

Exercise 6-9 (20 minutes)

1. The company's degree of operating leverage would be computed as follows:

Contribution margin	\$48,000
÷ Net operating income	<u>\$10,000</u>
Degree of operating leverage..	<u>4.8</u>

2. A 5% increase in sales should result in a 24% increase in net operating income, computed as follows:

Degree of operating leverage.....	4.8
× Percent increase in sales.....	<u>5%</u>
Estimated percent increase in net operating income.....	<u>24%</u>

3. The new income statement reflecting the change in sales is:

	<i>Amount</i>	<i>Percent of Sales</i>
Sales	\$84,000	100%
Variable expenses.....	<u>33,600</u>	<u>40%</u>
Contribution margin	50,400	<u>60%</u>
Fixed expenses.....	<u>38,000</u>	
Net operating income....	<u>\$12,400</u>	
Net operating income reflecting change in sales	\$12,400	
Original net operating income	\$10,000	
Percent change in net operating income		24%