How to use: Learn, cover, write and check

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

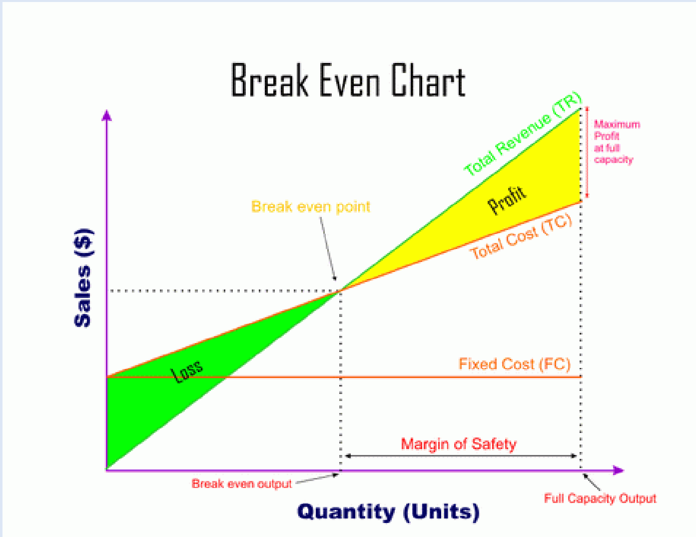
Breakeven point – when total revenue = total costs

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

Margin of safety – number of products produced above breakeven

Core Knowledge

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



Break-even = Fixed costs ÷ (Selling price – variable cost)

Be aware:

- A business can lower the breakeven point by reducing costs. However, buying lower cost materials can affect quality
- Increasing price will not always make more profit for a business. Increasing the price, will lower the breakeven point, BUT it may lead to lower sales.

Wider Business World

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

Synoptic 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