

Margin of safety - Question/Answers

$$\text{Contribution } 22 - 8 = 14$$

Question 1

A company makes and sells a single product and has budgeted the following unit costs and profit.

	£	Budgeted Sales = 184,000
SALES PRICE	22	7
VARIABLE COST	8	= 26,286.
FIXED COSTS	7	Budgeted FC = $26,286 \times 7$
PROFIT	7	= 184,002

14 Contribution

The budgeted profit is £184,000

What is the margin of safety expressed as a percentage of budgeted sales?

$$\begin{aligned} \text{Margin of Safety} &= 26,286 - 13,143 \\ &= 13,143 / 26,286 \times 100\% = 50\% \end{aligned}$$

Question 2

A company makes and sells a single product and has budgeted the following unit costs and profit.

	£
SALES PRICE	30
VARIABLE COST	11
FIXED COSTS	9
PROFIT	10

The budgeted profit is £200,000

What is the margin of safety expressed as a percentage of budgeted sales?

Question 3

A company makes and sells a single product and has budgeted the following unit costs and profit.

£