

QUESTION
A company's sales are \$100 million. The company's operating expenses are \$80 million. The company's net income is \$20 million. The company's operating leverage is 2.0. What is the company's contribution margin ratio?

- A. 0.20
- B. 0.30
- C. 0.40
- D. 0.50

SOLUTION
Operating leverage = (Sales - Variable Costs) / (Sales - Fixed Costs) = 2.0

Let Variable Costs = VC and Fixed Costs = FC.
Operating leverage = (Sales - VC) / (Sales - FC) = 2.0
100 - VC = 2(100 - FC)
100 - VC = 200 - 2FC
2FC - VC = 100
FC = (100 + VC) / 2
Net Income = Sales - Variable Costs - Fixed Costs = 20
100 - VC - (100 + VC) / 2 = 20
100 - VC - 50 - VC/2 = 20
50 - 3VC/2 = 20
3VC/2 = 30
VC = 20
Contribution Margin Ratio = (Sales - Variable Costs) / Sales = (100 - 20) / 100 = 0.80

ANSWER
D. 0.80

QUESTION
A company's sales are \$100 million. The company's operating expenses are \$80 million. The company's net income is \$20 million. The company's operating leverage is 2.0. What is the company's contribution margin ratio?

- A. 0.20
- B. 0.30
- C. 0.40
- D. 0.50

SOLUTION
Operating leverage = (Sales - Variable Costs) / (Sales - Fixed Costs) = 2.0

QUESTION
A company's sales are \$100 million. The company's operating expenses are \$80 million. The company's net income is \$20 million. The company's operating leverage is 2.0. What is the company's contribution margin ratio?

- A. 0.20
- B. 0.30
- C. 0.40
- D. 0.50

SOLUTION
Operating leverage = (Sales - Variable Costs) / (Sales - Fixed Costs) = 2.0