

ACCOUNTING in the headlines

How will installing tablets at all tables affect Applebee's breakeven point?

At Applebee's, Presto tablets by E la Carte are being installed at every table. In total, Applebee's will be purchasing 100,000 tablets. Customers will be able to pay their food bill and order appetizers and desserts using the tablets. The tablets are not replacing wait staff; wait staff will still take the orders for entrees. Applebee's does not expect to reduce the work hours of its wait staff due to the tablet installation. By allowing customers to pay whenever they want using the tablets, it is expected that customers will be more satisfied, both with the ease and speed of payment. Diners are expected to get out the door faster with the new tablet payment method.

The tablets will also function as jukeboxes at individual tables since customers can select and pay for music tableside. In addition, customers will be able to play games on the tablets for a small fee. The music and game sales revenue will be split between Applebee's and E la Carte.

In addition to the initial purchase price of the tablet hardware, Applebee's will be paying E la Carte a subscription fee for the use and upkeep of the tablets.

Questions

1. Assume that, in 2014, Applebee's does not open any new restaurants, nor does it reconfigure any of its existing restaurant layouts. Assume also that the tablet subscription fee is charged per tablet. Is the tablet subscription fee a variable cost or a fixed cost? What will be the impact of the tablet subscription fee on Applebee's breakeven point in sales dollars? Explain.
2. What would you expect, if any, the effect of the music and game sales revenue be on Applebee's contribution margin ratio? Why?