

# [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.