

Case study example

Finance



Task: Case study Question A At break-even point, the total cost = the total revenue. $BEP = (\text{Fixed cost} / \text{Contribution})$. The average contribution ratio for four products is $(0.15 * 0.5) + (0.5 * 0.25) + (0.1 * 0.5) + (0.25 * 0.8) = 0.45$. The break-even sales in this case $= (1,053,000 / 0.45) = \$2,340,000$. However, the level of sales necessary to achieve the target net income of \$117,000 $= (1,053,000 + 117,000) / 0.45 = \$2,600,000$. Sales for each product lines are as follows: appetizers $= (2,600,000 * 0.15) = \$390,000$; Main entrees $= (2,600,000 * 0.5) = \$1,300,000$; Desserts $= (2,600,000 * 0.1) = \$260,000$; and Beverages $= (2,600,000 * 0.25) = \$650,000$ (DuBrin 208-212).

Question B

The proposed change of strategy has the following consequences: the fixed costs will increase to $(1,053,000 + 585,000) = \$1,638,000$. Second, the new average contribution margin $= (0.25 * 0.5) + (0.25 * 0.1) + (0.1 * 0.5) + (0.4 * 0.8) = 0.52$. Therefore, the total restaurant sales to achieve the desired net income $= (1,053,000 + 585,000 + 117,000) / 0.52 = \$3,375,000$. Sales for each product lines are as follows: appetizers $= (3,375,000 * 0.25) = \$843,750$; Main entrees $= (3,375,000 * 0.25) = \$843,750$; Desserts $= (3,375,000 * 0.1) = \$337,500$; and Beverages $= (3,375,000 * 0.4) = \$1,350,000$ (DuBrin 208-212).

Question C

The fixed cost will be \$1,638,000. However, the new contribution margin $= (0.15 * 0.5) + (0.5 * 0.1) + (0.1 * 0.5) + (0.25 * 0.8) = 0.375$. The sales level to achieve the desired net income $= (1,053,000 + 585,000 + 117,000) / 0.375 = \$4,680,000$. Sales for each product lines are as follows: appetizers $= (4,680,000 * 0.15) = \$702,000$; Main entrees $= (4,680,000$
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* 0.5) = \$ 2,340,000; Desserts = (4,680,000 * 0.1) = \$ 468,000; and Beverages = (4,680,000 * 0.25) = \$ 1,170,000 (DuBrin 208-212).

Risk and advantage of the strategy

This strategy increases the level of sales to achieve the desired net income of \$ 117,000. A potential risk to this strategy is the failure to meet the sales level (\$ 4,680,000). On the other hand, the strategy has an advantage of increasing the restaurants revenues.

The cost structure

A company that uses manual labor in the production system experiences the following cost pool: wages to part-time and full-time employee, the contribution to a pension plan, employee recruitment costs, and moral hazard cost. On the other hand, the automated equipment system bears the following cost pools: machine acquisition costs, equipment maintenance costs, salary to IT technician, machine replacement and depreciation costs. Changing from manual labor production system to an automated equipment system changes the cost above named costs pools thus a company's cost structure.

Works Cited

DuBrin, Andrew J. Essentials of Management. Mason, Ohio: South-Western/Thomson Learning, 2012. Print.