of production, we first need to calculate the total variable costs per product and then calculate those with a total total costs, which will result in a total cost of production. LUX Calculation of the total number of goods produced = 100000 Total number of goods produced = 110,000  $\times$  8,00 CLINIC PLUS Calculation of the total number of goods produced = 200000.00  $\times$  32,00 Total number of goods produced = 222000.00. Therefore, the calculation of the total variable cost will be as follows = 222000.00  $\times$  17.50 Therefore, the total variable cost for the production of all three products will be 880,000 + 11,48,000 + 38,85,000, which equals 59.13,000. Total costs Furthermore, we have to deal with the fact that the total fixed cost is 15,00,000 and therefore the total cost is 59.13,000 + 15,00,000, which is 74.13,000. Example #3 Mr. Bean sells hot dogs in the street in his vehicle. He is interested to know what is the cost that increases with the number of hot dogs he sells. He notices that the cost of bread rises when there is a demand for the hot dogs, and he noted that each, he must pay \$1. Further, he notes that the cost of a vehicle is fixed, which does not change and is \$40,000. On average, he requires sauce, butter, and other things, which cost him about \$5 each. The vegetable cost at an average is \$8 each. He wants to make a 25% profit on the sale price. If he produces 100 hot dogs, you have to calculate the total variable costs and the retail price that he has to continue to cover the variable costs, and for the time being he avoids the calculation of the fixed costs. Solution In this example, the variable cost per piece is the cost of bread, which is \$1, then material cost, which is \$5 and vegetable cost, which is \$8 each, and so the total variable cost per unit is \$14 each. Bread cost per unit: \$1. Material cost per unit: \$5 Vegetables per unit: \$8 Total variable cost per unit: \$14 Therefore the calculation will be as follows =  $14 \times 100$  Sale price will be =  $\$14 / (1 - 25\%)$  Sale price = \$18.67 Now, if it is considering just to cover all variable costs and wants to earn a 25% profit on sale price, then it wants to earn 33.33% on the cost. Therefore, the sale price would be \$18.67. Relevance and Usage These are the costs that change depending on the output. Variable costs increase as production increases, and these will decrease as production declines. We cannot control these costs, as they remain fixed and will only be made when goods are made. These costs help to determine the total cost of production, an individual contribution of a particular product, etc. Recommended Articles This article is a guide to the variable costs and their definition. Here we discuss the formula to calculate the total variable costs, along with practical examples and downloadable download Sheet. You learn more about accounting for the following items – A variable cost is a company cost that changes in proportion to production output. Variable costs increase or decrease depending on a company's production volume; they increase as production increases and decreases as production declines. Examples of variable costs are the cost of raw materials and packaging. A variable cost can be compared with fixed costs. A variable cost is an operating expense that changes in relation to the production output. When production increases, variable costs increase; when production decreases, variable costs decrease. A variable cost contrasts with fixed costs, which do not change regardless of the change in production levels. The total cost of a business consists of fixed costs and variable costs. Variable costs depend on production output. The variable production costs are a constant quantity per unit produced. As production and production volume increases, so will variable costs. On the other hand, if fewer products are produced, the variable costs associated with production will therefore decrease. Examples of variable costs include sales commissions, direct labor costs, cost of raw materials used in production, and operating costs. The total variable cost is simply the amount of output multiplied by the variable cost per unit of output. Variable costs are usually considered short-term costs because they can be adjusted quickly. Fixed costs are costs that remain the same regardless of production. Whether a company sells or not, it has to pay its fixed costs, since these costs are independent of production. Examples of fixed costs are rent, employees' salaries, insurance and office supplies. A company still has to pay its rent for the space it takes up to carry out its business, regardless of the volume of products manufactured and sold. If a company has increased production or decreased production, the rent remains exactly the same. Although fixed costs may change over a certain period of time, the change will not be related to production and as such fixed costs will be considered long-term costs. There is also a category of cost that falls between fixed and variable costs, known as semi-variable costs (also called semi-fixed costs or mixed costs). These are costs that consist of a mixture of both fixed and variable components. The costs shall be fixed for a fixed level of production or consumption and become variable after this level of production is exceeded. If there is no production, fixed costs are often incurred. Let's assume it costs a bakery \$15 to make a cake-\$5 raw materials such as sugar, milk and flour, and \$10 for direct labor involved in making a cake. The table below shows how variable costs change as the number of baked cakes varies. 1 cake 2 pies 2 cakes 10 cakes 0 cakes Cost of sugar, flour, butter and milk \$5 \$10 \$35 \$50 \$50 \$0 Direct labor \$10 \$70 \$70 \$100 \$0 Total variable cost \$15 \$105 \$150 \$150 \$150 \$0 As the production of cakes increases, so does the variable costs of the bakery. When the bakery does not bake cake, the variable costs drop to zero. Fixed and variable costs include the total cost. Total costs are a determinant of a company's profit, which is calculated as: Profit=Revenue-Total cost[aligned] &text{Profit} = Sales - Total-Cost[\\end{aligned}] Profit=Total cost A company can increase its profit by reducing total costs. Since fixed costs are harder to reduce (for example, lowering rents can mean moving the company to a cheaper location), most companies try to reduce their variable costs. So, falling costs usually means lowering variable costs. If the bakery sells each cake for \$35, the gross profit per cake will be \$35-\$15 = \$20. In order to calculate the net profit, the fixed costs of gross profit must be deducted. Assuming the bakery has monthly fixed costs of \$900, including utilities, rent, and insurance, the monthly profit will be: Number sold Total variable cost total fixed cost total fixed cost total cost revenue profit 20 cakes \$300 \$900 \$1,200 \$200 \$700(\$50) 45 Cakes \$900 \$900 \$1,575 \$1,575 \$0 5 Cakes \$750 \$900 \$1,650 \$1,750 \$100 100 Cakes \$1,500 \$900 \$2,400 \$3,500 \$1,100 A business uncurses a loss when fixed costs are higher than gross profits. In the case of the bakery, it has gross profit of \$700-\$300= \$400 when it sells only 20 pies per month. Since the fixed cost of \$900 exceeds \$400, it would lose \$500 in sales. The break-even point occurs when fixed costs equal the gross margin, resulting in no gain or loss. In this case, when the bakery sells 45 cakes for the total variable cost of \$675, it even breaks down. A company that seeks to increase its profits by lowering variable costs may need to cut down on fluctuating costs for raw materials, direct labor, and advertising. However, the reduction in costs should not affect the quality of the product or service, as this would have a negative effect on sales. By reducing variable costs, a company increases its gross profit margin or contribution margin. The contribution margin allows management to determine how much revenue and profit can be earned from each product unit sold. The contribution margin is calculated as: Contribution margin=Gross Profit sales=(Sales-VC)Sales value:VC=Variable costs(beginning[aligned]) &text{Contribution-Margin}= \\frac{Gross-Winst}{Sales}=\\frac{(Sales-VC)}{Sales}textbf{where:} \\&VC = text{Variable Costs}\\end{aligned} Contribution Margin=SalesGross Profit =Sales(Sales-VC) where:VC=Variable Costs The contribution margin for the bakery is (\$35 - \$15) / \$35 = 0.5714, or 57.14%. If the reduces its variable costs to \$10, the contribution margin will increase to (\$35 - \$10) / \$35 = 71.43%. Profit increases when the contribution margin increases. If the bakery reduces the variable cost by \$5, it would earn \$0.71 for every dollar in sales. Sales. Sales.

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