

B2 Case Study

The Successful T-shirt Company

The Successful T-shirt Company sells fashion T-shirts throughout the European Union. The shirts are available in a range of colours and all contain the prized Successful logo.

The shirts are sold to retailers for £15 each. They cost £5 to manufacture and the salesperson receives £0.60 commission for each item sold to retailers. The distribution cost for each shirt is £0.40. The fixed costs of production are £10,000 per month.

The company is considering expanding production and has approached its bank for a loan. The bank has asked the company to draw up a business plan including a cash flow forecast and break-even chart.

Questions (30 marks; 35 minutes)

- 1 What is a break-even chart? (4)
- 2 Calculate the following:
 - a the variable cost of producing 1,000 T-shirts
 - b the contribution earned through the sale of one T-shirt. (6)
- 3 Construct a break-even chart to show:
 - a the monthly level of output necessary for the Successful T-shirt Company to break even
 - b the safety margin. (10)
- 4 To what extent is break-even analysis a useful technique for a small company selling fashion products? (10)