

Exercise 6-15 (15 minutes)

1.

	<i>Total</i>	<i>Per Unit</i>
Sales (15,000 games).....	\$300,000	\$20
Variable expenses	<u>90,000</u>	<u>6</u>
Contribution margin	210,000	<u>\$14</u>
Fixed expenses	<u>182,000</u>	
Net operating income	<u>\$ 28,000</u>	

The degree of operating leverage would be:

$$\begin{aligned}\text{Degree of operating leverage} &= \frac{\text{Contribution margin}}{\text{Net operating income}} \\ &= \frac{\$210,000}{\$28,000} = 7.5\end{aligned}$$

2. a. Sales of 18,000 games would represent a 20% increase over last year's sales. Since the degree of operating leverage is 7.5, net operating income should increase by 7.5 times as much, or by 150% (7.5 × 20%).

- b. The expected total dollar amount of net operating income for next year would be:

Last year's net operating income	\$28,000
Expected increase in net operating income next year (150% × \$28,000)	<u>42,000</u>
Total expected net operating income	<u>\$70,000</u>