



## Progress questions

- 1 State two reasons why a business might carry out a break-even analysis. (2 marks)
- 2 Carefully distinguish between contribution and profits. (5 marks)
- 3 Outdoor Ltd manufactures jackets. It has annual fixed costs of £100 000, sells its jackets at £50 each and estimates the variable cost of producing a single jacket to be £30. Calculate the level of contribution made from the sale of a single jacket. (4 marks)
- 4 Using the above example, calculate the annual break-even output for Outdoor Ltd. (4 marks)
- 5 If Outdoor Ltd manufactured 7500 jackets during the year, what would be its margin of safety? Why might this information be important to the managers of the business? (10 marks)
- 6 Norris Newspapers produce a local newspaper. They face fixed costs amounting to £20 000 a month, sell their newspapers at £0.50 each and the variable cost of printing a single newspaper is £0.25. At full capacity, they can print 150 000 newspapers each month. Construct a break-even chart and illustrate Norris Newspaper's break-even point. (10 marks)
- 7 Using the chart you have drawn in answer to question 6, indicate Norris Newspaper's level of profit or loss if:
  - a) They print and sell 50 000 newspapers per month. (3 marks)
  - b) They print and sell 100 000 newspapers per month. (3 marks)
- 8 Outline two reasons why a small business such as Norris Newspapers might make use of break-even analysis. (4 marks)
- 9 A firm's break-even analysis has been shown to be inaccurate. Explain three factors that might have caused this outcome. (6 marks)
- 10 Explain the benefits that a small business might gain from the use of break-even analysis. (7 marks)