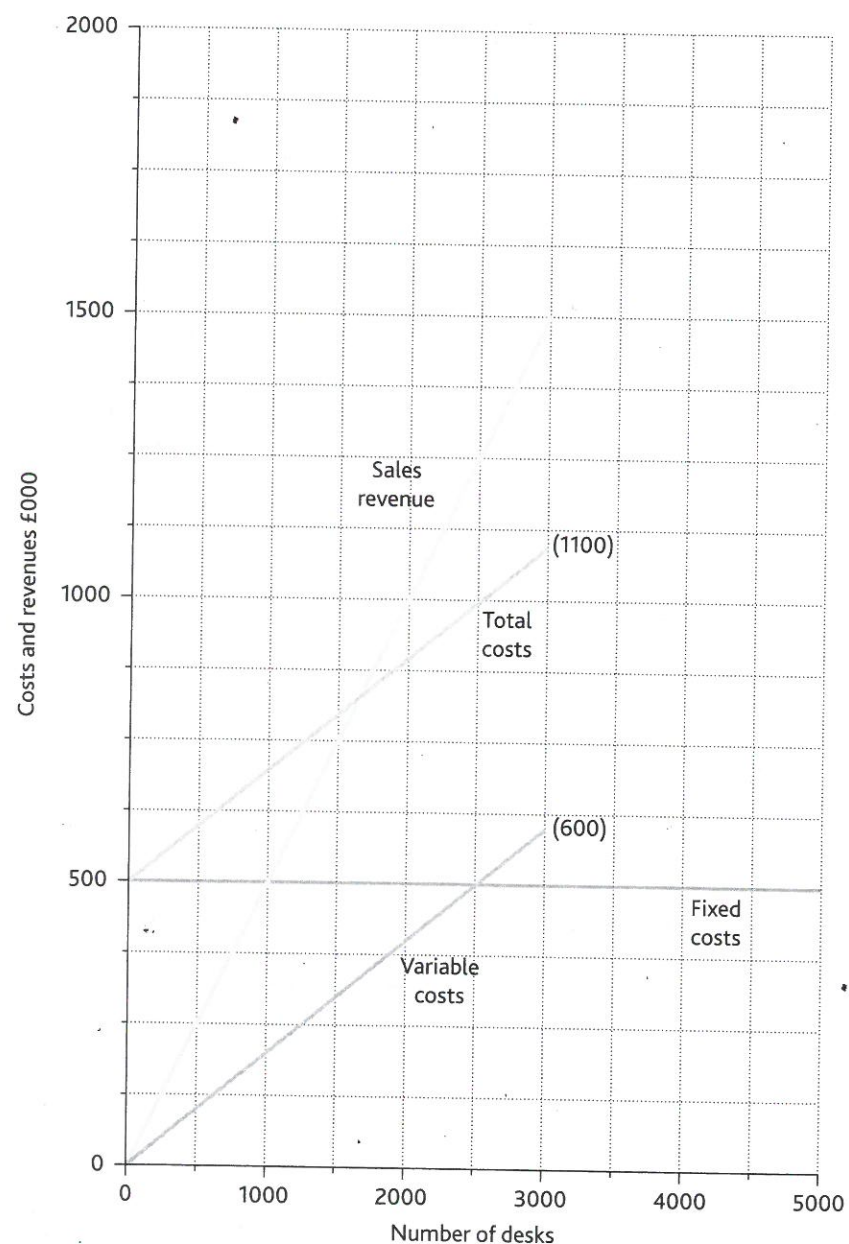


Summary questions: Chapters 11 & 12

- a) Mark the new expected sale revenue line on the chart. (2 marks)
- b) Identify the new break-even level of output. (1 mark)
- c) Compare the profitability of the business at 3,000 units @ £500 and at 4,000 units @ £450. (4 marks)
- d) Do you think the business owner should make this change to a lower price? Explain your answer. (8 marks)



Summary questions

Chapters 11 & 12

- 1 Explain why profit is important to any business. (4 marks)
- 2 Explain why the revenue of a business is unlikely to increase by 10% when it raises prices by 10%. (4 marks)
- 3 Identify four costs that will have to be paid by a taxi business – and classify them into either variable or fixed costs. (8 marks)
- 4 A friend of yours plans to set up a specialist online computer magazine. Customers would pay by subscription. Explain the importance to your friend of distinguishing between contribution and profit when starting up his business. (8 marks)
- 5 Distinguish clearly between the break-even level of output and the margin of safety by sketching a typical break-even chart. (4 marks)
- 6 Explain two reasons why a new entrepreneur might find break-even analysis useful. (4 marks)
- 7 A garden maintenance business owner finds that she has to work four days a week just to 'break-even'. Analyse TWO steps she could take to reduce this break-even point of production. (8 marks)
- 8 A jewellery retailer finds that its costs of new stock are rising due to increasing gold prices. Analyse TWO steps the business owner might take to maintain total levels of profit from the business. (8 marks)
- 9 Analyse two possible reasons why a new business start-up might discover that the original break-even analysis in the Business Plan is very inaccurate. (8 marks)
- 10 Analyse why the owner of a hotel in an area with considerable seasonal demand variations might find it useful to distinguish between the variable and fixed costs of the business. (8 marks)
- 11 Evaluate the usefulness of break-even analysis to this same hotel business.
- 12 The break-even chart opposite shows the current position for a specialist manufacturer of executive computer desks or work stations. The current level of output is 3,000 per year, although capacity is 5,000 desks. The owner of the business is aiming to increase profitability and is considering the following change: Reducing the price to £450 but increasing output and (hopefully) sales to 4,000 desks.