

Marginal Analysis (Korbin) Case Study

Description	Urban (1)	Suburban	Total	Urban (2)	
Sales	80,000	120,000	200,000	72,000	90 %
Variable Costs	32,000	84,000	116,000	28,800	40 %
Contribution Margin	48,000	36,000	84,000	43,200	
Direct Fixed Costs	20,000	40,000	60,000	20,000	
Direct Fixed Costs (1/4 of Suburban)				10,000	25 %
Store segment margin	28,000	(4,000)	24,000	13,200	
Common fixed cost	4,000	6,000	10,000	10,000	
Operating Income	24,000	(10,000)	14,000	3,200	
				Decrease	(10,800)

Notes:

Urban's Variable cost % = $\$32,000 / \$80,000 = 40\%$

Apply 40% on Urban's decreased sales to get relative VC ($\$72,000 \times 40\% = \$28,800$)

One-fourth of Suburban's direct fixed cost = $\$40,000 \times 1/4 = \$10,000$ (Continued as Urban's DFC)

Common fixed cost is Irrelevant (Sunk cost)

Hard-Coded numbers (Blue)

Formula generated numbers (Black)