

CVP Key Takeaways

Fixed Cost stays the same in total but *varies per unit*.

Variable Costs stay the same per unit but *vary in total*.

To calculate cost per unit (this works for any type of cost per unit):

$$\frac{\text{Cost}}{\text{Units produced}} \text{ (make sure to use the correct cost)}$$

Contribution Margin is Sales – Variable Cost (contribution margin per unit is Sales price per unit – Variable cost per unit).

Contribution Margin RATIO is: Contribution Margin per unit / Sales Price per unit

You can find the breakeven point IN UNITS or the units necessary at any income level using the same formula:

$$\frac{\text{Fixed Costs} + \text{Target Income}}{\text{Contribution Margin per unit}}$$

Note: At breakeven, your target income is ZERO.

You can calculate breakeven point in SALES DOLLARS or Sales necessary to achieve a specific amount of income in 2 ways:

1. $\frac{\text{Fixed Costs} + \text{Target Income}}{\text{Contribution Margin RATIO}}$

Note: At breakeven, your target income is ZERO.

2. OR, an alternative method is to take your breakeven point in UNITS x sales price per unit.

Contribution Margin Income Statement assumes all costs can be classified as either Fixed or Variable Costs. The basic structure is:

Sales
Variable Costs
Contribution Margin (*Sales – Variable Costs*)
Fixed Costs
Net Income (*Contribution Margin – Fixed Costs*)