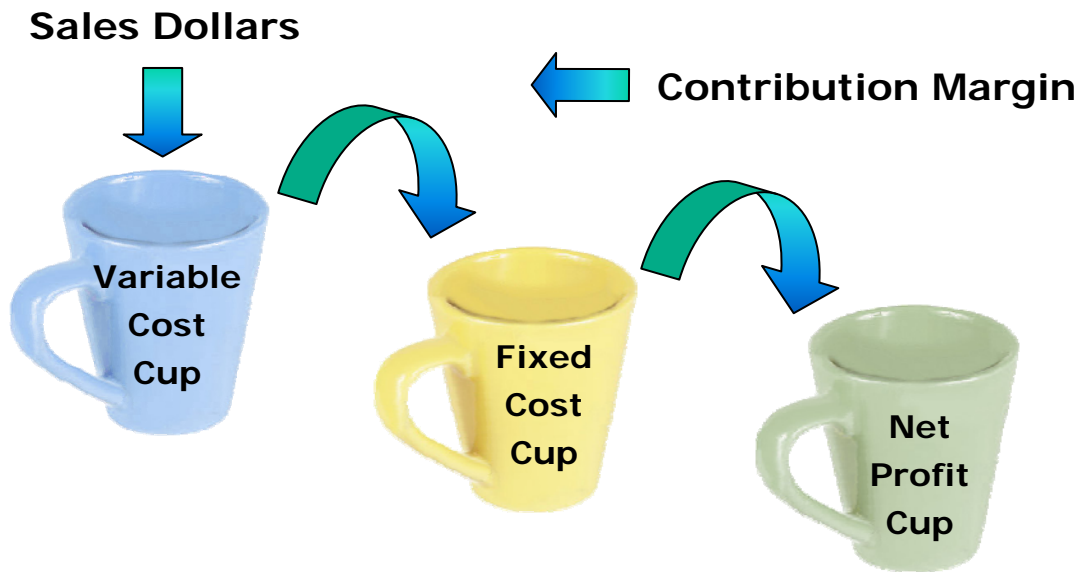


The Cup Theory

The Concept of Contribution Margin



To Calculate Break-even:

1. Separate into fixed (F) and variable (V)

2.
$$VC\% = \frac{\text{Variable Costs}}{\text{Sales}} \times 100 = \underline{\hspace{2cm}}\%$$

Contribution Margin % = $100\% - VC\% = \underline{\hspace{2cm}}$

3. FC \$: Total all FC = FC \$

4. Break-even =
$$\frac{FC}{100\% - VC\%} = \frac{FC}{CM\%} = \$\underline{\hspace{2cm}}$$

5. If FC \uparrow or FC \downarrow by \$1:

$$\frac{1}{100\% - VC\%} = \$ \text{ must go } \uparrow \text{ or } \downarrow \text{ by } \underline{\hspace{2cm}}$$