

# Start-up costs

1 Which **two** of the following are start-up costs for a mobile car valeting business? Put a cross in the box next to the correct ones. **(2 marks)**

- A  Petrol for the van
- B  A pressure washer
- C  Car wash shampoo
- D  Overalls for the staff
- E  Paper for customer receipts

Make sure you are clear about the number of items you must identify **and** the key term you are being asked about.

**Guided**

2 Tom is setting up a business as a boarding kennels. He will look after dogs while the owners are away on holiday. He has found a barn that he can rent. It will need fitting out with secure kennels and runs for the dogs.

For questions like this, think carefully about the business **context** before you answer. What type of money would be spent to start this type of business?

Identify **three** start-up costs he may have. **(3 marks)**

- 1 Feeding bowls/dog leads and other dog care items
- 2 .....
- 3 .....



3 Your friend Claire is thinking of setting up a business selling sandwiches and hot pies from a small retail outlet near a college.

Using **two** examples, explain why she has to have enough money for start-up costs. **(4 marks)**

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# Operating (running) costs

1 Lisa runs a business producing and marketing children's clothing.

Identify **two** start-up costs and **two** running costs that Lisa has from the box below. Place the words in the correct column of the table. **(2 marks)**

Start-up costs	Running costs

Shelves/rails for storing stock	Sewing machine
Thread	Electricity

**Guided**

2 George runs a taxi business.

Suggest **three** running costs he might have. **(3 marks)**

- 1 Petrol/diesel
- 2 .....
- 3 .....

Think about the costs involved in running a car before you answer.

3 Mohammed wants to start a business selling second-hand books, computer games, DVDs and CDs from a market stall. He does not know the difference between start-up and running costs.

**(a)** Which **two** of the following would be examples of his running costs? Put a cross in the box next to the correct statement. **(2 marks)**

- A**  Buying items to resell
- B**  Paying to have a market pitch for a year
- C**  Buying a safe to keep cash overnight
- D**  Paying his brother to help out on a Saturday
- E**  Paying for boxes to display his stock

**(b)** Outline what is meant by the term 'running costs'. **(1 mark)**

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# Fixed and variable costs

1 Anita runs a business making small wooden toys, such as trains and boats. She uses a workshop which she bought with a bank loan, and employs a friend to help out on a part-time basis when she is busy.



**(a)** Suggest **four** fixed costs that Anita might pay. **(4 marks)**

- 1 .....
- 2 .....
- 3 .....
- 4 .....

Make sure you are clear about the term you are being asked about. Here you are being asked to identify **fixed** costs.

**(b)** Now suggest **two** variable costs that she might have. **(2 marks)**

- 1 .....
- 2 .....

**Guided**

2 Complete the following sentences using the words in the box below. **(2 marks)**

**(a)** Rent is usually a *fixed* cost because it does not ..... regardless of the level of activity or the number of items made and sold.

**(b)** Postage and packing costs are often *variable* costs because the cost ..... with the level of activity or as more items are made, sold and despatched.

change	variable	decreases
fixed	increases	varies

# Calculating total costs

- 1 (a) Complete the following formula to show how the variable cost figure is calculated using **one** of the choices from the box below. (1 mark)

Variable costs = ..... × Number of units produced

Cost of one unit	Sales revenue
Fixed costs	Cost of ten units

- (b) If one unit costs £5 and 50 units are produced, calculate the total variable cost. (1 mark)

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- 2 Complete the formula below for total costs by choosing the correct words and inserting them in the right place. (1 mark)

Start-up costs	Fixed costs	Running costs	Variable costs
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Total costs = ..... + Variable costs

- 3 A business has the following monthly costs.

Fixed costs	£400
Variable costs	£10 per item

- (a) What are the variable costs if they make 100 items? (1 mark)

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- (b) What is the fixed cost if they make 100 items? (1 mark)

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Think about the definition of fixed costs before you answer this question and the next!

- (c) What are their total costs if they increase production to 200 items a month? (1 mark)

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