

# [Institutional affiliation](https://assignbuster.com/institutional-affiliation/)

[Finance](https://assignbuster.com/essay-subjects/finance/)

Finance and Accounting al Affiliation) Contribution = Unit selling price – Variable Cost = $12 - $0. 40 = $11. 60 Therefore, contribution is margin per haircut is $11. 60.

Break-even point = Fixed cost / contribution
Fixed cost = (9. 90 \* 5 \* 40 \* 50) + (1750 \* 12)
= $120000
Break-even point = 120000 / 11. 60
= 10345 units
Break-even point is 10345 units
Operating Income Calculation:
Revenue = ($12 \* 20000) = $240000
Less:
Variable Cost = ($0. 4 \* 20000) = $8000
Fixed Cost = $120000
Operating Income = $ 112000
The operating income is $112000
Revision of compensation method:
New Contribution = $12 – ($6 +$0. 4)
= $5. 6
The new contribution margin per hair cut is $5. 6
Break-point = (21000 + (4\*5\*40\*50)) / 5. 6
= 10893
The annual break-even point is 10893 units
References
Epstein, M., & Lee, J. (2011). Advances in management accounting. Bingley, UK: Emerald.
Horngren, C. (1999). Management and cost accounting. London: Prentice Hall Europe.