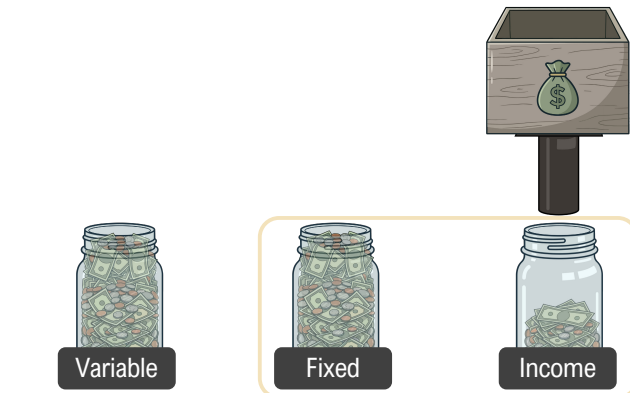


TOPIC: THE CONTRIBUTION APPROACH INCOME STATEMENT

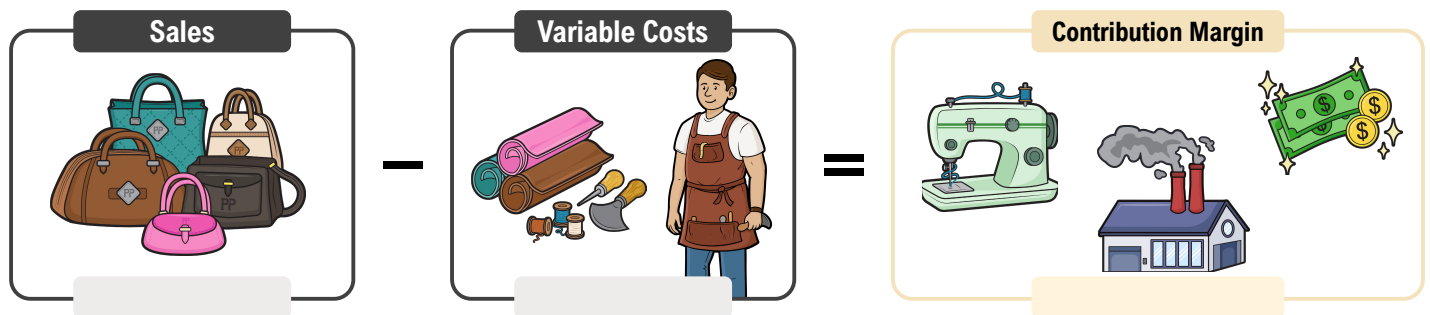
Introduction to the Contribution Margin

- ♦ For businesses to be profitable, sales revenue must cover both variable and fixed costs.



- ♦ The **contribution margin** isolates the amount of sales that contribute to _____ costs.
 - ▶ All sales revenue leftover after covering variable and fixed costs is income.

$$\text{Contribution Margin} = \text{Sales} - \text{Variable Costs}$$



EXAMPLE

Taylor's Tickets paid the following costs for the month: Rent, \$10,000 per month; Depreciation, \$5,000 per month; Cleaning, \$0.75 per ticket; Ticketing, \$4,000 per month plus \$0.50 per ticket; Maintenance, \$6,000 per month. If Taylor's Tickets sold 2,500 tickets during the month for \$20 each, calculate Taylor's contribution margin for the month.

TOPIC: THE CONTRIBUTION APPROACH INCOME STATEMENT

PRACTICE

Taco Table is a restaurant with costs listed in the table below. If Taco Table sells 10,000 tacos for \$4 each, what is their contribution margin?

Expense	Total Cost
Waitstaff salaries	\$10,000
Ingredients	\$15,000
Rent and Depreciation	\$10,000

- a) \$10,000
- b) \$15,000
- c) \$20,000
- d) \$25,000

TOPIC: THE CONTRIBUTION APPROACH INCOME STATEMENT



The Contribution Margin Income Statement

- ♦ The goals of financial accounting and managerial accounting often differ.
 - Though financial accounting documents must follow _____, there are no requirements for managerial accounting.

	Income Statement	Contribution Margin Income Statement
Goals	External reporting	_____ business decision
Format	Combines fixed and variable costs	_____ fixed and variable costs

Pearson Purses INCOME STATEMENT 2025 <table><tr><td>Sales</td><td>5,000,000</td></tr><tr><td>Less: Cost of Goods Sold</td><td>3,000,000</td></tr><tr><td>Gross Profits</td><td></td></tr><tr><td>Less: Selling and Administrative Expenses</td><td>750,000</td></tr><tr><td>Income</td><td></td></tr></table> Income Statement	Sales	5,000,000	Less: Cost of Goods Sold	3,000,000	Gross Profits		Less: Selling and Administrative Expenses	750,000	Income		Pearson Purses CONTRIBUTION MARGIN INCOME STATEMENT 2025 <table><tr><td>Sales</td><td>5,000,000</td></tr><tr><td>Less: Variable Costs</td><td>2,250,000</td></tr><tr><td>Contribution Margin</td><td></td></tr><tr><td>Less: Fixed Costs</td><td>1,500,000</td></tr><tr><td>Income</td><td></td></tr></table> Contribution Margin Income Statement	Sales	5,000,000	Less: Variable Costs	2,250,000	Contribution Margin		Less: Fixed Costs	1,500,000	Income	
Sales	5,000,000																				
Less: Cost of Goods Sold	3,000,000																				
Gross Profits																					
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Income																					
Sales	5,000,000																				
Less: Variable Costs	2,250,000																				
Contribution Margin																					
Less: Fixed Costs	1,500,000																				
Income																					

TOPIC: THE CONTRIBUTION APPROACH INCOME STATEMENT

EXAMPLE

Prepare a contribution margin income statement for Tylor’s Tickets. Their costs and revenues are given below.

Rent, \$10,000 per month; Depreciation, \$5,000 per month; Cleaning, \$0.75 per ticket; Ticketing, \$4,000 per month plus \$0.50 per ticket; Maintenance, \$6,000 per month. If Tylor’s Tickets sold 2,500 tickets during the month for \$20 each.

PRACTICE

Taco Table is a restaurant with costs listed in the table below. If Taco Table 10,000 tacos for \$4 each, what is Taco Table’s net operating income as calculated on a Contribution Margin Income Statement.

Expense	Total Cost
Waitstaff salaries	\$10,000
Ingredients	\$15,000
Rent and Depreciation	\$10,000

- a) \$5,000
- b) \$10,000
- c) \$15,000
- d) \$20,000