Marginal Cost Formula

Marginal cost is referred to as the cost that is incurred by any business, when there is a need of producing additional units of any goods or service.

It is calculated by taking into account the total cost of producing the additional goods and dividing that by the change in the total quantity of the goods produced.

Marginal cost includes variable costs which are material and labour. It also takes into account increases in any fixed costs such as overhead, administrative and selling.

This formula is used in optimising the cash flow generation

The Marginal cost formula is represented as :

Marginal Cost = (Change in Costs) / (Change in Quantity)

Change in cost is referred to as the change in cost of production when there is a need for change in the volume of production. Manufacturing additional units will require more manpower and more raw materials, which causes changes in overall production cost.

Change in quantity is the increase or decrease in volume of production. There will be a difference in cost with increase or decrease in production.