Solutions

Business answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

Each answer shows the steps, then the **result**.

2.1

- a cost that does not change with the level of output, such as rent (2 for a clear definition; 1 for a partial idea)

2.2

- $18 − $11 = $7 per unit (2; award 1 for a correct method with the wrong figure)

2.3

- a direct cost can be clearly linked to one product (its materials); an indirect cost (overhead) cannot, e.g. a manager's salary (2 for a clear difference; 1 for a partial idea)

3.1

- *[3]* **AO1** 1 — state a limitation (assumes price and costs stay constant; assumes all output is sold; costs are not always neatly fixed/variable). **AO2** up to 2 — develop it, e.g. it assumes every unit made is sold
- but unsold stock means real profit is lower than the chart shows
- decisions can be misled (2 developed / 1 limited)

3.2

(a)

- $25 − $15 = $10 contribution per unit (2)

(b)

- break-even = $\frac{50000}{10}$ = 5,000 units (2; allow follow-through from

(a)

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(c)

- margin of safety = $7000 - 5000$ = 2,000 units (2; allow follow-through from

(b)

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3.3

- *[12]* **AO1** 2 / **AO2** 2 / **AO3** 2 / **AO4** up to 6. **Useful:** quick and simple, shows the break-even point and margin of safety, helps set output and price targets, supports a loan application. **Limited:** assumes constant price and costs and that all output is sold; real markets change; it ignores quality and competition. Judgement: a useful planning tool for a small firm, especially at start-up, but its assumptions are unrealistic, so it should guide decisions, not make them alone — its value depends on how stable the firm's prices and costs are