

Name:

Date:

Class:

Improving Business Profitability

Calculate Unit Economics and Break-Even Point

In the role of financial consultant, your task is to improve the business profitability of a pottery store in a rural town. The owner is an artist who makes and sells hand-made vases. The owner of the store provided you with the following financial information that you need for calculating the store's unit economics and break-even point per month.

Business Expenses

Expense	Amount	Frequency
Rent	\$2,000	Monthly
Utilities	\$200	Monthly
Office supplies	\$50	Monthly
Clay	\$30	Per 25-pound block
Production labor	\$20	Hourly
Product packaging	\$5	Per unit
Equipment and repairs	\$100	Monthly
Glaze	\$50	Per gallon (128 ounces)
Replacement hand tools	\$25	Monthly
Web hosting fees	\$30	Monthly
Commissions	10 percent	Per sale
Insurance	\$225	Monthly

1. Assuming utilities are not impacted by production levels, identify the pottery store's expenses as fixed or variable.

Answer:

2. Determine the unit of sale.

Answer:

3. Calculate the cost of goods sold (COGS) per unit if each vase is typically produced using five pounds of clay, two ounces of glaze, and takes approximately three hours of direct labor to create.

Answer:

4. Determine the contribution margin if the average selling price per vase is \$125. Be sure to account for variable selling expenses, such as commissions and packaging, in the calculation.

Answer:

5. Calculate the total amount of fixed expenses paid each month.

Answer:

6. Determine the break-even point per month for the pottery business.

Answer: