

Practice Question: Break-Even Point (BEP)

Despard Ltd manufactures and sells a single product. The following data have been extracted from the current year's budget:

Sales and production (units)	5,000
Variable cost per unit	£50
Fixed cost per unit	£70
Contribution to sales ratio	75%

The selling price per unit for next year is to be 8% above the current year's budgeted figure, whereas both the variable cost per unit and the total fixed costs are forecast to increase by 12% above their budgeted level in the current year.

The target for next year is that total profit should remain the same as that budgeted for the current year.

Required:

(a) Calculate for the CURRENT YEAR the budgeted:

(i) Contribution per unit;

(ii) Total profit.

(3 marks)

(b) Calculate the number of units which the company should produce and sell next year in order to achieve the target level of profit.

(4 marks)

(c) Explain, with an example, the term semi-variable (mixed) cost. How would such a cost be dealt with in undertaking the analysis in (a)?

(3 marks)

(Total: 10 marks)