BUSINESS: ***Creating informed, discerning employees, consumers and future leaders***

Topic 1.3.2a Revenue, Costs and Profit

Key Vocabulary

Revenue – Also called **Turnover**, **Income** and **Sales**. This is the money generated from selling your products

Demand – a business term for the quantity of products sold

Fixed costs – costs that do not change as the level of production changes. They must be paid even if output/sales are zero, e.g. rent, rates

Variable costs – costs that change in direct relation to the amount sold or produced by a business, e.g. raw materials, packaging

Total costs – All costs added together

Profit – when revenue is greater than costs

Loss – when revenue is lower than costs

Interest – a percentage charge on borrowed money / percentage reward for saving money

Core Knowledge

Fixed costs	Variable costs
Rent Rates Electricity / heating / phone bills Salaries	Raw materials Packaging Delivery costs

Revenue = Number of items sold x Selling price per unit

Total Variable cost = variable cost per item x number sold

Total costs = Total variable cost + fixed costs

Interest charged = amount borrowed x (interest rate ÷ 100)

Total amount repaid = amount borrowed + interest charged

Monthly payments = Total amount repaid ÷ (years of loan x 12)

% interest charged = (total repayment – borrowed amount) ÷ borrowed amount x 100

Misconceptions

- Interest is not about how much people like your product!
- Revenue and profit are VERY different
- Loans are not paid at the end of the term – they are paid in instalments each month
- Borrowing money is debt. Debt is *not* a bad thing unless, the business can not pay it back

Applications

Amazon – has no high street retailers so has fixed costs than a lot of other businesses

Bank of England – sets the base rate for interest that other lenders then use

Topic Links

External factors – changing interest rates can have an impact on consumer spending

Breakeven – when total costs are exactly the same as total revenue

Cash flow – unpredictable or inconstant revenue can impact on cash flow

Sources of finance – interest is charged on borrowing