

What is Contribution Margin?

Worksheet

Contribution margin per unit equals selling price minus variable cost per unit; the contribution margin ratio is that amount divided by selling price, showing what portion of every sales dollar contributes to fixed costs and profit.

$$\text{Contribution Margin} = \text{Sales} - \text{Variable Costs}$$

Questions

1. Contribution margin equals:

- A) Sales Fixed Costs
- B) Sales Variable Costs
- C) Sales Total Costs
- D) Sales COGS

2. A product sells for \$80 with a variable cost of \$50. Its contribution margin per unit is:

- A) \$30
- B) \$50
- C) \$80
- D) \$130

3. The contribution margin ratio is calculated as:

- A) CM Sales
- B) CM / Sales
- C) Sales / CM
- D) CM Sales

4. If the CM ratio is 40% and sales are \$500,000, total contribution margin is:

- A) \$200,000
- B) \$300,000
- C) \$400,000
- D) \$120,000

5. A product sells for \$50 with a variable cost of \$30 per unit. Find the contribution margin per unit and the CM ratio.

6. Using the product above, the company sells 1,200 units. Find total contribution margin.

7. A firm reports sales of \$200,000 and variable costs of \$120,000. Find total contribution margin and the CM ratio.

8. Define: What is contribution margin?

9. Define: What is the contribution margin ratio?

10. Define: Why is contribution margin useful for decisions?

Answer Key

1. B) Sales Variable Costs - Contribution margin subtracts only variable costs from sales.
2. A) $\$30 - \text{CM per unit} = 80 - 50 = \30 .
3. B) $\text{CM} / \text{Sales} - \text{CM ratio} = \text{Contribution Margin} / \text{Sales}$.
4. A) $\$200,000 - \text{Total CM} = \text{Sales} \times \text{CM ratio} = 500,000 \times 0.40 = \$200,000$.
5. $\text{CM per unit} = 50 - 30 = \20 $\text{CM ratio} = 20 / 50 = 40\%$
6. $\text{Total CM} = \text{CM per unit} \times \text{units sold} = 20 \times 1,200 = \$24,000$
7. $\text{Total CM} = 200,000 - 120,000 = \$80,000$ $\text{CM ratio} = 80,000 / 200,000 = 40\%$
8. Sales revenue minus variable costs - the amount left to cover fixed costs and generate profit.
9. Contribution margin divided by sales, expressed as a percentage; shows what portion of each sales dollar contributes to fixed costs and profit.
10. It helps evaluate pricing, product mix, and how many units are needed to cover fixed costs (break-even).

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