

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 $\times$ output

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

(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

$$\$20 - \$8 = \$12$$

(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 $\rightarrow$ sales target (K + An)
- **limitation**: assumes all output is sold and price/costs stay the same $\rightarrow$ 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