

Fortune Pharma is setting up a plant to launch a health drink product “HealthPro”. The unit has the capacity to produce 100000 cases and each case consists of 24 bottles of 300 ml each. The plant manager estimates that each case would cost Rs. 200 towards variable cost. The fixed cost related to the new product is Rs. 20 lakhs.

Required

- (a) If the company fixes sales price Rs. 10 per bottle (Rs. 240 per case), what is the break-even units and volume?
- (b) How many units the firm should sell to achieve profit of Rs. 10 lakhs? Assume selling price is Rs. 10 per unit (Rs. 240 per case).
- (c) What is the impact of the following action on BEP?
 - (1) Increasing selling price by 10% (from Rs. 10 to Rs. 11)
 - (2) Reducing the variable cost by 10% (from Rs. 200 per unit to Rs. 180 per unit).
 - (3) Reducing the fixed cost by 10% (from Rs. 20 lakhs to Rs. 18 lakhs)