

3.3A: Break-Even Analysis: Activity

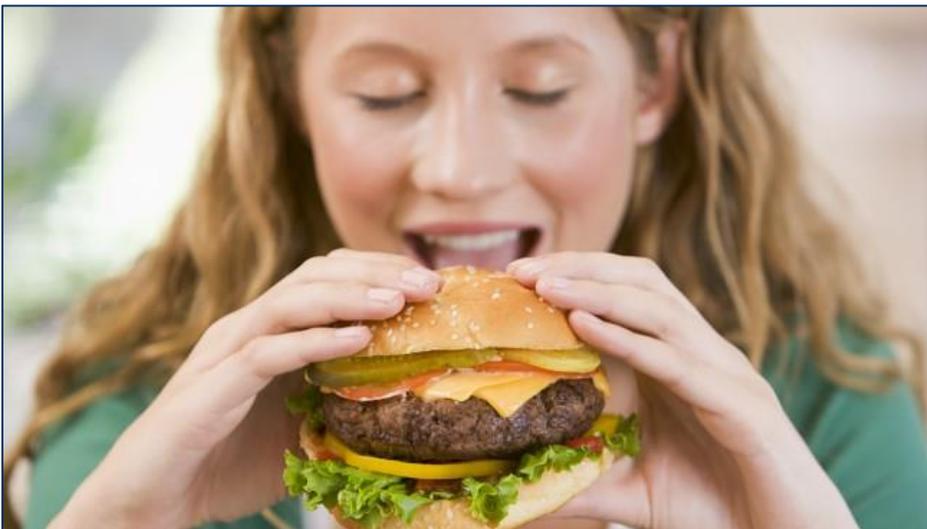


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3.3 BREAK-EVEN ANALYSIS: ACTIVITY A

Read the case study information below and answer the questions that follow.

THE VAN BOHEEMEN



The van Boheemen is a new burger joint in the central business district in Wellington, New Zealand. The burger joint specialises in a range of value-for-money burgers made from Ruby van Boheemen's own secret recipes. Market testing has generated a lot of favourable feedback. The take away shop operates out of a 'hole in the wall' location and caters solely to the lunch time crowd. Opening hours are

only 11:30 am to 2:00 pm. Rent and labour costs are thus kept to a bare minimum allowing Ruby to price her burgers at a very competitive \$2 across her small product range. The fixed costs for the restaurant are \$500 a day, and variable costs are just \$1 per burger.

Before Ruby opened her store she sat down and did a range of cost and revenue calculations; she would now like you to double check her calculations. She has the break-even level of production as being at 500 burgers a day.

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Quantity sold	Fixed cost (\$)	Variable cost (\$)	Total cost (\$)	Total revenue	Profit/(Loss) (\$)
0					
100					
200					
300					
400					
500					
600					
700					

Source: www.BusinessManagementIB.com

QUESTIONS: 18 MARKS, 30 MINUTES

1. Calculate all missing values in the table to confirm that the break-even level of output is indeed 500 burgers. **[6 marks]**
2. Construct a fully-labelled break-even graph from the information given, to again confirm the break-even level of output. **[8 marks]**
3. Identify on the break-even graph the margin of safety and profit at The van Boheemen's full operating capacity – 700 burgers a day. **[4 marks]**