

Workshop Lecture 2 ANSWERS TO REVISION QUESTIONS

1. (d) A cost per unit which fluctuates with changes in output. The actual cost is fixed but as output changes, the fixed cost per unit fluctuates.
2. (a) Actual activity x pre-determined overhead rate.
3. (d)

Unit contribution	=	selling price - variable cost	
	=	£5 - (£30,000/12,500 + £0.50)	
	=	£5 - £2.90 = <u>£2.10</u>	
Annual breakeven point = $\frac{\text{Annual fixed costs}}{\text{Unit Contribution}}$			
	=	$\frac{£20,000 \times 4}{£2.10}$	= <u>38,095</u>
4. (b)

Quarterly breakeven point	=	$\frac{38,095}{4}$	=	<u>9,524</u>
Margin of safety	=	$\frac{13,000 - 9,524}{13,000}$	=	<u>26.74%</u>
5. (b)

Contribution margin ratio	=	$\frac{\text{Contribution margin}}{\text{Selling Price}}$	=	$\frac{£2.10}{£5.00} = 42\%$
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6. (a)

Revised selling price	=	£5 + 20% = <u>£6</u>
Revised annual fixed costs	=	[£20,000 + £5,000] x 4 = <u>£100,000</u>
Revised unit contribution margin	=	£6 - £3.00 = <u>£3.00</u>

(including 10p decrease due to increased commission)

Total contribution (60,000 x £3.00)	=	£ 180,000
Less fixed costs		<u>100,000</u>
Net Profit		<u>80,000</u>
7. (d)
8. (d) September sales are forecast to be 12,500 units higher than August sales.
9. (d) Relevant costs are costs which will alter as a result of a specific decision.
10. (b) £25
 (Note: in £, Margin = Mark Up = Profit = £5)
 (As a percentage: Margin = Profit/Selling Price = $\frac{5}{25} = 20\%$
 and Mark Up = Profit/Cost Price = $\frac{5}{20} = 25\%$)

Given any percentage mark-up can you convert it into a percentage margin and vice versa? Hint – if given margin let SP = £100 then work out profit and hence cost price, then mark-up = profit/cost price.

If given mark-up let cost price = £100 etc etc.