Unit 2: Finance for Business

Learning Aim B:
Understand how businesses plan for success

Topic B.1 Understand the planning tools businesses use to predict when they will start making a profit

B. Understand how businesses plan for success

Topic B.1 Understand the planning tools businesses use to predict when they will start making a profit

Learners should:

. Define break-even: when a business has made enough mone[illegible]roug[illegible]oduct[illegible] to cover the cost of making the product (no profit and no loss)

. Understand from a break-even chart:
break even point – profit – loss - variabl[illegible]s - fixed[illegible] - tot[illegible]evenue - [illegible] costs -margin of safety

. Calculate the break-even (formula will [illegible] given [illegible] the assessm[illegible]

. Understand the adva[illegible]isadva[illegible]es of break-even analysis to businesses when planning for success

. Understand the effe[illegible] the [illegible]ak-even p[illegible]es or (fixed and variable) costs change, and the impact of these change[illegible]ines[illegible]

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Break-even calculation

Revenue – Total costs	ofit/Lo = £
£10,000 - £10,000	AK EN

How calculate
Break Even Point

Two Teachers

Calculation
Need to know:
. how many products to sell to cover their costs: break-even

Break even (BEP) = Fixed costs (FC) / Selling price (SP) - V e cos C)

Example:

The picture can't be displ d.

Tied-up Ltd manufactures s aces.
Fixed costs = £50 000
Variable costs er ur
Shoelaces s r £2.00 pair

Break even 50000 (F / .00 (SP) - 0.50 (VC) **= 33, 333**

Tied-up Ltd has to sell ,333 pairs of laces to achieve the break even point

Margin of safety

The margin of safety is the difference between the number of units sold (planned or actual) and the break even point.

Example:

Tied-up Ltd sell on average 4000 laces per month, 48,000 per year therefore the margin of safety is:
48,000 – 33,333 = **14667**

A: Demonstrate the use of breakeven analysis in business

A.1 Calculating break-even

Break-even and its use for planning success

Understand break-even point is an important tool when business planning.

Knowing the break even point can help assess the necessary sales revenue and whether this is obtainable or not.
Forecasts can be made about the likely effects of co… sales revenue and profits – variations will affect … business.

Without understanding the break… …int a … has little idea if it will make a… …t.

Any changes to the b… …k eve… …uati… fixed and variable costs … – wi… …k even point, positi… …r nega… …y.

The margin of s… … the busin… …he reassurance that changes to c… … selling price may not immediately result … loss.

Task 1

Calculate the br…k e… …oints b…w:

Santa Plus make C… …mas decoratio…
Fixed costs are £3… per 10… 000 deco…
Variable … is £2.…
£1… in la… £0.5… …w materials and £1.00
Se… price … 0.00

How …ny dec… …ons ne… be sold to reach break even?

If the rent increases by £5,000 calculate the break even point

Now calculate the break even point if the decorations sell for £12.00

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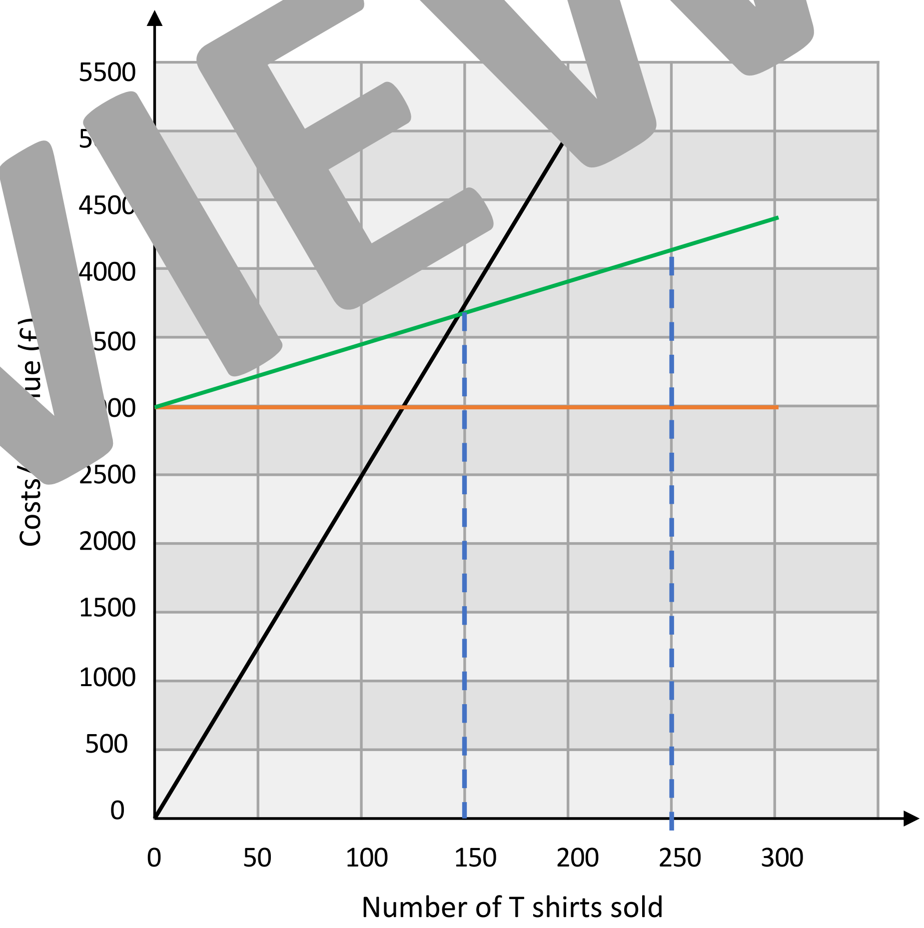
Break-even charts

Sales volume (no. T shirts sold)	Variable cost (@£5 x sales)	Fixed costs	Total costs (fixed + variable)	Sales revenue (@£25 per T shirt x sales volume)
50	250	3000	3250	1250
100	500	3000	3500	2500
150	750	3000	3750	3750
200	1000	3000	4000	[illegible]
250	1250	3000	4250	6250

Capital Ts are a T shirt manufacturer.
The table shows the sales o[illegible]ts at cos[illegible] and sale price of £25 + fixed and variable c[illegible]



Task 2
Label the lines of the g[illegible] belo[illegible]d on [illegible]raph label four terms given.

Label the lines:
Sales revenue – Fi[illegible]osts – [illegible] costs

[illegible]el on the graph:

1. **Break even point**
2. **Loss area**
3. **Profit area**
4. **Margin of safety**

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Changes in break-even point

Break-even
. changes in revenue, costs etc
affect break-even point

Changes

. **Price rise – rise in revenue:** decrease BEP inc profits

. **Less sales - fall in revenue:** increase BEP

. **Rise in variable costs:** increase

. **Fall in fixed costs:** decrea EP

Break-even vant + dis van s

Adv ntage

Cos
Knov h fixe d vari costs
redic
predict ut ne now and in the future
be able ake profit
anges
sess any changes impacting break-even
ces/costs etc)

Disadvantages:

Price variation
. prices not always the fixed (same)- discounts etc
All products not sold
. not everything produced is sold
Simplification
. assumes things are a constant

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Task 3

Read each statement and decide if it TRUE or FALSE

	Statement	[illegible]ue	False
1	The margin of safety is the difference between the number of u[illegible]ts s[illegible]nd the[illegible] even point.		
2	Fixed costs include rent		
3	All business have to calculate bre[illegible]en p[illegible] law, be[illegible]e they be[illegible]rading		
4	One advantage of us[illegible]eak even is that ex[illegible]r[illegible]ts the future		
5	[illegible]rgin c[illegible]ty always stays the same		
6	One w[illegible]ness o[illegible]eak even p[illegible]i[illegible]s assumes all prices are fixed		
7	W[illegible]ut und[illegible]ndin[illegible] break[illegible]point a business has little idea if it will make a profit.		
8	[illegible]In[illegible]tand brea[illegible]en point is an important tool when business planning.		
9	Sales discounts don't change the break even point		
10	Fall in fixed costs improves profits		