

5080 UNIT ONE

- Motivated by his ambitions and previous work in coffee shops, Angelo is moving to Barrow, Alaska, to open a shop he has named Alaska Coffee. Angelo intends to sell coffee, espresso, and a couple of food items. He has signed a lease for a shop on one of the main streets and is moving in. His parents fronted him the cost of actual items of furniture and utensils, and he acquired some donated items, so he will not have to count these items in his cash accounting. Angelo is nearly ready to start selling coffee!

Angelo notes that he has the following fixed costs that he does have to count:

- \$1200/month for employees, totaled up, and
- \$1500/month lease, insurance, state, and borough fees.

Angelo figured he would allocate these fixed costs to his products in the same proportion that they provided revenue as shown in this table:

| <u>ITEM</u> | <u>PRICE SOLD / UNIT</u> | <u>VARIABLE COST / UNIT</u> | <u>% REVENUE</u> |
|-------------|--------------------------|-----------------------------|------------------|
| Coffee | \$2.00 / cup | \$ 0.25 / cup | 75% |
| Espresso | 3.00 / small cup | 0.50 / small cup | 15% |
| Scones | 4.00 / ea. | 2.00 / ea. | 5% |
| Bear Claws | 1.50 / ea. | 1.00 / ea. | 5% |

As you can see, local demand and the cost of acquiring supplies and ingredients from a store in the Arctic drives Angelo's accounting. The coffee is the thing for him! However, the other items are selling as well.

Angelo asks a visiting family member to prepare a report for him that answers the questions below.

- With the way Angelo has the fixed cost proportioned out by 75%, 15%, 5%, and 5% for each of the four items for sale, what is the break-even point of sales of each item for him in a month?
- What would the total sales figure for the shop be at the break-even point?

- What, if anything, should Angelo do to improve his business?

Prepare the report as instructed in a response of at least three pages. Be sure to research at least two sources to support your ideas and integrate the sources in APA-formatted citations and matching reference lists. Additionally, use Times New Roman 12pt. double-spaced font.