

TOPIC: THE CONTRIBUTION MARGIN

Other Contribution Margin Measures

◆ Multiple other measures can be derived from the **contribution margin**.

Contribution Margin
\$2,275,000

Contribution Margin Per Unit
Contribution Margin per Unit = $\frac{\text{Contribution Margin}}{\text{Quantity Sold}}$
The amount each unit _____ to fixed costs and income.
Quantity Sold: 1,000 purses

Contribution Margin Ratio
Contribution Margin Ratio = $\frac{\text{Contribution Margin}}{\text{Sales}}$
The _____ of each sales dollar that covers fixed costs and income.
Sales: \$ 5,000,000

TOPIC: THE CONTRIBUTION APPROACH INCOME STATEMENT

EXAMPLE

Calculate Tylor's Tickets contribution margin ratio and contribution margin per unit. 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. 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 sells 10,000 tacos for \$4 each, what is Taco Table's contribution margin ratio?

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

- a) 12.5%
- b) 25%
- c) 37.5%
- d) 50%