

Paul Robbins training and consultancy

Management Accounting Decision and Control

High Low Technique – Worked Example

Model Answer

You have been provided with the following information relating to total semi variable cost at different activity levels for a business.

Activity Level (Units)	Total Semi Variable Cost (£)
9,500	74,500
11,000	85,000
1,500	10,500

Required:

- Calculate the variable cost per unit

Difference in Total Semi Variable Cost / Difference in Activity Level

£10,500 / 1,500 units

£7.00 per unit

- Calculate the fixed cost

Fixed Cost = Total Cost – Variable Cost

For 9,500 units:

Fixed Cost = £74,500 – (9,500 x £7.00)

Fixed Cost = £74,500 – £66,500

Fixed Cost = £8,000

- ***Calculate the total cost for 12,500 units***

Total Cost = Fixed Cost + Variable Cost

For 12,500 units:

Total Cost = £8,000 + (12,500 x £7.00)

Total Cost = £8,000 + £87,500

Total Cost = £95,500