National Diploma Plant/Animal

Farm Finance

Handout 4B

Drags (PTY) Ltd Model Answer

Break-Even Analysis

CIN: 12400/18400 Version: 001 Date: 2020/06/22

1.

FIXED COST		VARIABLE COST	
Advertising	20 000	Direct labour	744 000
Depreciation on plant and machinery	15 000	Direct material	435 000
Electricity – rent of meters	6 000	Electricity – units	24 000
Rent – Building	120 000	Railage	65 000
Wages of cleaners	24 000	Salaries – Factory foreman	109 000
Telephone – rent	6 000	Telephone – units	25 000
		Water – units	7 000
Total	**191 000**	**Total**	**1 409 000**
		Variable cost/unit	**R7.05**

2. Calculate the marginal income ratio (gross profit)

Marginal Income ratio = Marginal income / Income

= (Income – Variable cost) / Income

= (10 x 200 000) – 1 409 000 / 2 000 000

= 591 000/2 000 000

= 0,29 or 29,55%

3. Calculate the break-even point in R and in units

Break even in units = Total fixed costs/marginal income per unit

= 191 000/R2,95 (R10 x 29.55% = R2.95)

= 64 746 units

Break even in rand = Total fixed cost/marginal income

= 191 000/29,55%

= R646 362.10