



What is a cost?

Something a business has to pay in
order to operate



What is revenue?

The total amount of money a business receives from the sale of its products or services



What two types of costs are there?

Fixed Costs

Variable Costs



What is a fixed cost?

A cost that stays the same no matter how many products a business produces

What is profit?

The money left over from revenue after a business has paid/deducted its costs

What is a variable cost?

A cost that will change depending on how many products a business produces; the cost will increase if a business produces more

Give an example of a fixed cost for a business...

Insurance

Loan Repayments

Advertising

Salaries

Utilities

Website Maintenance

How is total costs calculated?

Fixed Costs + Total Variable Costs

(Total variable costs is the cost for 1 multiplied by the number of products made/sold)



**Give an example of a variable cost
for a business...**

Stock

Packaging

Raw Materials





How is revenue calculated?

Selling Price x Number Sold



If Gary sells phone cases for £10 each and has sold 400 this month, what's his revenue?

£4000

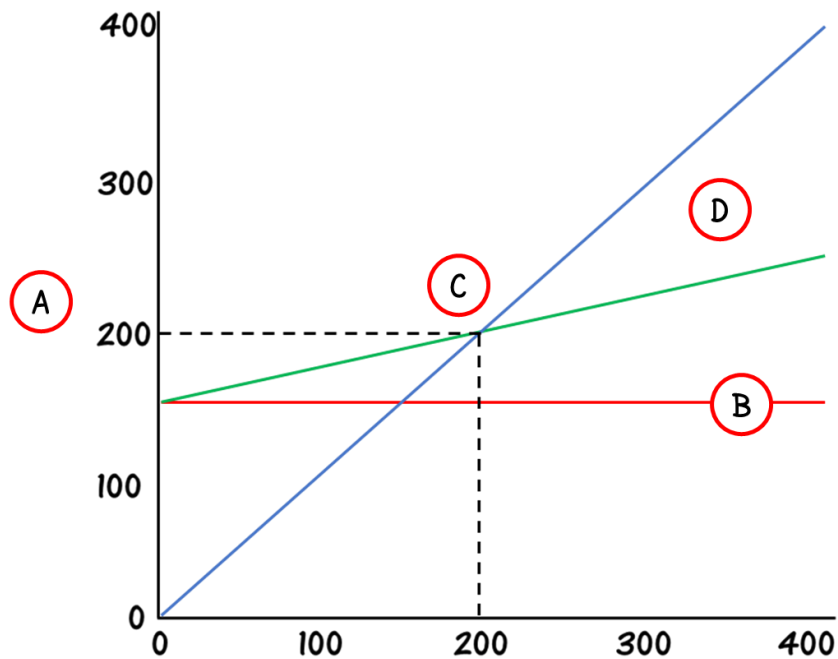
What is break-even?

The point at which a business does not make a profit or a loss

Or... the point at which a business covers its costs

Or... the point at which revenue meets costs

How many units does this business need to sell to break-even?



200 units

How is Profit Calculated?

Revenue - Costs

Gary had total costs of £1200 last month and made £4000 in revenue.
What's his profit?

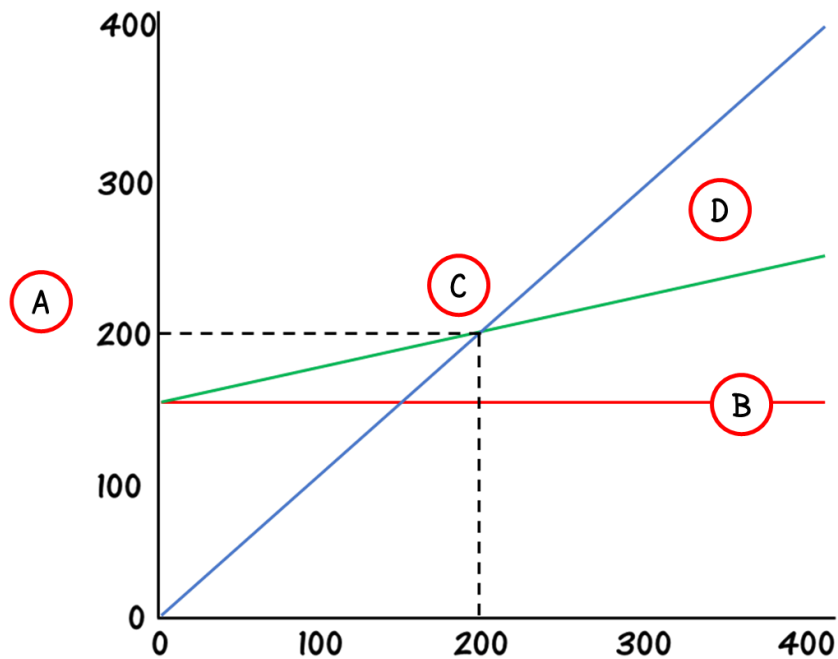
£2800

Amy sells horse riding lessons for £12. In a week she predicts she will do 10 lessons. What's her predicted revenue per month?

$$£12 \times 10 = £120 \text{ per week}$$

$$£120 \times 4 = £480 \text{ per month}$$

What is represented by line B on a break-even graph?



Fixed Costs

Amy actually made £200 profit last month and had costs of £540. What was her revenue?

$$£200 + £540 = £740 \text{ revenue}$$

(That's the profit formula in a different order...

$$£740 - £540 = £200 \text{ profit!)$$

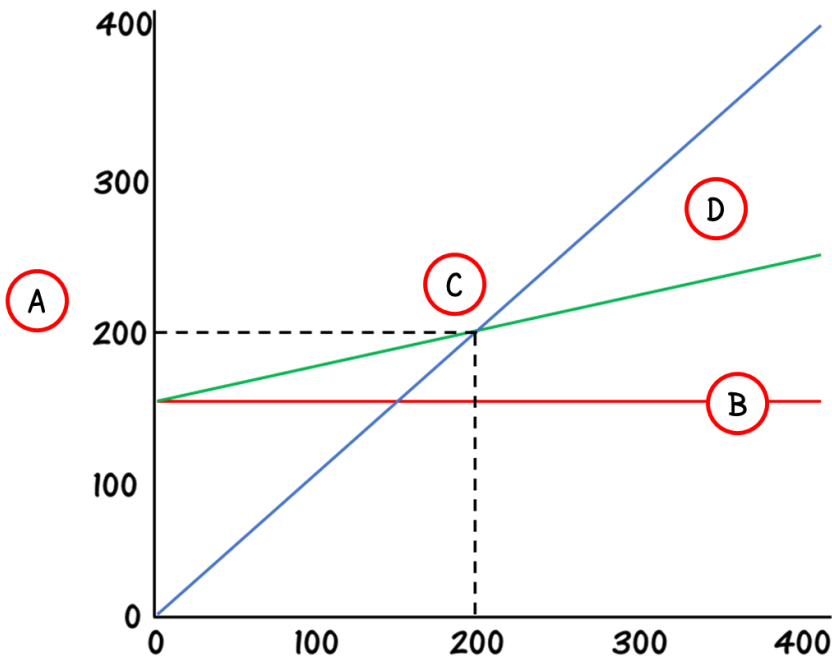
What is the formula to calculate break-even?

Fixed Costs

Selling Price - Variable Cost per unit

(This will be printed in your exam paper though!)

Why is the fixed cost line always horizontal on a break-even graph?



Because fixed costs stay the same no matter how many units are sold

What happens to a business's break-even point if they increase their selling price?

It reduces; they have to sell less to break-even