B2. Case Study *(30 marks)*

1 What is a break-even chart? **(4)**

Possible answers:

- a graph setting out the forecast costs and revenues associated with a given product
- it allows profits or losses to be read off at each level of output
- It illustrates the level of output necessary to cover costs (i.e. to break-even).

2 Calculate the following:

a the variable cost of producing 1,000 T-shirts

The variable cost of producing 1,000 T-shirts is £6,000.

b the contribution earned through the sale of one T-shirt. **(6)**

The contribution from the sale of a single T-shirt is £9 (£15 – £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)**

See Figure 16.2.

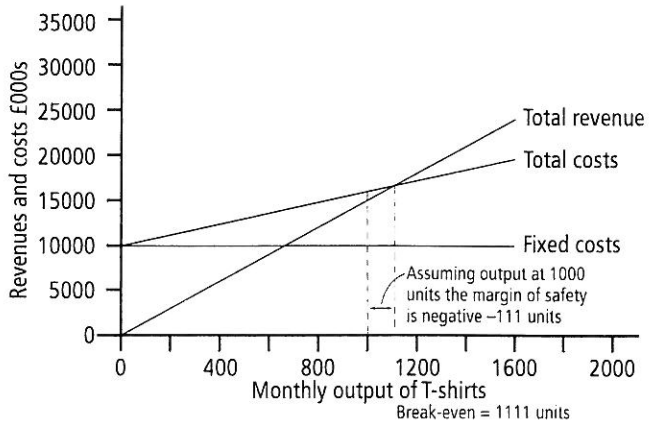

Figure 16.2

4 To what extent is break-even analysis a useful technique for a small company selling fashion products? **(10)**

MARK SCHEME:

Knowledge & Understanding (max 3 marks)	Application & Analysis (max 4 marks)	Evaluation (max 3 marks)
Sound knowledge of break-even demonstrated *(3)*	Good analysis of strengths and weaknesses of technique to a small company producing fashion products *(3–4)*	Good judgement shown in reaching a conclusion as to the value of the technique *(3)*
Limited knowledge of break-even only *(1–2)*	Some analysis perhaps considering only strengths or weaknesses, or not related to scenario *(1–2)*	Some judgement shown *(1–2)*

Possible answers include:

- a simple, straightforward technique suitable for inexperienced managers looking after a small business
- can provide an idea of sales required to provide a sufficient profit
- gives information to assess the impact of discounting prices in a competitive market
- may have difficulty coping with markets in which tastes and fashions change regularly
- the technique makes no allowance for possible purchasing economies that the business may enjoy
- its value may depend upon the volatility and competitiveness of the market.