

Marginal Analysis (Korbin) Case Study (2)

Description	Urban	Suburban	Total	Decision Impact	
				Suburban (2)	Total (2)
Sales	80,000	120,000	200,000	120,000	200,000
Reduction of eliminated items				20 %	(24,000)
Variable Costs	(32,000)	(84,000)	(116,000)	(70 %)	(67,200)
Contribution Margin	48,000	36,000	84,000		28,800
Direct Fixed Costs	(20,000)	(40,000)	(60,000)	85 %	(34,000)
Store segment margin	28,000	(4,000)	24,000		(5,200)
Common fixed cost	(4,000)	(6,000)	(10,000)		(6,000)
Operating Income	24,000	(10,000)	14,000		(11,200)
			Decrease		(1,200)

Notes:

Suburban Store's items sold at variable cost have no effect on Contribution Margin (CM = Sales - VC = 0)

Suburban's Variable cost % = \$84,000 / \$120,000 = 70%

Loss of Suburban Store's remaining sales volume = \$120,000 x 20% = \$24,000

Variable cost of deleted items = \$24,000 X 70% = \$16,800

* (Alternative direct calculation: Loss = Contribution Margin x 20% = \$36,000 x 20% = \$7,200)

Suburban's reduced direct fixed cost = \$40,000 x 15% = \$6,000 (Irrelevant cost 85% = \$34,000)

Korbin's decision net result = Cost savings - Lost revenue = \$6,000 - \$7,200 = (\$1,200)

Hard-Coded numbers (Blue)

Formula generated numbers (Black)