Claires antiques

Environment, Air

Claire's Antiques Contribution Margin Contribution margin is computed as the difference between the sales price per unit less the variable cost. Since material variable cost is the only variable cost to be included, the final contribution margins are shown in the last column in Table 1.

Table 1

2. Break even in units

Break even in units is computed as the quotient between fixed monthly cost and contribution margin ratio. Contribution margin ratio is the ratio between contribution margin and variable costs. Break even in units for clocks, dinette sets, and bedroom suites are shown in Table 2.

Table 2

3. Claire's Antique Statement of Contribution Margin

4. Table 4 shows the difference in commission shouldered by Claire's Antiques utilizing 10% and 15% commission rates. Since the company does not want to pass the increased commission to its customers, they will have to make up for the $15, 190 decrease in profit for the clocks product line and $23, 310 and $25, 025 for dinette sets and bedroom suites respectively. The company can make up for this lost by asking distributors to sell a lower percentage of the total expected sales volume in order to lessen the commission expenses.

5. In calculating the new monthly break even volume for Claire's Antiques, we must take into account the changes in price and monthly fixed cost. Cutting the unit sales price by 10% will yield $3, 300 ($3, 700 x . 90) for one dinette set. Fixed cost will be increased to $27, 250 to take into account the $1, 000 advertising cost. The new contribution margin is computed as $3,

300 minus variable material cost of $1, 280 which is equal to $2, 050. Break even in units can be generated by dividing the $27, 250 fixed cost by the new contribution margin of 42, 050. This will give 13 units for Claire's Antiques to break even each month.