

# Florida favorites company essay sample



**ASSIGN  
BUSTER**

Florida Favorites Company produces toy alligators and toy dolphins. Fixed costs are \$1, 290, 000 per year. Sales revenue and variable costs per unit are as follow:

Alligators Dolphins

Sales Price \$20 \$25 Variable Costs 8 10

Questions:

A. Suppose the company currently sells 140, 000 alligators per year and 60, 000 dolphins per year. Assuming the sales mix stays constant how many alligators and Dolphins must the company sell to break even?

B. Suppose the company currently sells 60, 000 alligators per year and 140, 000 dolphins per year. Assuming the sales mix stays constant, how many alligators and dolphins must the company sell to break even per year?

C. Explain why the total number of toys needed to break even in (a) is the same as or different from the number in (b).

Solution: A

Units	140000	60000	200000		Sales price per unit	\$20	\$25		
Variable Cost per unit	\$8	\$10			Alligators	Dolphins	TOTAL		Sales(A)
	\$2, 800, 000	\$1, 500, 000	\$4, 300, 000		Variable cost(B)	\$1, 120, 000			
	\$600, 000	\$1, 720, 000							
					Contribution Margin (A-B)	\$1, 680, 000	\$900, 000	\$2, 580, 000	
					Less :				
					Fixed cost		\$1, 290, 000		Net income
									\$1, 290, 000

Weighted Average Contribution margin: Total Contribution / Total units =  
 $\$2580000/200000 = \$12.90$  Breakeven Point = Fixed Cost / Weighted  
 Average Contribution =  $\$1,290,000 / \$12.90$

= 100000 units

Allocating TOTAL UNITS to each product based on EXPECTED UNITS

PROPORTION= 14: 6 Alligators to be produced for Breakeven =

$100000 * 14/20$

= 70000 units Dolphins to be produced for Breakeven =  $100000 * 6/20$

= 30000 units

So, Florida Favorites Company has to produce 70000 toy alligators and  
 30000 toy dolphins for breakeven.

B.

Units	60000	140000	200000	Sales price per unit	\$20	\$25		
Variable Cost per unit	\$8	\$10		Alligators	Dolphins	TOTAL	Sales(A)	
	\$1,200,000	\$3,500,000	\$4,700,000	Variable cost(B)	\$480,000	\$1,400,000	\$1,880,000	Contribution Margin(A-B)
	\$720,000	\$2,100,000	\$2,820,000	Less : Fixed cost	\$1,290,000			Net income
								\$1,530,000

Weighted Average Contribution margin: Total Contribution / Total units =  
 $\$2820000/200000 = \$14.10$  Breakeven Point = Fixed Cost / Weighted  
 Average Contribution =  $\$1,290,000 / \$14.10$

= 91489 units

Allocating TOTAL UNITS to each product based on EXPECTED UNITS

## PROPORTION

= 6: 14 Alligators to be produced for Breakeven

=  $91489 \cdot 6/20$

= 27446 units Dolphins to be produced for Breakeven

=  $91489 \cdot 14/20$

= 64042 units

So, Florida Favorites Company has to produce 27446 toy alligators and 64042 toy dolphins for breakeven.

C. The total number of toys needed to break even in (a) is different from the number in (b) and lower also. This is due to the reason as weighted contribution per unit has increased; fixed cost spreads over greater number of dollars letting the breakeven to be achieved early. Perhaps (b) sales mix is more efficient and gives the firm a hint to produce toy dolphins more as contribution per unit of a toy dolphin is also higher.