Title of the Document

Student’s Name

American Intercontinental University

**Introduction (1 page)**

In the introduction, paraphrase the below scenario using APA format and describe what steps you would take to analyze and evaluate the advertising director’s proposal using break-even analysis.

You are the plant accountant for a company that makes a popular brand of basketball shoes. Currently, your company sells 1,000 pairs of shoes each month for $100 apiece. The variable costs are 40% of sales, and the fixed costs are $35,000/month. The company's advertising director is asking for an increase in her marketing budget of $1,500 per month. She plans to enhance her marketing campaign in a targeted area of the West Coast. She estimates that the additional advertising will result in a 50% increase in demand. For this situation, the additional advertising costs are considered a fixed cost. What is the impact of this request on the company's operating income? On the other hand, the production manager believes that this increase in sales could put pressure on the production line. He estimates that there will need to be a $2.00 increase in labor costs per unit [a pair of shoes].

Consider the following:

* Using the projected monthly income figure calculated above, how many units would the company need to sell to meet the initial monthly operating income figure?
* What is the break-even sales volume needed?

**Scenario Analysis (1 page)**

**Create the break-down using this template and include it in your paper.:**

**1) Original Break-even calculations (page 891)**

|  |  |
| --- | --- |
| Sales (total number of shoes sold in a month x selling price each shoe) |  |
| Variable costs (40%) | 40,000 |
| Contribution margin  (Sales – Variable costs) |  |
| Fixed costs – given | 35,000 |
| Operating income  (Contribution margin – fixed cost) |  |
| Break-even point (fixed costs / variable costs per unit) = |  |

**2) Revised Break-even after extra $1,500 of advertising**

|  |  |
| --- | --- |
| Sales  New Sales (new sales volume x selling price of each shoe)  ((50% x 1,000) + 1,000) x $100 |  |
| Variable costs (original 40% + $2/pair)  (Selling price x new variable cost/pair) |  |
| Contribution margin  (Sales – Variable Costs) |  |
| Fixed costs (original fixed costs + additional marketing cost)  (35,000 + 1,500) | 36,500 |
| Operating income (Contribution margin – fixed cost) |  |
| Break-even point (fixed costs / variable costs per unit) = | = |

Analysis (2 pages)

* Explain the benefits and limitations of break-even analysis.
* Discuss how organizations can use “What if?” analyses to evaluate alternatives like the Advertising Director’s proposal (an example of what if analysis is part 2 of your calculations.
* Given the results of your calculations above compare thew pros and cons or each of the two break-even results, and
* Make a recommendation on whether the company should change or not.

**Conclusion (1/2 page)**

In this section, summarize the results of your analysis and the overall uses and limitations of the breakeven calculations that you perfomed.

**References**

Double space do not indent, but do alphabetize. Use APA style. If the citation carries over to the next line, the lines will automatically be in hanging indent when you use the following template (overwrite the first two and when you hit <enter> twice after that, the references will fall in hanging indent naturally).

Applebaum, B. C., Zuckerman, M. Y., & Wu, X. (2014). Title of article in sentence case: Subtitle in sentence case. *Journal in Title Case*, *X,* 45-56.

O’Hara, C. (1986). *Name of book in sentence case*: *Subtitle in sentence case.* City, ST: Name of Publisher.