Exercise 5-3 (20 minutes)

Occupancy-	Electrical
Days	Costs
2,406	\$5,148
124	1,588
<u>2,282</u>	<u>\$3,560</u>
	<i>Occupancy- Days</i> 2,406 <u>124</u> <u>2,282</u>

Variable cost = Change in cost \div Change in activity = \$3,560 ÷ 2,282 occupancy-days = \$1.56 per occupancy-day Total cost (August) \$5,148 Variable cost element $($1.56 \text{ per occupancy-day} \times 2,406 \text{ occupancy-days}).$ 3,753 Fixed cost element.....

2. Electrical costs may reflect seasonal factors other than just the variation in occupancy days. For example, common areas such as the reception area must be lighted for longer periods during the winter than in the summer. This will result in seasonal fluctuations in the fixed electrical costs.

Additionally, fixed costs will be affected by the number of days in a month. In other words, costs like the costs of lighting common areas are variable with respect to the number of days in the month, but are fixed with respect to how many rooms are occupied during the month.

Other, less systematic, factors may also affect electrical costs such as the frugality of individual guests. Some guests will turn off lights when they leave a room. Others will not.

<u>\$1,395</u>