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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

$$\text{Fixed cost} = (9. 90 * 5 * 40 * 50) + (1750 * 12) \\ = \$120000$$

$$\text{Break-even point} = 120000 / 11. 60 \\ = 10345 \text{ units}$$

Break-even point is 10345 units

Operating Income Calculation:

$$\text{Revenue} = (\$12 * 20000) = \$240000$$

Less:

$$\text{Variable Cost} = (\$0. 4 * 20000) = \$8000$$

$$\text{Fixed Cost} = \$120000$$

$$\text{Operating Income} = \$ 112000$$

The operating income is \$112000

Revision of compensation method:

$$\text{New Contribution} = \$12 - (\$6 + \$0. 4) \\ = \$5. 6$$

The new contribution margin per hair cut is \$5. 6

$$\text{Break-point} = (21000 + (4*5*40*50)) / 5. 6 \\ = 10893$$

The annual break-even point is 10893 units

References

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