5 Why a business needs finance – Part 2 — Answers

Answers

5.1 (a) fixed; (b) variable.

5.2 contribution $= 15 - 9 = \$6$ per unit.

5.3 break-even $= 24\,000 \div 6 = 4\,000$ units.

5.4 margin of safety $= 5\,000 - 4\,000 = 1\,000$ units.

5.5 net cash flow $= 12\,000 - 15\,000 = -\$3\,000$. It is negative, warning that the firm will be short of cash that month and should act early (delay payments, arrange an overdraft).

5.6 Contribution $= 25 - 15 = \$10$ per unit. Break-even $= 50\,000 \div 10 = 5\,000$ units. Margin of safety $= 6\,000 - 5\,000 = 1\,000$ units.