

Andre's hair styling essay

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Andre of Andre's Hair Styling is evaluating his business and has provided the following information about his company.

Andre has five barbers working for him. (Andre is not one of them.) Each barber is paid \$9.90 per hour and works a 40-hour week and a 50-week year, regardless of the number of haircuts.

Rent and other fixed expenses are \$1,750 per month. Hair shampoo used on all clients is .40 per client. Assume that the only service performed is the giving of haircuts (including shampoo), the unit price of which is \$12.

Based on the information provided, Andre wants you to find the contribution margin cost per haircut. The calculations are as followed. There are 5 barbers and they are paid \$9.90 per hour. They work 40 hours a week and 50 weeks per year. This is considered a guaranteed salary (Onyiri, 2008).

If you multiply \$9.90 per hour times 40 hours a week by the 5 barbers they will make \$396 a week per barber. To find the contribution margin per haircut you will need to do the following calculations. Selling price per unit = \$12 and variable cost per unit = \$.

$0 = \$12 - 0.40 = \11.60 Contribution margin (CM) = selling price- variable cost = \$11.60 Now Andre wants you to look at the information given and determine what his annual break-even point, in the number of haircuts needed, will be.

To do this we will need to know what a break-even point is. A Break-even point is where a sale levels where there is no profit or loss. This number let Andre know if the business is worth continuing or if he should shut down.

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What is the fixed cost? Barbers salaries: $9.0 \times 40 \times 50 \times 5 = \$99,000$ Annual Rent = monthly rent \times 12 months = $\$1750 \times 12 = \$21,000$ Total fixed = salary + annual rent = $\$99,000 + 21,000 = \$120,000$ Break even = total fixed cost/ cm = $\$120,000/11$.

$60 = \$10,345$ rounded up So the total number of haircuts that should be performed in order for Andre to stay in business should be around 17 haircuts a day. If he does 20,000 haircuts what is the operating income? Know the fixed cost Calculate variable cost based on 20,000 @ \$.40 Total fixed cost = $\$120,000$ VC = $20,000 \times 0.40 = 8,000$ Total cost = (FC + VC) = $\$120,000 + 8,000 = \$128,000$ Total revenue = volume \times unit price = $20,000 \times 12 = 240,000$ Operating income = revenue - total cost = $240,000 - 128,000 = 112,000$ If the fixed cost should change, what will happen to break even? Find fixed cost Calculate new contribution margin (cm) Unit price = $\$12$; unit variable costs = $\$6 + 0$.

$40 = \$6.40$ New contribution margin (CM) = unit price - unit variable costs = $\$5.60$ Calculate new break even Break even = total fixed cost/cm What is your NEW Contribution margin per haircut? New fixed costs = $(4 \times 5 \times 40 \times 50) +$ annual rent = $40,000 + 21,000 = \$61,000$ New break-even point = FC/CM = $61,000/5.6 = \$10,893$ rounded up References Horngren, C. T.

, Sundem, G. L. , Stratton, W. O. , Burgstahler, D. , Schatzberg, J (2008) Introduction to Management Accounting Chapters 1-17, 14th Edition, Pearson Prentice Hall.

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