

ABC Company manufactures and markets a number of products. Management is considering the future of a new product which has not been as profitable as planned. Because this product is manufactured and marketed independently from the other products, its total costs can be precisely measured. The plan for the next year calls for a selling price of \$150 per unit. The forecasted variable cost is \$75 per unit. The fixed costs for the year are expected to total \$150,000 up to a maximum capacity of 5,000 units.

Required:

1. Calculate the break even point in terms of units and sales dollars.
2. Prepare a Cost-Volume-Profit chart for the product. Use 5,000 as the maximum units and \$750,000 as the maximum sales dollars.
3. Prepare a Statement of Earnings at break even.
4. Determine the after-tax income assuming sales of \$425,000 and a tax rate of 35%
5. Determine the sales in dollars assuming after tax income of \$49,000 and tax rate of 35%.

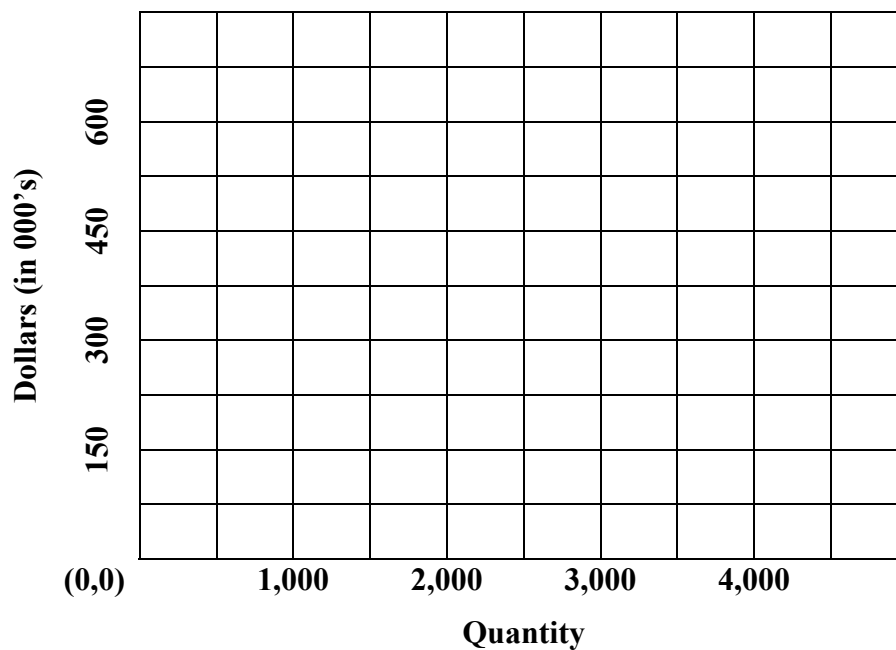
**Working Paper:**

Part 1

Break Even in Units = Fixed Cost / Contribution Margin =

Break Even in Sales Dollars = Fixed Cost / Contribution Rate =

Part 2



Part 3

**ABC Company**  
**Statement of Earnings at Break Even**


Parts 4

<b>Sales</b>	
<b>Variable Cost</b>	
<b>Contribution Margin</b>	
<b>Fixed Cost</b>	
<b>Income from Operations</b>	
<b>Tax</b>	
<b>Net Income</b>	

Parts 5

<b>Sales</b>	
<b>Variable Cost</b>	
<b>Contribution Margin</b>	
<b>Fixed Cost</b>	
<b>Income from Operations</b>	
<b>Tax</b>	
<b>Net Income</b>	



Parts 4

<b>Sales</b>	425,000
<b>Variable Cost</b>	
<b>Contribution Margin (425,000 x 50%)</b>	212,500
<b>Fixed Cost</b>	150,000
<b>Income from Operations</b>	62,500
<b>Tax</b>	
<b>Net Income (62,500 x 65%)</b>	<b>40,625</b>

Parts 5

<b>Sales (225,384 / 50%)</b>	<b>450,768</b>
<b>Variable Cost</b>	
<b>Contribution Margin</b>	225,384
<b>Fixed Cost</b>	150,000
<b>Income from Operations (49,000 / 65%)</b>	75,384
<b>Tax</b>	
<b>Net Income</b>	<b>49,000</b>