

Homework 6 - Supply decisions

1.

- (a) Partnership
- (b) Partnership
- (c) Company
- (d) Sole trader

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Income Statement (Year 1999)

- **Sales:**
 - 5,000 units of Good X * £40 = £200,000
 - 4,000 units of Good Y * £75 = £300,000
 - **Total Sales = £500,000**
- **Expenses:**
 - Rent: £25,000
 - Travel: £19,000
 - Stationery & Office: £15,000
 - Wages: £335,000
 - Telephone: £8,000
 - Advertising: £28,000
 - **Total Expenses = £430,000**
- **Profit Before Tax = £70,000**
- **Corporation Tax (30%) = £21,000**
- **Profit After Tax = £49,000**

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(a) Accounting Cost

Accounting costs are explicit, out-of-pocket expenses.

= Direct Costs

= £27,000

(b) Accounting Profit

= Revenue – Accounting Cost

= £55,000 – £27,000

= £28,000

(c) Opportunity Cost of Fiona's Time

= Salary forgone by not working elsewhere

= £21,000

(d) Opportunity Cost of Financial Capital

= Interest forgone on £25,000 at 10%

= £25,000 × 10%

= £2,500

(e) Total Economic Cost

= Accounting Cost + Opportunity Costs (Time + Capital)

= £27,000 + £21,000 + £2,500

= £50,500

(f) Economic Profit (Supernormal)

= Revenue – Total Economic Cost

= £55,000 – £50,500

= £4,500