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Equations in Select Chapters

Chapter 5 (CVP Analysis)

Breakeven volume	$\frac{\text{Fixed costs}}{\text{Unit contribution margin}}$
Breakeven volume (multiproduct)	$\frac{\text{Fixed costs}}{\text{Weighted unit contribution margin}}$
Breakeven revenue	$\frac{\text{Fixed costs}}{\text{Contribution margin ratio}}$
Breakeven revenue (multiproduct)	$\frac{\text{Fixed costs}}{\text{Weighted contribution margin ratio}}$
Contribution margin	Revenue – Total variable costs
Contribution margin ratio	Unit contribution margin/Price Contribution margin/Revenue
Margin of safety	(Revenue – Breakeven revenue)/Revenue (Sales in units – Breakeven volume)/Sales in units
Operating leverage	Fixed costs/Total costs
Profit before taxes	[(Price – Unit variable cost) × Sales volume in units] – Fixed costs (Unit contribution margin × Sales volume in units) – Fixed costs Contribution margin – Fixed costs Contribution margin ratio × Revenue – Fixed costs
Profit after taxes	Profit before taxes × (1 – Tax rate)
Unit contribution margin	Price – Variable cost per unit (Revenue – Variable costs)/Units sold
Weighted unit contribution margin	$\Sigma(\% \text{ of sales in units} \times \text{Unit contribution margin})$
Weighted contribution margin ratio	$\Sigma(\% \text{ of revenues} \times \text{Contribution margin ratio})$

Chapter 8 (Variance Analysis)

Actual input cost	Actual input quantity × Actual cost per unit of input
Flexible budget cost	Flexible budget quantity × Budgeted cost per unit of input
Flexible budget quantity	Actual sales quantity × Quantity of input budgeted for 1 unit of sales
Flexible budget variance	Actual profit – Flexible budget profit
Input price variance	(Budgeted price per unit of input – Actual price per unit of input) × Actual input quantity
Input quantity variance	(Flexible budget quantity of input – Actual quantity of input) × Budgeted price per unit of input

(Continued)

Chapter 8 (Variance Analysis) (continued)	
Market share variance	Actual market size \times (Actual market share – Budgeted market share) \times Budgeted unit contribution margin
Market size variance	(Actual market size – Budgeted market size) \times Budgeted market share \times Budgeted unit contribution margin
Sales mix variance	Actual total sales \times (WUCM _{flexible budget} – WUCM _{master budget})
Sales price variance	(Actual sales price – Budgeted sales price) \times Actual sales quantity
Sales quantity variance	(Actual total sales – Budgeted total sales) \times WUCM _{master budget}
Sales volume variance	Flexible budget profit – Master budget profit (Actual sales quantity – Budgeted sales quantity) \times Budgeted unit contribution margin
Total profit variance	Actual profit – Master budget profit

Chapter 11 (Capital Budgeting)

Accounting rate of return	Average annual income/Average annual investment
Depreciation tax shield	Depreciation expense \times Tax rate
Future value of \$1	$(1 + r)^n$
Future value of an annuity of \$1 in arrears	$\frac{(1 + r)^n - 1}{r}$
Present value of \$1	$1 / (1 + r)^n$
Present value of an annuity of \$1 in arrears	$\frac{1 - (1 + r)^{-n}}{r}$

Chapter 12 (Performance Evaluation)

Asset turnover	Sales/Investment
Economic value added (EVA)	Net operating profit after taxes – [Weighted average cost of capital \times (Invested capital – Current liabilities)]
Profit margin	$1 - (\text{Operating expenses}/\text{Sales})$
Residual income (RI)	Profit – (Required return \times Investment)
Return on investment (ROI)	Profit/Investment
Minimum transfer price acceptable to selling division (TP _{MIN})	Variable cost of transfer + Selling division's opportunity cost of capacity
Maximum transfer price the buying divisions is willing to pay (TP _{MIN})	Buying division's opportunity cost