

## Chapter 6: Costs and Revenue

### Starter Activity

The following costs are costs paid from a records studio. Classify the following expenditure as either fixed or variable costs.

|                         |                         |                  |
|-------------------------|-------------------------|------------------|
| Raw materials           | Heating                 | Royalty payments |
| Wages                   | Rent                    | Electricity      |
| Salaries                | Transportation costs    | Water            |
| Advertising expenditure | Maintenance of Vehicles | Decorations      |

The table below shows some changes in costs and revenue as output changes.

| Output level | Sales revenue | Fixed costs | Variable costs | Total costs | Profit |
|--------------|---------------|-------------|----------------|-------------|--------|
| 0            | 0             |             |                |             |        |
| 1            |               |             |                |             |        |
| 2            |               | 500         |                |             |        |
| 3            | 900           |             |                |             |        |
| 4            |               |             |                |             |        |
| 5            | 1,500         |             |                |             |        |
| 6            |               |             | 1,200          |             |        |

#### Exercise 1 *14 marks*

- (a) What are the total fixed costs? *(2 marks)*
- (b) What is the selling price of the product? *(2 marks)*
- (c) What are the variable costs per unit? *(2 marks)*
- (d) Using the above information, complete the table by filling in the gaps. *(8 marks)*