Problems of implementation of “gross profit” index in CVP analysis

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In process of financial analysis a user can face with the problem of search for necessary information and identification of necessary indices. One of the perspective directions of analytical work at enterprises is the determination of quantitative characteristics of intercommunication between such parameters of an effective activity, as production volume, cost value and income, so called CVP analysis. The key parameter of such an analysis is a marginal profit, which in scholars’ papers is often called as gross profit margin. Method of this index calculation is based on the distinguishing of semi-fixed costs from the net avails from the sales of products. However, the result of this calculation is absent in account made by national standards of accounting. Instead there is a “gross profit” index, which algorithm of calculation conflict with the principle of appropriateness since it hasn’t any analytical load. Gross profit in the Income statement is formed by subtracting of products sold cost from revenue. At the same time the costs include those expenses that proportionally depend on the production volume and products sale, and amortization costs, which not come within proportionality characteristics. Thereby the received gross profit doesn’t beat back an effectiveness, which could be assessed from the standpoint neither of CVP analysis, nor of other analysis direction.

So is why the article considers a problem of sense load of such financial accountability index as gross value. An improvement of reporting about the profit margin in the Income statement (Statement of comprehensive income) is proposed by subtracting from products sold cost the expenses that not depend on the production volume and products sale, in particular, amortization costs. Thus, the gross value index will acquire characteristics of appropriateness when become identical to the key parameter of CVP analysis – gross profit margin.