

# ACCOUNTING

## in the headlines

**How does outfitting AMC movie theaters with recliners affect the company's breakeven point and operating leverage?**

[AMC Entertainment Holdings Inc.](http://accountingintheheadlines.com/) is spending millions of dollars to install recliner-seating in its theaters.

AMC Entertainment Holdings Inc. is outfitting about 1,800 of its nearly 3,000 auditoriums with recliners for a total cost of about \$600 million. The recliners will remove up to two-thirds of the seating capacity in each theater, due to the fact that the recliners fully recline (think La-Z-Boy). The cost per auditorium is about \$350,000 to \$500,000 with some of the costs being paid by the landlords.

At AMC theaters where the new seating has been installed, movie ticket sales have increased by up to 80%.

AMC plans to keep ticket prices at the current price for the first year that the new seating is installed. After the first year, then ticket prices will be increased by \$1 to \$2 per ticket.

### Questions

1. How would the costs of the recliners and installation within a given theater affect that theater's break even point? Explain.
2. Would the 80% increase in ticket sales in a recliner-outfitted theater affect the theater's break even point? Explain why or why not.
3. How would the \$1 to \$2 increase in the price of a movie theater ticket after a year impact break even? Explain.
4. How does the installation of these recliners impact the company's operating leverage? Does the company have more or less risk with the new cost structure? Explain.