**Golden Star Winery Case**

Golden Star Winery produces midlevel wines consumed primarily in North America. Given below is the projected income statement for the company for 2011.

**Projected Income Statement (2011)**

|  |  |  |
| --- | --- | --- |
|  Sales (100,000 cases at $7 per case) |   | $700,000 |
|  Cost of goods sold: |   |   |
|  Materials | $180,000 |   |
|  Labor | $225,000 |   |
|  Fixed manufacturing expenses | $45,000 |   |
|   |   |   |
|  Administrative and selling expenses: |   |   |
|  Delivery | $30,000 |   |
|  Commissions | $50,000 |   |
|  Advertising | $10,000 |   |
|  Travel | $5,000 |   |
|  Fixed administrative and selling expenses | $15,000 |   |
|  Total expenses |   | $560,000 |
|  Net income before taxes |   | **$140,000** |

Using Excel, prepare a graph showing the breakeven point and any profit or loss at the current price of $7. Explain to the Golden Star management the implications of this analysis.

What is the elasticity coefficient for each price between $6.50 and $7.50? Is the demand elastic or inelastic at these points? How can this information be useful to management in its pricing and output decisions?

On the basis of your calculations and the information above, what recommendations would you make to Golden Star in terms of price and output levels?

* Complete the following table in a Microsoft Excel spreadsheet.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Price** | **Quantity** | **Total Revenue** | **Total Variable Cost** | **Total Fixed Cost** | **Total Cost** | **Profit** |
| $8.00 | 65,000 | *
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| $7.75  | 75,000 | *
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| $7.50  | 80,000 | *
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| $7.25  | 90,000 | *
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 |
| $7.00  | 100,000 | *
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 |
| $6.75  | 115,000 | *
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| $6.50  | 120,000 |  | *
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