

Exercise 5-1 (15 minutes)

1.

| | <i>Cups of Coffee Served in a Week</i> | | |
|--|--|----------------|----------------|
| | <i>2,000</i> | <i>2,100</i> | <i>2,200</i> |
| Fixed cost | \$1,200 | \$1,200 | \$1,200 |
| Variable cost | <u>440</u> | <u>462</u> | <u>484</u> |
| Total cost | <u>\$1,640</u> | <u>\$1,662</u> | <u>\$1,684</u> |
| Average cost per cup of coffee served * | \$0.820 | \$0.791 | \$0.765 |

* Total cost ÷ cups of coffee served in a week

2. The average cost of a cup of coffee declines as the number of cups of coffee served increases because the fixed cost is spread over more cups of coffee.