Solutions

IGCSE Business answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

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

2.1

- a **fixed cost** does **not change with output** (rent, salaries) (K)

2.2

- total cost = fixed + variable × output

$$\$4\,000 + (1\,000 \times \$3) = \$\mathbf{7\,000}$$

  (K)

2.3

- **break-even** is the output where **total revenue equals total cost** (no profit, no loss) (K)

3.1

(a)

- contribution = price − variable cost

$$\$20 - \$8 = \$\mathbf{12}$$

  (K)

(b)

$$\text{break-even} = \frac{\$6\,000}{\$12} = \mathbf{500}\ \text{units}$$

(K)

(c)

- margin of safety = actual − break-even

$$700 - 500 = \mathbf{200}\ \text{units}$$

  (K)

3.2

- **benefit**: shows how many units must be sold to avoid a loss → sales target (K + An)
- **limitation**: assumes all output is sold and price/costs stay the same → only a guide (K + An)

3.3

- **for**: quick, shows break-even and margin of safety, supports a loan
- **against**: assumptions (all sold; constant price and costs) are unrealistic
- **judgement (Ev)**: a helpful planning guide, not a decision on its own — it depends on how stable prices and costs are