

## 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 = £2.10

Annual breakeven point =  $\frac{\text{Annual fixed costs}}{\text{Unit Contribution}}$

=  $\frac{£20,000 \times 4}{£2.10}$  = 38,095

4. (b) Quarterly breakeven point =  $\frac{38,095}{4}$  = 9,524

Margin of safety =  $\frac{13,000 - 9,524}{13,000}$  = 26.74%

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

6. (a) Revised selling price = £5 + 20% = £6  
 Revised annual fixed costs = [£20,000 + £5,000] x 4 = £100,000  
 Revised unit contribution margin = £6 - £3.00 = £3.00  
 (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.