# Lecture 6 Questions

## Question One

A shoe retailer prepares the following forecast for his shop for next year:

|  |  |
| --- | --- |
|  |  |
| Pairs of shoes to be sold  Average selling price per pair  Average cost per pair  Staff costs for the year  General office costs for the year | 24,000  £40  £25  £90,000  £150,000 |

**Required**:

(a) Calculate the break-even point in pairs of shoes to be sold, and the margin of safety.

(b) Give *three* advantages and *three* limitations of break-even analysis.

## Question Two

George manufactures commemorative medals. The following data relates to 2016:

|  |  |
| --- | --- |
|  | **Per Medal**  **£** |
| Selling price  Variable production cost  Variable selling cost  **Contribution**  Fixed production costs, based on annual sales of 20,000 medals  Fixed selling costs, based on annual sales of 20,000 medals  **Profit** | 50  30  \_5  15  5  \_1  \_9 |

**Required:**

(a) Calculate the level of production needed for George to break-even.

(b) George is thinking of doubling his production. To do so, he will have to occupy additional premises at a cost of £210,000. What will be the new break-even point?

## Question Three

Pear Ltd sells high tech watches and has fixed costs of £885,000. Currently each watch sells for £300 and the variable cost of manufacture is £225.

**Required:**

1. Calculate the break-even point for Pear Ltd
2. Pear Ltd wants to generate a profit of £500,000. How many watches need to be sold?
3. In the first year of trading Pear sold 15,000 units. What is the margin of safety that Pear Ltd has achieved?

## Question Four

