Walk Rite Shoe Company

The Walk Rite Shoe Company operates a chain of shoe stores. The stores sell ten different styles of inexpensive men's shoes with identical unit costs and selling prices. A unit is defined as a pair of shoes. Each store has a manager who is paid a fixed salary. Individual salespeople receive a fixed salary and a sales commission. Walk Rite is trying to determine the desirability of opening another store, which is expected to have the following revenue and cost relationships:

Unit Variable data (per pair of shoes)	
Selling price	$30.00
Cost of shoes	$19.50
Sales commissions	1.50
Total variable costs	$21.00
Annual fixed costs	
Rent	$ 60,000
Salaries	200,000
Advertising	80,000
Other fixed costs	20,000
Total fixed costs	$360,000

Required:

(Consider each question independently.)

1. What is the annual breakeven point in (a) units sold and (b) revenues?

2. If 35,000 units are sold, what will be the store's operating income (loss)?

3. If sales commissions were discontinued for individual salespeople in favour of an $81,000 increase in fixed salaries, what would be the annual breakeven point in (a) units sold and (b) revenues?

4. Refer to the original data. If the store manager were paid $0.30 per unit sold in addition to his current fixed salary, what would be the annual breakeven point in (a) units sold and (b) revenues?

5. Refer to the original data. If the store manager were paid $0.30 per unit commission on each unit sold in excess of the breakeven point, what would be the store's operating income if 50,000 units were sold? (This $0.30 is in addition to both the commission paid to the sales staff and the store manager's fixed salary.)