Class - B Com.

Subject - Cost A/c

Topic - Marginal Costing meaning, uses,

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Meaning - Marginal cost refers to the increase or decrease in the cost of producing one more unit or serving one more customer. It is also known as incremental cost.

Marginal costs are based on production expenses that are variable or direct - labour material and equipment. For example - and not fixed costs the company will have whether it increases production or not. Fixed costs might include administrative overhead and marketing efforts - expenses that are the same no matter how many pieces are produced.

It often calculated when enough items have been produced to cover the fixed costs and production is at a break even point where the only expenses going forward are variable or direct costs. When average costs are constant, as opposed to situation where material cost fluctuate ~~Cost~~ because of scarcity issues, marginal cost is usually the same as average cost.

Formula for calculating Marginal cost :-

$$\text{Marginal Cost} = \frac{\text{Changes in total cost}}{\text{Changes in total unit produced}}$$

Marginal costing helps in taking managerial accounting where management have to take decision whether production should increase or not & which will be beneficial?