

# Costs

2 marks

## IGCSE Paper 1 2019

### Total Costs, Fixed Costs and Variable Costs Explained

Costs are the expenses involved in making a product. Firms incur costs by trading.

**Total Costs (TC):** the amount of money spent by a firm on producing a given level of output.

Total costs are made up of fixed costs (FC) and variable costs (VC).

**Fixed costs:** expenses of production that do not change with output eg rent. Fixed costs are almost always indirect costs and are sometimes called expenses.

**Variable costs:** expenses of production that do change with output eg components and raw materials.

**Total costs** = Fixed Costs + Variable Costs or  $TC = FC + VC$ . This means  $FC = TC - VC$  and  $VC = TC - FC$

**Example:** calculate total costs if fixed costs are £10,000 and variable costs are £40,000.  $TC = FC + VC = £10,000 + £40,000 = £50,000$

- 3 Sachin's business manufactures cricket bats for the mass market. He advertises in a national newspaper every two weeks. Demand for the cricket bats has rapidly increased since the business started two years ago. His 30 employees now produce 3 million cricket bats per year. A summary of costs and selling price is shown in Table 1. Sachin is finding it difficult to manage the business on his own. His friend has suggested delegating some tasks, such as marketing and production decisions, to employees.

Table 1: Summary of costs and selling price (\$)

Fixed costs per year (\$)	200 000
Variable cost per unit (\$)	4
Price per unit (\$)	20

(d) Calculate the total costs for the year (2 marks)

**Solution**

Variable Costs =  $3,000,000 \times \$4 = \$12,000,000$

Fixed Costs = \$200,000

Total Costs = Variable Costs + Fixed Costs

= \$12,200,000

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