

Fixed and variable costs

EGB

- 1 Anita runs a business making small wooden toys, such as trains and boats. She uses a workshop which she bought with a bank loan, and employs a friend to help out on a part-time basis when she is busy.



(a) Suggest **four** fixed costs that Anita might pay. (4 marks)

- 1 Machine maintenance costs
- 2 telephone charges
- 3 utilities Business rates
- 4 Interest on loan repayments
Insurance Paying loan

Make sure you are clear about the term you are being asked about. Here you are being asked to identify **fixed** costs.

(b) Now suggest **two** variable costs that she might have. (2 marks)

- 1 wood & other materials G.W.E
- 2 paint & varnish postage

Guided

2

Complete the following sentences using the words in the box below. (2 marks)

(a) Rent is usually a *fixed* cost because it does not *change* regardless of the level of activity or the number of items made and sold.

(b) Postage and packing costs are often *variable* costs because the cost *increases* with the level of activity or as more items are made, sold and despatched.

change	variable	decreases
fixed	increases	varies