

Requirements

1. What is the number of lawns that must be serviced to reach break even?
2. If Sherman desires to make a profit of \$1,500, how many lawns must be serviced?

■ Continuing Problem

P18-34 This problem continues the Haupt Consulting, Inc., situation from Problem 17-36 of Chapter 17. Haupt Consulting provides consulting service at an average price of \$100 per hour and incurs variable cost of \$40 per hour. Assume average fixed costs are \$4,000 a month.

Requirements

1. What is the number of hours that must be billed to reach break even?
2. If Haupt desires to make a profit of \$5,000, how many lawns must be serviced?
3. Haupt thinks it can reduce fixed cost to \$3,000 per month, but variable cost will increase to \$42 per hour. What is the new break even in hours?

Apply Your Knowledge

■ Decision Cases

Case 1. Steve and Linda Hom live in Bartlesville, Oklahoma. Two years ago, they visited Thailand. Linda, a professional chef, was impressed with the cooking methods and the spices used in the Thai food. Bartlesville does not have a Thai restaurant, and the Homs are contemplating opening one. Linda would supervise the cooking, and Steve would leave his current job to be the maitre d'. The restaurant would serve dinner Tuesday—Saturday.

Steve has noticed a restaurant for lease. The restaurant has seven tables, each of which can seat four. Tables can be moved together for a large party. Linda is planning two seatings per evening, and the restaurant will be open 50 weeks per year.

The Homs have drawn up the following estimates:

Average revenue, including beverages and dessert	\$ 45 per meal
Average cost of food	\$ 15 per meal
Chef's and dishwasher's salaries.....	\$61,200 per year
Rent (premises, equipment).....	\$ 4,000 per month
Cleaning (linen and premises).....	\$ 800 per month
Replacement of dishes, cutlery, glasses	\$ 300 per month
Utilities, advertising, telephone.....	\$ 2,300 per month

Requirements

1. Compute the *annual* breakeven number of meals and sales revenue for the restaurant.
2. Also compute the number of meals and the amount of sales revenue needed to earn operating income of \$75,600 for the year.