

# Contribution margin and revenue

Business



Question 1: Compute the revenue, variable expense and contribution margin for each cruise. Revenue value: The revenue is determined by multiplying the quantity by the price, in this case the quantity value is equal to the number of tourist.

Therefore Revenue =  $P \times Q$ . When calculating the revenue where  $P = \$100$  and  $Q = 30$  Revenue =  $\$100 \times 30 = \$3,000$  Revenue =  $\$3,000$  Variable expenses value: The variable expenses include: Labor expenses- include 6 experienced university graduates: For each trip 6 are required Each is paid \$100 per trip Therefore for each trip the total labor cost is: Labor cost = number of employed \* cost per unit Labor cost =  $6 \times \$100$  Labor cost =  $\$600$  Refreshments: Tourist are offered refreshments, the cost per person is \$25 Refreshments cost =  $\$25$  Total refreshments cost = cost per unit \* number of tourist Number of tourists = 30 Total refreshment cost =  $\$25 \times 30$  Total refreshment cost =  $\$450$  Other operating expenses (including fuel cost) Other expenses =  $\$50$  per trip Total expenses = labor expenses + refreshment costs + other operating expenses Total expenses =  $(6 \times \$100) + (\$25 \times 30) + (\$50)$  Total expenses =  $\$600 + \$450 + \$50$  Total expenses =  $\$1,100$  Contribution margin: The difference between total revenue and total variable expenses is referred to as the contribution margin, in this case given the total number of tourists = 30 Total revenue =  $\$3000$  Total variable expenses =  $\$1,100$  Contribution margin =  $3,000 - 1,100$  Contribution margin for each trip is =  $\$1,900$  From the above calculations the following values were determined: Total revenue =  $\$3,000$  Total variable expenses =  $\$1,100$  Contribution margin =  $\$1,900$  This means that given the average number of tourists per cruise was 30, the revenue per cruise was  $\$3,000$ .

Also given the same number of tourists the variable expenses per cruise was \$1, 100 and given these two values the contribution margin was \$1, 900 per cruise.