Solutions

Marking: **M1** a correct method, **A1** the correct answer, **B1** an independent mark.

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

2.1

selling price per unit minus variable cost per unit; the amount each unit adds towards paying fixed costs and then profit

2.2

outsourcing: another firm is paid to carry out some of the work; offshoring: moving work or production to another country, either to the firm's own plant or to a subcontractor

2.3

contribution $= 20 - 12 = \$8$; break-even $= 24\,000 \div 8 =$ **3 000** units; margin of safety $= 4\,000 - 3\,000 =$ **1 000** units

2.4

any two, explained: closeness to attractions, business districts or airports, which affects demand; safety and political stability of the area; quality of local infrastructure and transport links; availability of skilled hospitality staff / local culture and image of the area

2.5

$(24\,000 + 16\,000) \div 8 =$ **5 000** units

3.1

award up to [10]: site A: lower rent and wages, so lower costs; a government grant reduces start-up costs; but far from main customers, so higher transport costs and slower delivery; few skilled carpenters, so training costs and possible quality problems; site B: close to customers and skilled workers; but higher rent and wages; quantitative comparison of annual costs from the table; qualitative factors such as infrastructure and image; judgement linked to Oakline's priorities, e.g. quality and delivery speed for furniture; conclusion supported by data

3.2

(a) contribution $= 24 - 12 = \$12$; $24\,000 \div 12 =$ **2 000** units

(b) any two, explained: assumes the same quantity will be sold at the higher price, but demand may fall; assumes costs stay the same at every output, e.g. no bulk discounts; assumes all output is sold with no stock left; ignores competitors' reactions

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