**CHAPTER 2 – An Introduction to Cost Terms and Concepts**

**Solution: Succulent Swift Sweets**

**To: The Area Manager**

**From: M.A. Accountant**

**Subject: Analysis of costs**

**Date: 01/01/20X1**

**Re: Analysis of costs**

**The report below analyses the different costs based on the mileage per van and highlights the cost behaviour as the mileage changes.**

**Annual cost of running a delivery van**

The cost of running the van would start at £3,444.17 for 10,000 miles increasing to £41,625.00 for 150,000 miles. This supports your initial assertion that the total cost

Further analysis shows that the cost decreases as the miles increase as shown below.

![A screenshot of a cell phone

Description automatically generated]()**The total cost per mile**

The cost per mile is 34p for 10,000 miles, 31p per mile for 20,000 miles, 29p for 30,000 to 50,000 miles, reducing to 28p up to 150,000 miles. This shows that it is cheaper to run the van as the mileage increases.

**Variable cost per mile**

![A screenshot of a cell phone

Description automatically generated]()Although the total variable cost increases as the miles increase, you will notice that the variable cost per mile remains the same (or is fixed) at any level. This will likely be the same for any given mileage unless there is a discount for bulk orders.

**Fixed cost per mile**

![A screenshot of a cell phone

Description automatically generated]()The total fixed cost would always remain the same with the exception of any stepped fixed costs. However, the fixed cost per mile tends to decrease as the mileage increases. This is due to the fact that the cost is shared (spread) across a greater number of miles.

For a detailed breakdown please refer to the Excel file attached.

Please feel free to get in touch if you have any questions.

Prepared by M.A. Accountant