**Creative Questions**

**Questions and Answers**

**Cost Volume Profit (CVP) Analysis**

**Question-01:** What’s the cost-volume-profit (CVP) analysis?

**Answer:** Cost-volume-profit (CVP) analysis analyzes the effects of cost and volume changes on the profits of a company.

**Question-02:** What is the purpose of CVP Analysis?

**Answer:** Its primary purpose is to estimate how the following five factors affect profits:

* Selling prices.
* Sales volume.
* Unit variable costs.
* Total fixed costs.
* The mix of products sold.

**Question-03:** What is the importance of Cost-volume-profit (CVP) analysis?

**Answer:** Cost-volume-profit (CVP) analysis is essential in

* Planning on profit.
* Setting selling prices.
* Determining product mix
* Maximizing the use of facilities for production.

**Question-04:** What are the assumptions of the CVP analysis?

**Answer:** Each CVP analysis underlies the following assumptions.

* The behavior of both expenses and income is linear across the relevant activity range.
* It is possible to classify costs as either variable or fixed accurately.
* The only factors that impact costs are changes in the level of activity.
* All produced units are sold.
* In multi-product companies, the mix of goods sold stays constant.

**Question-05:** What is the cost-volume-profit (CVP) graph?

**Answer:** Cost-volume-profit (CVP) graph is a graph that shows the relationship between costs, volume, and profits.

**Question-06:** What is the CVP income statement?

**Answer:** A statement that classifies costs as variable or fixed and calculates a contribution margin is the CVP income statement.

**Question-07:** What’s the Contribution Margin (CM)?

**Answer:** The contribution margin (CM) is the amount of revenue that remains after variable costs have been deducted. Both as a total amount and on a per-unit basis, it is often stated.

**Questions-08:** How to calculate the Contribution Margin (CM)?

**Answer:** Contribution Margin= Total Sales- Variable Cost

**Question-09:** What is the contribution margin ratio?

**Answer:** The contribution margin ratio refers to the percentage of sales of each dollar available for fixed costs and net income contributions.

**Question-10:** How to calculate the Contribution Margin (CM) ratio?

**Answer:** CM Ratio= Unit Contribution Margin/Unit Selling Price.

**Question-11:** What are the variable costs?

**Answer:** Variable costs are costs that differ directly and proportionately with changes in activity levels.

**Question-12:** What are the fixed costs?

**Answer:** Fixed costs are costs that, irrespective of changes in the level of activity, remain the same in total.

**Question-13:** What is the break-even point?

**Answer:** The break-even point is the level of activity at which total revenues equal total costs (both fixed and variable cost).

**Question-14:** What’s the break-even analysis?

**Answer:** The break-even analysis is called the process of finding the break-even point.

**Question-15:** What are the ways to calculate the break-even point?

**Answer:** The break-even point can be calculated in the following ways:

* Calculated from a mathematical equation.
* Calculated by using the margin of contribution.
* Derived from a graph of costs-volume-profit (CVP).

**Question-16:** What is the formula for calculating Break-even Point?

**Answer:**

Break-Even Point in Units=Fixed Costs/Unit Contribution Margin

Break-Even Point in Dollars= Fixed Costs/Contribution Margin Ratio

**Question-17:** What is the margin of safety?

**Answer:** The margin of safety is the difference between actual or expected sales and sales at the break-even point.

**Question-18:** What is the formula for calculating the margin of safety?

**Answer:** Margin of Safety = Actual (Expected) Sales-Break Even Sales.

**Question-19:** What is target Net Income?

**Answer:** The revenue objective set by management is the target net income.

**Question-20:** What is the formula to calculate Target Net Income?

**Answer:** Target Net income=Required Sales-Variable costs-Fixed Costs

**Question-21:** How to calculate the required sales in units and dollars?

**Answer:**

Required Sales in Units = (Fixed Costs+ Target Net Income) / Unit Contribution Margin

Required Sales in Dollars = (Fixed Costs+ Target Net Income) / Contribution Margin Ratio

**Question-22:** What are the mixed costs?

**Answer:** Mixed costs are costs that contain both a variable and a fixed cost component and change overall, but not in proportion, to changes in the level of activity.

**Question-23:** What is the High-Low Method?

**Answer:** The high-low method is a mathematical method used to classify mixed costs into fixed and variable components using the total costs incurred at high and low activity levels.

**Question-24:** What is the operating leverage? and how to calculate the degree of operating leverage?

**Answer:** The operating leverage is a measure of net business income’s sensitivity to a specific dollar change of percentage sales.

Degree of operating leverage = Contribution Margin/Net Operating Income

**Question-25:** What is the sales mix?

**Answer:** The term sales mix refers to the relative proportions in which a company’s products are sold.

I hope, at the end of the article, you have a basic idea about the **cost volume profit (CVP) analysis**. Read these **Top “25” Short Questions and Answers- Cost Volume Profit (CVP) Analysis** and improve your accounting skills.