PROBLEM III

FIRST CORPORATION IS CONTEMPLATING INTRODUCING A NEW LINE OF WIDGETS. THE WIDGETS WILL SELL FOR $28 EACH. THE VARIABLE COSTS ASSOCIATED WITH EACH WIDGET ARE $22. IF THE WIDGETS ARE TO BE INTRODUCED NATIONWIDE, THE COMPANY WILL HAVE TO OBTAIN ACCEPTABLE PROFIT ON A TEST MARKET BASIS. THE FIXED COSTS ASSOCIATED WITH THE TEST MARKET ARE $300,000 PER YEAR. THE COMPANY HAS A TAX RATE OF 40%.

REQUIRED: (SHOW WORK ON WORK SHEET PROVIDED ON PAGE 6.)

1. BREAKEVEN POINT IN UNITS. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
2. UNITS OF SALES REQUIRED TO EARN A PRE-TAX PROFIT OF $30,000.

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1. UNITS OF SALES REQUIRED TO EARN A POST-TAX PROFIT OF $30,000.

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1. POST-TAX BREAKEVEN POINT IN UNITS. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

ASSUME THE COMPANY IS OPERATING ABOVE BREAKEVEN WHEN A SPECIAL ORDER IS RECEIVED FROM A FOREIGHN MARKET FOR THE PURCHASE OF AN ADDITIONAL 10,000 WIDGETS. THERE IS ADEQUATE CAPACITY TO MANUFACTUR AND SALE THESE WIDGETS.

1. PROFIT ON THIS ORDER **ONLY** IF THE SALES PRICE IS $24.00.

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1. SALES PRICE REQUIRED TO EARN A PRE-TAX PROFIT OF $20,000 ON

THIS ORDER **ONLY**. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

# WORK SHEET FOR PROBLEM III