**Topic: Resources for starting a business. Cost analysis**

**Exercise 1**

**Variable cost**: A cost that varies, in total, in direct proportion to changes in the level of activity.

**Fixed cost:** A cost that remains constant, in total, regardless of changes in the level of activity within the relevant range.

***Identify type of cost (fixed or variable) for the following examples:***

1. X-ray film used in radiology lab.

2. Cost of advertising Madonna concert.

3. Rental cost of space occupied by McDonald’s.

4. Electrical costs of running roller coaster.

5. Property taxes on local cinema.

6. Commissions paid to salespersons.

7. Property insurance on bottling plant.

8. Cost of synthetic materials used to make Nikes.

9. Cost of shipping televisions to retail stores.

10.Cost of leasing ultra-scan diagnostic machine.

**Exercise 2. Fixed and Variable Costs/expenses**

For each item listed below check (+) whether the item is a variable cost or a fixed cost.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Item** | **Variable Costs** | **Fixed Costs** |
| 1 | Direct material issued | + |  |
| 2 | Direct factory labor incurred | + |  |
| 3 | Salary of executives |  | + |
| 4 | Compensation of accountants |  | + |
| 5 | КSales people commissions | + |  |
| 6 | Materials used to package finished goods | + |  |
| 7 | Executives compensation |  | + |
| 8 | Monthly rent on building |  | + |
| 9 | Electric power used to run A/C units in the summer time | + |  |
| 10 | Advertising expenses for the year |  | + |