

Case study unit 37

business studies

flashcard



**ASSIGN
BUSTER**

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Romero Case Study Unit 37: Carl Hurst Balti Pies a) Calculate the

contribution per batch of pies. A: Contribution = Selling Price - Variable Cost

Contribution = $100(50p) - ? 20$ Contribution = $? 50 - ? 20$ Contribution = $?$

30 b) How many batches would Carl need to produce in his first year of

trading to break-even. A: Break-even output = Fixed costs/Contribution

Break-even output = $(? 2, 500 + ? 500)/? 30$ Break-even output = 100

batches c) How much profit would Carl make if he sold 55, 000 pies in his first year?

A: Profit = Total Revenue - Total Cost Profit = (price x quantity sold) - (fixed

cost + variable cost) Profit = $(50p \times 55, 000) - (? 3, 000 + ? 20)$ Profit = $(?$

27, 500) - (? 3, 020) Profit = $? 24, 480$ d) In the second year of trading the

landlord raised the lease for the kitchen unit to $? 4, 500$ per year. Carl

responded to this by raising the price of his pies to 70p each. What effect

would this have on the break-even level of output? A: Break-even output =

Fixed Costs/Contribution Break-even output = $? 5, 000/((100(70p))- ? 20)$

Break-even output = $? 5, 000/? 0$ Break-even output = 100 batches What

Carl did here was to increase the price of his batches of pies to achieve the

same break-even point he had before the increase in leasing. This increase

in price balances the break-even output equation so that the output can be

the same. e) To what extent will break-even analysis be useful to Carl Hurst?

A: There are many ways in which a break-even analysis can be useful to Carl;

for example, this helps him see how much it has to sell of a product line to

arrive to zero loss and zero profit (break-even).

Also, if the business is brand new or it is being taken to other parts of the world or country, such as in this case, it may calculate how much it needs to sell primarily to avoid having a loss. It also can be useful for determining if it is cheaper to make products at home or by using supplies from external source such as retailers or supermarkets. It may also be helpful for Carl when trying to take his business to other enterprises or regions; this will help giving an image of the financial process of a company to the firm that requests his services.