

CHAPTER 21 Financial Management

SOFTWARE ACTIVITY

Spreadsheet Application

OBJECTIVE: Calculate break-even point.

At one point or another, many entrepreneurs must decide whether or not to add new products as a way of increasing profits for the firm. However, they must remember that every change has a cost, and sometimes that cost is more than the change is worth. Before deciding to invest in a change, entrepreneurs should evaluate profit potential by using a break-even analysis.

When deciding whether or not to add a new product, break-even analysis will calculate the number of units that will need to be sold in order to produce a profit. To calculate the break-even point in units, divide Fixed Costs by (Variable Costs subtracted from Selling Price).

Practice Situation

The printout below illustrates a product that you are considering to add to inventory. Fixed and Variable Costs are given in relation to five suggested selling prices. Calculate the break-even point in units for each of the selling prices given.

Fixed Costs	Variable Costs	Selling Price	Break-Even Point
\$1,000	\$7.50	\$13	
\$1,000	\$7.50	\$14	
\$1,000	\$7.50	\$15	
\$1,000	\$7.50	\$16	
\$1,000	\$7.50	\$17	

Spreadsheet Directions

1. Start your spreadsheet software program.
2. Recreate the above spreadsheet using your spreadsheet program.
3. For the selling price at \$13, input the formula to calculate the break-even point. Copy this formula for the other four products.
4. After completing your calculations, save your work.
5. Print out a copy of your work if your teacher has instructed you to do so.
6. Answer the following questions.

Interpreting Results

1. At which selling price would you have the lowest break-even point?

2. Should you price the product at \$17 if it is added to your inventory?

Drawing Conclusions

3. You decide to add the product to your inventory and set a retail price of \$17. Will you be guaranteed a profit?
