

# [Calculation](https://assignbuster.com/calculation/)

Management Accounting What is the contribution margin per unit for a box of peanut fudge What is the contribution margin ratio A. Contribution Margin = Selling Price - Direct Cost   
Brittle, Inc.'s direct costs are:   
Peanuts$0. 70   
Sugar$0. 35   
Butter$1. 85   
Other ingredients$0. 34   
Box, packing material$0. 76   
Selling commission$0. 20   
Total Direct Costs= $0. 70 + $0. 35 + $1. 85 + $0. 34 + $0. 76 + $0. 20   
= $4. 2   
Contribution Margin = $5. 60 - $4. 2   
= $1. 40   
B. Contribution Margin Ratio = Contribution Margin/Selling Price   
=$1. 40/$5. 60   
= 0. 25   
  
2. How many boxes must be sold to break even What is the break-even sales revenue   
Fixed Costs = Fixed Overhead + Fixed Selling and Administrative Costs   
= $32, 300 + $12, 500   
= $44, 800   
A. Break-even in Units = Fixed Costs / Contribution Margin   
= $44, 800/ $1. 40   
= 32000 boxes   
B. Break-even in Sales = Fixed Costs / Contribution Margin Percentage   
= $44, 800/ 0. 25   
= $179, 200 in sales revenue   
3. What was Brittle's operating income last year   
Operating Income = Revenue - (Direct Costs + Fixed Overhead Costs + Fixed Selling and Administrative Costs)   
Revenue = Selling Price x Sales Volume   
= $5. 6 x 35, 000   
= $196, 000   
Revenue ($5. 6 \* 35, 0000)$196, 000   
Direct Costs ($4. 2 \* 35, 000)$147, 000   
Fixed Overhead Costs $32, 300   
Fixed Selling and   
Administrative Costs $12, 500   
Operating Income $4, 200   
4. Suppose that Brittle, Inc. raises the price to $6. 20 per box but anticipated sales drop to 31, 500 boxes. What will the new break-even point in units be Should Brittle raise the price Explain.   
New Contribution Margin = $6. 20 - $4. 20   
= $2. 0   
A. New Break-even Point = Fixed Costs / Contribution Margin   
= $44, 800 / $2   
= 22, 400 units   
B. The decision can be best assessed by looking at the new profit level given the new price and the new sales volume.   
New Operating Profit   
Revenue ($6. 2 \* 31, 500)$195, 300   
Direct Costs ($4. 2 \* 31, 500)$132, 300   
Fixed Overhead Costs $32, 300   
Fixed Selling and   
Administrative Costs $12, 500   
Operating Income $18, 200   
It can be deduced that higher pricing, which causes drop in demand is still more profitable than the previous scenario. The lower break-even volume even implies that the company can break even at a lower sales volume. Thus, the company should pursue higher pricing to improve profit.