

Exercise 5-5 (20 minutes)

1. The company's variable cost per unit is:

$$\frac{\$180,000}{30,000 \text{ units}} = \$6 \text{ per unit.}$$

In accordance with the behavior of variable and fixed costs, the completed schedule is:

	<i>Units produced and sold</i>		
	<i>30,000</i>	<i>40,000</i>	<i>50,000</i>
Total costs:			
Variable costs.....	\$180,000	\$240,000	\$300,000
Fixed costs	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>
Total costs	<u>\$480,000</u>	<u>\$540,000</u>	<u>\$600,000</u>
Cost per unit:			
Variable cost.....	\$ 6.00	\$ 6.00	\$ 6.00
Fixed cost.....	<u>10.00</u>	<u>7.50</u>	<u>6.00</u>
Total cost per unit	<u>\$16.00</u>	<u>\$13.50</u>	<u>\$12.00</u>

2. The company's income statement in the contribution format is:

Sales (45,000 units × \$16 per unit).....	\$720,000
Variable expenses (45,000 units × \$6 per unit).....	<u>270,000</u>
Contribution margin	450,000
Fixed expense	<u>300,000</u>
Net operating income.....	<u>\$150,000</u>