

EXHIBIT VII

BREAK-EVEN ANALYSIS PROCEDURE

Step 1: Classify costs into two groups – Fixed and Variable

Fixed costs are those that will remain the same over a reasonable range of sales.

Variable costs are caused by sales and increase or decrease as sales volume increases or decreases.

Step 2: Determine the variable cost percentage.

$$\text{Variable Cost \%} = \frac{\text{Variable Cost}}{\text{Sales}}$$

Step 3: Determine the Contribution Margin Ratio (C.M.R.)

$$\text{Contribution Margin Ratio} = 100\% \text{ minus Variable Cost \%}$$

Step 4: Calculate Break-Even Sales

$$\text{Break-Even Sales} = \frac{\text{Annual Fixed Cost}}{\text{Contribution Margin Ratio}}$$

$$\text{Break-Even Units} = \frac{\text{Annual Fixed Cost}}{\text{Price/Unit minus Variable Cost/Unit}}$$

Units

Dollars

$\frac{\text{Annual Fixed Cost}}{\text{P/Unit} - \text{V.C./Unit}}$	$\frac{\text{Annual Fixed Cost}}{\text{C.M.R.}}$
$\frac{\text{Annual Fixed Cost \& Profit}}{\text{P/Unit} - \text{V.C./Unit}}$	$\frac{\text{Annual Fixed Cost \& Profit}}{\text{C.M.R.}}$

BASIC BREAK-EVEN ANALYSIS FORMAT

Example



