

breakeven exercise essay sample



**ASSIGN
BUSTER**

Video Concepts, Inc. (VCI) markets video equipment and film through a variety of retail outlets. Presently, VCI is faced with a decision as to whether it should obtain the distribution rights to an unreleased film titled Touch of Orange. If this film is distributed by VCI directly to large retailers, VCI's investment in the project would be \$150, 000 and the total market for the film is estimated at 100, 000 units. Other data are as follows:

Cost of distribution rights for film

\$125, 000

Label design

5, 000

Package design

10, 000

Advertising

35, 000

Reproduction of copies (per 1, 000)

4, 000

Manufacture of labels and packaging (per 1, 000)

500

Royalties (per 1, 000)

500

VCI's suggested retail price for the film is \$20 per unit. The retailer's margin is 40 percent.

a. What is VCI's unit contribution and contribution margin? Unit Contribution = Unit Price - Unit Variable Costs

As per the suggested price ,

Total income would be for VCI is \$2, 000, 000 (100, 000*20) out of which if we consider cost i. e. fixed and variable than fixed cost would be \$125000+

\$5000+\$10000+\$35000

\$175, 000 and variable cost would be

\$400, 000(4000*100000/1000)+\$50, 000(500*100000/1000)+\$50,

000(500*100000/1000)+40% margin i. e.\$800, 000 \$1, 300, 000 sp total

cost would be \$ 1, 475, 000 and contribution margin would be \$700, 000(\$2, 000, 000-\$1, 300, 000)

b. What is the break-even point in units? In dollars?

BEunits = Total Fixed Costs/Contribution Margin

Break even points in units would be 70, 000 units and with \$1, 400, 000

c. What share of the market would the firm have to achieve in the first year to earn a 20 percent return on BCI's investment?

20% Returnunits = (Total Fixed Costs + 20% × Investment)/Contribution Margin

Total investments by the company is \$150, 000 and 20% of it is \$30, 000 so if a company sold 1500 units i. e. 1. 5% of its total units than company can earn the above amount.

20% ReturnMS = 20% Returnunits/Total Market