

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

Topic 1.3.2b break even

Key Vocabulary

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

Output – quantity of products produced

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

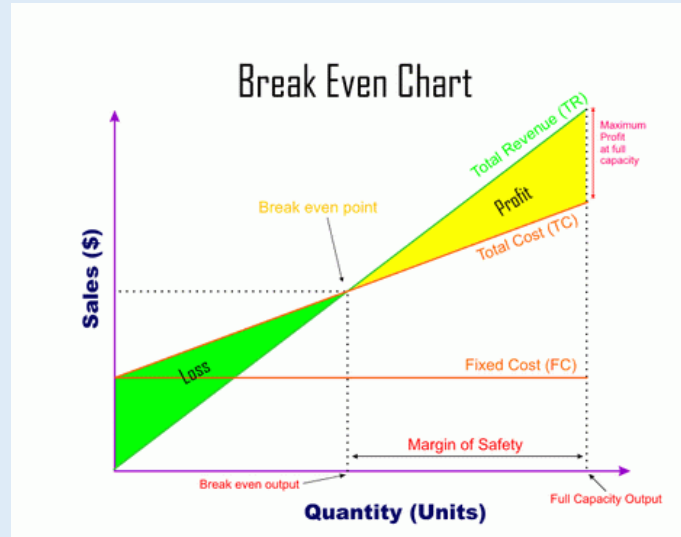
Breakeven point – when total revenue = total costs

Breakeven output – the number of products needed to break-even

Margin of safety – number of products produced above breakeven

Core Knowledge

Calculating breakeven allows a business to use all its costs to calculate how many products it must sell to cover ALL costs.



The contribution method is a quicker, more accurate way to calculate breakeven:

$$\text{Break-even} = \text{Fixed costs} \div (\text{Selling price} - \text{variable cost})$$

Misconceptions

- A business can easily lower the breakeven point by reducing costs - this may not be true. Fixed costs are out of the control of the business, and buying lower cost materials can affect quality
- Increasing price will make more profit for a business – not always! Increasing the price, will lower the breakeven point, BUT may lead to lower sales

Application

Gordon Ramsey – watch any of his 'Nightmare' shows to see how he talks about knowing the break-even number of meals, and the importance of costing each meal

High street retailers – consider the impact of COVID19 on the breakeven point of most retailers: what were their costs and revenue during this period



Topic Links

Costs – knowing the difference between fixed and variable costs and being able to calculate costs and revenue

Aims – breakeven (survival) is an aim for a start-up business, or one in a struggling market

Business plans – this information is needed in the plan to present to investors