The Margin of Safety in Dollars

- lose $
- below ble
- ~~margin of safety~~
- like - negative earning / loss   EPS , ~~PE~~

The margin of safety in dollars is the excess of budgeted (or actual) sales over the break-even volume of sales.

Margin of safety in dollars = Total sales - Break-even sales

Let's look at Racing Bicycle Company and determine the margin of safety.

how much sale $ / unit ↓ before making "no profit / break-even / losing $"

(1) must - must be making $

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(2) if (1) apply - ↓ before ble   in % ↓ ✓   in $ / unit ✗   if ↓ 40% ble   40% of what ?

The Margin of Safety in Dollars

If we assume that RBC has actual sales of $250,000, given that we have already determined the break-even sales to be $200,000, the margin of safety is $50,000 as shown.

	Break-even sales 400 units	Actual sales 500 units
Sales	$ 200,000	$ 250,000
Less: variable expenses	120,000	150,000
Contribution margin	80,000	100,000
Less: fixed expenses	80,000	80,000
Net operating income	$ -	$ 20,000

100 unit ↓
$ 50,000 ↓ in sales

% ↓
units 500 → 400 ↓ 20%
$ 250 → 200 ↓ 20%

return
P_0 $100
P_1 $150

$$r = \frac{150-100}{100} = 50\%$$

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units $\frac{500-400}{500}$ $ $\frac{250-200}{250}$