**5-38 Advertising Expenditures and Nonprofit Organizations**

Many colleges and universities have been extensively advertising their services. For example, a university in Philadelphia used a biplane to pull a sign promoting its evening program, and one in Mississippi designed bumper stickers and slogans as well as innovative programs.

Suppose Wilton College charges a comprehensive annual fee of $14,500 for tuition, room, and board, and it has capacity for 2,500 students. The admissions department predicts enrollment of 2,000students for 20X7. Costs per student for the 20X7 academic year are

Variable Fixed Total

Educational programs $4,000 $4,200 $8,200

Room 1,300 2,200 3,500

Board 2,600 600 3,200

Total $7,900 $7,000\* $14,900

\*Based on 2,000 to 2,500 students for the year.

The assistant director of admissions has proposed a two-month advertising campaign, however, using radio and television advertisements, together with an extensive direct mailing of brochures.

1. Suppose the advertising campaign will cost $1.65 million. What is the minimum number of additional students the campaign must attract to make the campaign break even?

2. Suppose the admissions department predicts that the campaign will attract 350 additional students.

What is the most Wilton should pay for the campaign and still break even?

3. Suppose a three-month (instead of two-month) campaign will attract 450 instead of 350 additional students. What is the most Wilton should pay for the one-month extension of the campaign and still break even?

**6-56 Relevant Cost**

Debraceny Company’s unit costs of manufacturing and selling a given item at the planned activity level of 10,000 units per month are

Manufacturing costs

Direct materials $4.20

Direct labor .60

Variable overhead .70

Fixed overhead .80

Selling expenses

Variable 3.20

Fixed 1.10

Ignore income taxes in all requirements. These four parts have no connection with each other.

1. Compute the planned annual operating income at a selling price of $12 per unit.

2. Compute the expected annual operating income if the volume can be increased by 20% when the selling price is reduced to $11. Assume the implied cost behavior patterns are correct.

3. The company desires to seek an order for 5,000 units from a foreign customer. The variable selling expenses for the order will be 40% less than usual, but the fixed costs for obtaining the order will be $6,000. Domestic sales will not be affected. Compute the minimum break-even price per unit to be considered.

4. The company has an inventory of 2,000 units of this item left over from last year’s model. These must be sold through regular channels at reduced prices. The inventory will be valueless unless sold this way. What unit cost is relevant for establishing the minimum selling price of these 2,000 units?