

B-18.05

Greg Morrison recently graduated from mortuary school. He is considering opening his own funeral home. A funeral home is a high-fixed cost business, as it requires considerable expenditures for facilities, labor, and equipment, no matter how many families are served. Assume the annual fixed cost of operations is \$800,000. Further assume that the only significant variable cost relates to burial containers like urns and caskets. An average casket costs \$1,200. Greg's banker has asked a variety of questions in contemplation of providing a loan for this business.

- (a) If the average family is charged \$6,000 for services and a burial container, how many families must be served to clear the break-even point?
- (b) If the banker believes Greg will only serve 100 families during the first year in business, how much will the business lose during its first year of operation?
- (c) If Greg believes his profits will be at least \$100,000 during the first year, how much is he anticipating for total revenue?
- (d) The banker has suggested that Greg can reduce his fixed costs by \$150,000 if he will not buy any vehicles. Greg can instead rent vehicles as needed. The variable cost of renting is \$700 per family served. Will this suggestion help Greg reach the break-even point sooner?