

Accounting

break even analysis * * *

$$\text{BREAK EVEN POINT} = \frac{\text{FIXED COSTS}}{\text{UNIT CONTRIBUTION MARGIN}}$$

$$\text{TARGET \# of UNITS} = \frac{\text{FIXED COSTS} + \text{TARGET OPERATING PROFIT}}{\text{UNIT CONTRIBUTION MARGIN}}$$

NO UNITS YOU NEED TO SELL TO ACHIEVE TARGET PROFIT

$$\text{UNIT CONTRIBUTION MARGIN} = \text{UNIT PRICE} - \text{UNIT VARIABLE COSTS}$$

UNIT CONTRIBUTION MARGIN

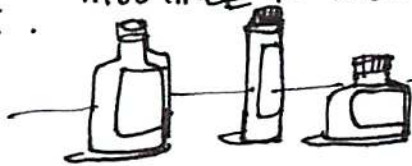
UNIT PRICE 200 20
 COST OF 175 15
 U.C.M = 5



how will we do break even analysis with more than one product.

eg. Read 2-4 Silky Smooth Lotions.

BREAK EVEN ANALYSIS FOR MULTIPLE PRODUCT LINES



family of products.

Sales Mix Ratio

ORGANIZATIONAL STRUCTURE/ARCHITECTURE.

DECISION RIGHTS · EVALUATION SYSTEM · REWARD SYSTEM.

* THE SMARTEST GUYS IN THE ROOM.

cost indifferent of eg. sales.

do not change based on level of business activity.

variable costs are related to business.



Career in accounting requires not just technical skills but ALSO SOFT SKILLS.

targeted profit the business wants to achieve.



ASSIGNMENT 1-10

- PRODUCTION
- AVERAGE COST: DON'T MAKE A DECISION BASED ON AVERAGE COST BECAUSE IT SKEWS THE DATA.
- MAKE DECISIONS BASED ON VARIABLE COSTS

HW. PROBLEM 2-41
 ROLAN HOWARD PG 32
 a) b) c) d) due 1st

PRINCIPLE AGENT RELATIONSHIP
 information asymmetries when a situation may be gamed

PREMIERES: R&D project to make a smokeless cigarette.

adverse selection: when one party knows something another doesn't

ACCOUNTING

TRANSFER PRICING

COST OF SELLING THINGS INSIDE THE COMPANY.

- THE CORPORATION CAN SET ~~THE~~
- DICTATE TRANSFER PRICE.
- NEGOTIATING
- HELP
- MARKET VALUE.

FOR CASE STUDY.

ACCOUNTING - WE ARE TRYING TO MODEL THE PROBLEM.

in the end the answer doesn't matter. what does matter is playing with scenarios.



CHEMICAL BANK CASE

- DECISION RIGHTS
- ARE THEY REWARDED
- HOW THEY ARE EVALUATED.

organizational ARCHITECTURE

ASSIGNMENTS

- 2-41 / 1st week.
- replicate US pump systems 5-15.
- 5-16 week after after.
- read chapter 3, 5 - older problems.
- Try. 3-12. / 3-37 extra credit.

- REVIEW - FINAL EXAM.
- CASE STUDY - DAY OF RESIDENCY.

NET PRESENT VALUE

a dollar today is worth more than a dollar tomorrow



WIMPY THE BURGER

INTEREST RATE.

\$1 today interest rate 1%.

4 year from now \$1.01

$$\text{FUTURE VALUE} = \text{PRESENT VALUE} * (1 + \text{interest rate})^{\text{time period}}$$

Present value = future value (1 + interest rate)^{-time period} * discounted cash flow.

5% interest represents opportunity cost.

- * spreadsheet design.
- * \$B\$9 locks cell

- MASTER BUDGET EXAMPLE.
- chapter 6, 7, 8