



Sadiq Public School

Do the right, fear no man

Subject: Business studies

Class: C2

Day: Saturday

Date: 16-11-2024

Lesson is about Costs

Inquiry:

What is the importance of cost data in a business?

What are the types of costs in a business?

Information:

Business costs

All business activities involve costs of some sort. These costs cannot be ignored. For example, the manager of a business is planning to open a new factory making need to think about costs? Some reasons are explained below.

>> The costs of operating the factory can be compared with the revenue from the sale of the sports shoes to calculate whether or not the business will make a profit or loss. This calculation is one of the most important made in any business

>> The costs of two different locations for the new factory can be compared. This would help the owner make the best decision.

>> To help the manager decide what price should be charged for a pair of sports shoes

Accurate cost information is therefore very important for managers.

Fixed costs and variable costs

In calculating the costs of the business it is important to understand the difference between different types of costs. The main types of costs are fixed costs and variable costs. Examples of fixed costs include management salaries and rent paid for property. Even if output was zero, these costs would still have to be paid. Examples of variable costs include material costs and piece-rate labour costs. The more units that are produced, the higher these variable costs will be

Total cost and average cost.

The total costs of a business, during a period of time, are all fixed costs added to all variable costs of production. This total figure can then be compared with the sales revenue for the period to calculate the profit or loss made.

An average cost per unit can be calculated from the total cost figure. Average cost is the total cost of production divided by total output. For a sports shoe manufacturer producing 30000 pairs of shoes each year, this could be calculated as follows:

Stage 1

Total costs of production (\$150000) = fixed costs (\$50000) + total variable costs (\$100000)

Stage 2

Average cost of production = Total costs of production (in a time period)/Total output (in a time period)

$\$150\,000 / 30\,000 = \5 per pair

If both the average cost of production and the level of output is known, then total cost can be calculated by multiplying average cost per unit by output.

Total cost = average cost per unit \times output

Synthesizing /absorbing the information.

Write your own summary notes in your notes book based on the information you read in your textbook.

Assessing for learning:

Activity 1:

These are some of the costs involved in opening and operating a new sports shoe factory:

- rent of the factory
- insurance of the factory
- bank fees
- raw materials used
- Management salaries.

Q1. Add six other costs to this list that the owner would have to pay.

Activity 2:

Separate the costs listed in Activity 1 and the six additional costs on your list into two lists: fixed costs and variable costs. Explain why you have put each cost under either 'fixed costs' or 'variable costs'.

Feedback:

Write your answers into an email message and send it to me.

If you have any question about this topic, please send me an email I will reply ASAP.

Class	Teacher's Name	Teacher's Abbreviation	Teacher's Email Addresses	Instructions
C2A	Shoaiba Azam	SAW	Sawsp2023@gmail.com	C2A students will send their home assignments to their subject teacher (SAW) for checking and getting feedback.
C2GA	Nadia Hassan	NHJ	Nadiaj29@gmail.com	C2GA students will send their home assignments to their subject teacher (NHJ) for checking and getting feedback.