Beckfoot

Enterprise	Calculations	Lo2

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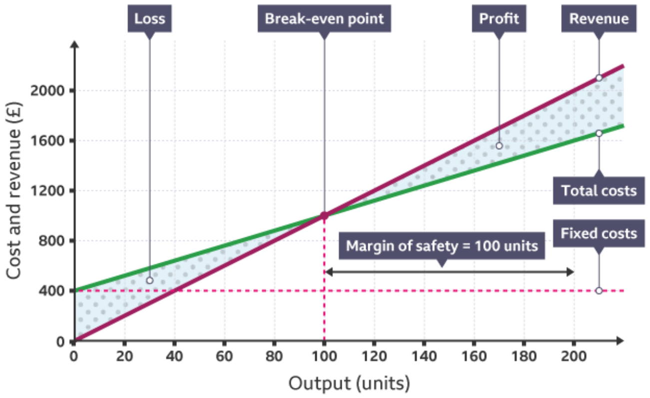
Costs

1	**How are total costs calculated?**	Total cost is the fixed costs plus the variable costs. For example, if the shop's fixed costs are £1000 and their variable costs are £0.20 per cupcake, their total costs when they produce 500 cupcakes will be: Fixed Costs + (Variable Cost Per Unit x Units Produced) £1000 + (£0.20 x 500) £1000 + £100 = **£1100 Total Costs**
2	**How is revenue calculated?**	Total Revenue is calculated by: Selling Price x Number of Sales
3	**How is profit/loss calculated?**	Total Profit is calculated by: Total Revenue – Total Costs
4	**Profit per unit**	Profit per Unit is the amount of profit a business makes on just one item sold. Profit per Unit is calculated by: Selling Price per Unit – Total Costs per Unit
5	**How is break even calculated?**	The formula for Break-even is: <u>Fixed Costs</u> (Selling Price per Unit – Variable Cost per Unit)
6	**Key idea**	Businesses who calculate their Break-even point know what output they need in order to be profitable; so, they know how many products to produce or can generate a sales target in order for them to make a profit.
7	**BEP Key Idea**	**Increasing selling prices or lowering Costs** will lower the Break-Even Point, they will need to produce/sell less in order to Break-Even
	BEP Key Idea	**An increase in either Fixed or Variable Costs** (or both) will result in a higher Break-even Point for a business; they will need to produce/sell more in order to Break-even.
9	**Margin of Safety**	The Actual Output (sales) – the BEP = MoS
10	**Contribution**	Selling price – variable costs



Break even formula

Break-Even Point	=	Contribution	Fixed Costs / (Selling Price – Variable Cost Per Unit)

The profit formula

PROFIT =

TOTAL REVENUE

less

TOTAL COSTS

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Break Even Point must ALWAYS be rounded UP!!!!

Key Vocabulary

1	**Costs**	Costs are the things businesses have to pay for in order to produce a product or provide a service.
2	**Fixed costs**	Fixed costs are things a business pays for that do not change depending on the amount of a product a business makes – so these costs stay the same no matter how many products a business produces.
3	**Variable costs**	Variable costs are the costs a business pays that change depending on how many products a business produces – these costs increase when more products are made.
4	**Revenue**	Revenue is the money generated from selling products or services. It is not profit, but the money coming in to a business from sales.
5	**Profit**	Profit is the money left over from revenue once costs have been paid – it's the money a business makes once all costs have been covered.
6	**Break-even**	Break-even is the point at which a business does not make a profit or a loss – its revenue from sales and its total costs are equal. The number of products that must be produced/sold to reach this point is called the Break-even Point.
7	**Margin of Safety**	The **margin of safety** is the amount sales can fall before the **break-even** point (BEP) is reached and the business makes no profit. This calculation also tells a business how many sales it has made over its BEP.