COMPONENT 3 DATA 2

tutor2u

START

1 **Calculate** the variable cost per unit for Year 1.

2 **Calculate** the total fixed costs for each year.

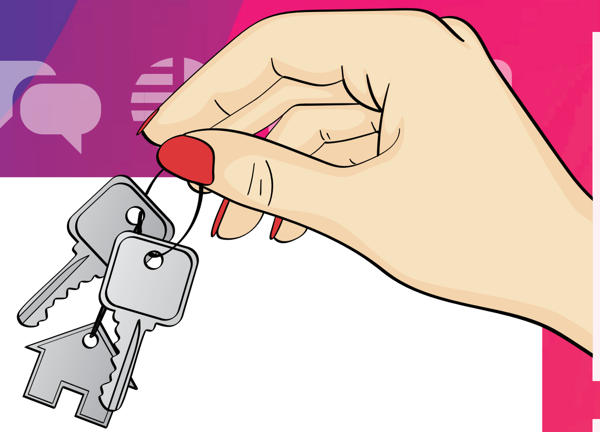
3 **Calculate** the percentage of total costs that are fixed in Year 1.

4 For each year, **calculate** the break-even point.

BUSINESS PROFILE

Mo began her rent a room scheme, as part of a plan to make her richer quicker, some years back.

She began letting out her spare bedroom on an informal basis, but the business has started to incur an increasing amounts of costs, due to more rules and regulations in the industry. Mo is now concerned as to whether the enterprise is making her any money.



Selected financial information

	Year 1 (£)	Year 2 (£)	Year 3 (£)	Year 4 (£)
Selling price	20	20	30	35
Number of sales	500	500	600	500
Variable costs	4000	5000	9000	12500
Fixed Costs				
Business rates	600	600	750	1000
Water	600	600	750	1000
Insurance	1200	1200	1500	2000

Cash flow information for Mo's business

	Month 1 (£)	Month 1 (£)
Opening balance		(1210)
Cash in		
Sales	1000	1200
Total inflows	1000	1200
Cash out		
Advertising	310	50
Cleaning equipment	2000	100
Insurance	500	320
Total outflows		
Net cash flow		
Closing Balance	(1210)	

5 **State** which year has the best break-even point.

6 **Discuss** how the business could improve its break-even position.

7 **Calculate** the impact of a rise in variable costs of 20% on the break-even position in year 1.

8 **Discuss** how the business could manage cost increases in the future.

9 **Calculate** the opening balance in month 1.

10 **Calculate** the total outflows for both months 1 and 2.

11 Using the cash flow data, **calculate** the net cash flow for months 1 and 2.

12 **Calculate** the closing balance of month 2.

13 **Explain** one way the business might improve its closing balance in month 1 and 2.

14 **Assess** the importance to a business of creating a cash flow forecast.

COMPONENT 3 DATA 2 SUGGESTED ANSWERS

1 *Calculate the variable cost per unit for Year 1.*

4,000/500 = £8

2 *Calculate the total fixed costs for each year.*

Year 1 = £2,400; Year 2 = £2,400; Year 3: £3,000; Year 4: £4,000

3 *Calculate the percentage of total costs that are fixed in Year 1.*

2400/4000 = 60%

4 *For each year, calculate the break-even point.*

Year 1: 200 units; Year 2: 240 units; Year 3: 200 units; Year 4: 400 units

5 *State which year has the best break-even point.*

Years 1 and 3, as they have the lowest break-even figure

6 *Discuss how the business could improve its break-even position.*

Increase selling price, reduce variable costs and/or fixed costs by cutting out unnecessary expenditure.

7 *Calculate the impact of a rise in variable costs of 20% on the break-even position in year 1.*

4,000 x 1.20 = 4800 / 500 = 9.60. 20-9.60 = 10.40. 2400/10.40 = 231 units = extra 31 units need to be sold in order to break-even if variable costs rose by 20%.

8 *Discuss how the business could manage cost increases in the future.*

Ensure the business is run as efficiently as possible, shop around for insurance quotes, review expenditure on variable costs to ensure that any cost savings are gained, increase selling prices to counteract any increases in costs.

9 *Calculate the opening balance in month 1.*

£600

10 *Calculate the total outflows for both months 1 and 2.*

Month 1: £2,810, Month 2: £470

11 *Using the cash flow data, calculate the net cash flow for months 1 and 2.*

Month 1: (£1,810); Month 2: £730

12 *Calculate the closing balance of month 2.*

(£480)

13 *Explain one way the business might improve its closing balance in month 1 and 2.*

Increase inflows eg: sources of finance or increased sales or reduce outflows by cutting costs such as advertising or cleaning equipment in month 1.

14 *Asssess the importance to a business of creating a cash flow forecast.*

Identifies shortfalls of cash, allowing the business to take appropriate action to ensure the business has enough cash to keep trading e.g. organise an overdraft; the cash flow forecast is a prediction and therefore the figures need to be based on reliable data.

TIME TO REVIEW YOUR LEARNING...

List three content points that you are confident with and three that require some attention.

Confident with	Requires attention
1	1
2	2
3	3