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.