***Parts 1 and 2***

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Harris Drum Company**  **Contribution Margin Income Statement**  **For Year Ended December 31, 2009**  **(2,000 units) Per unit % of sales** | | | | | |
| **Sales ($500 x 2,000)** |  | **$1,000,000** |  | **$500.00** | **100%** |
| **Variable costs** |  |  |  |  |  |
| **Plastic for casing** | **$ 34,600** |  | **$17.30** |  |  |
| **Assembly worker wages** | **164,000** |  | **82.00** |  |  |
| **Drum stands** | **52,000** |  | **26.00** |  |  |
| **Sales commissions** | **30,000** | **388,800** | **0.10** | **1.62** | **18%** |
| **Contribution margin** |  | **1,771,200** |  | **$7.38** | **82%** |
| **Fixed costs** |  |  |  |  |  |
| **Taxes on factory** | **10,000** |  |  |  |  |
| **Factory maintenance as** | **20,000** |  |  |  |  |
| **Factory mach. depreciation** | **80,000** |  |  |  |  |
| **Staff equipment lease** | **20,000** |  |  |  |  |
| **Accounting staff salaries** | **70,000** |  |  |  |  |
| **Admin. mgmt. salaries** | **250,000** | **450,000** |  |  |  |
| **Pretax income** |  | **451,200** |  |  |  |
| **Income tax (25%)** |  | **112,800** |  |  |  |
| **Net income** |  | **$ 338,400** |  |  |  |

**The contribution margin per unit is $7.38, and the contribution margin ratio is 82%.**

***Part 3* Analysis Component**

**Contribution margin shows how much of total sales are available to cover fixed costs and contribute to operating income. This is why the title for this statement is “Contribution Margin Income Statement.” Contribution margin ratio shows management the percent of each sales dollar that is available to cover fixed costs and to contribute to operating income. That is, for each $1 of sales, $0.82 is available both to cover fixed costs and to contribute to operating income.**