Assignment 2

Discussion—CVP Analysis

Review Decision Case 1 (Steve and Linda Hom) starting on page 984 of your text. In your initial post, answer the two case questions:

1. Compute the annual breakeven number of meals and sales revenue for the restaurant.
2. Compute the number of meals and the amount of sales revenue needed to earn operating income of $75,600 for the year.

In addition, address the following in one to two paragraphs:

1. Identify and discuss several qualitative factors that should be considered in the decision process in addition to the quantitative data already computed in the case assignment.
2. What are the potential benefits of applying CVP analysis to business decision making?
3. Provide an example of another business scenario that could benefit from CVP analysis and explain how you would apply CVP analysis in the decision-making process.

Decision Cases

Case 1. Steve and Linda Hom live in Bartlesville, Oklahoma. Two years ago, they visited Thailand. Linda, a professional chef, was impressed with the cooking methods and the spices used in the Thai food. Bartlesville does not have a Thai restaurant, and the Homs are contemplating opening one. Linda would supervise the cooking, and Steve would leave his current job to be the maitre d'. The restaurant would serve dinner Tuesday—Saturday.

Steve has noticed a restaurant for lease. The restaurant has seven tables, each of which can seat four. Tables can be moved together for a large party. Linda is planning two seatings per evening, and the restaurant will be open 50 weeks per year.

The Homs have drawn up the following estimates:

Average revenue, including beverages and dessert	$ 45 per meal
Average cost of food	$ 15 per meal
Chef's and dishwasher's salaries	$61,200 per *year*
Rent (premises, equipment)	$ 4,000 per month
Cleaning (linen and premises)	$ 800 per month
Replacement of dishes, curlery, glasses	$ 300 per month
Utilities, advertising, telephone	$ 2,300 per month

Requirements

1. Compute the *annual* breakeven number of meals and sales revenue for the restaurant.
2. Also compute the number of meals and the amount of sales revenue needed to earn operating income of $75,600 for the year.