

Exercise: Unit Contribution Margin

The following pertains to a local business activity:

- Selling price = \$350
- Unit variable costs = \$250
- Fixed costs = \$75000

Using the unit contribution margin method find how many units must be sold to break even.

From this information, it can be determined that, after the \$150 per unit variable costs are covered, each unit sold can contribute \$100 toward covering fixed costs.

Unit Contribution Margin = Selling Price – Unit Variable Costs

$$= 350 - 250$$

$$= \$100$$

Dividing fixed costs by the unit contribution margin gives the number of units that must be sold to break-even.

$$\text{Break-even point in units} = \frac{\text{Fixed Costs}}{\text{Unit Contribution Margin}} = \frac{75000}{100} = 750$$

750 units must be sold to break-even.

Sales of more than 750 units produce a profit and sales of less than 750 units produce a loss.