

Here's a scenario involving **Teddy's Toy Store** to help students practice classifying costs as **fixed** or **variable**. This exercise will encourage critical thinking as they decide whether each cost varies with sales volume or remains constant.

Scenario: Teddy's Toy Store Cost Classification

Teddy's Toy Store is a small business that sells toys and games to customers in the local area. Teddy is trying to understand his store's expenses to help with budgeting and decision-making. He has a list of costs and would like your help in classifying each one as either **fixed** or **variable**.

Activity: Classify Each Cost as Fixed or Variable

Review each cost description below. Determine if the cost is **fixed** (remains constant regardless of sales or activity) or **variable** (changes in direct proportion to sales or activity). Provide your reasoning for each classification.

1. **Rent for Store Location**

Teddy rents a storefront and pays a fixed amount of \$2,500 every month. This amount does not change no matter how many toys he sells.

○ **Your Answer:**

2. **Electricity Bill**

The store's electricity bill averages around \$300 per month. However, the cost may increase slightly in busy seasons, like the holidays, due to extended hours.

○ **Your Answer:**

3. **Sales Staff Wages**

Teddy hires part-time staff who are paid an hourly wage of \$12. Their hours vary based on how busy the store is, especially during holiday periods.

○ **Your Answer:**

4. **Advertising Costs**

Teddy allocates a fixed budget of \$500 per month for online and newspaper advertising.

○ **Your Answer:**

5. **Gift Wrapping Supplies**

Teddy provides free gift wrapping with each purchase, which costs about \$0.30 per item sold.

○ **Your Answer:**

6. **Store Manager's Salary**

The store manager earns a fixed monthly salary of \$3,000, regardless of store activity.

○ **Your Answer:**

7. **Store Insurance**

Teddy pays \$1,200 per year for business insurance, billed in equal monthly installments.

- **Your Answer:**

8. **Credit Card Processing Fees**

Teddy's bank charges a 2% fee on each transaction made using a credit card.

- **Your Answer:**

9. **Decorations for Holiday Season**

Every December, Teddy spends around \$400 on holiday decorations to attract more customers. He does this every year.

- **Your Answer:**

Answer Guide:

Cost	Likely Classification	Reasoning
Rent for Store Location		
Electricity Bill		
Sales Staff Wages		
Advertising Costs		
Gift Wrapping Supplies		
Store Manager's Salary		
Store Insurance		
Credit Card Processing Fees		
Decorations for Holiday Season		