2.6 Financial planning and break-even

Name: _____ Class: _____ Date: _____ **Total: 13 marks**

KEY WORDS financial plan • fixed cost • variable cost • break-even

Objective

Use a simple financial plan to judge whether a new venture can pay its costs and reach break-even.

You must be able to:

- classify fixed and variable costs
- calculate revenue, total cost, and profit
- use break-even evidence in a business recommendation

1 Key knowledge and worked examples

■ Plan the numbers

A smoothie stall sells each drink for \$5. Fruit and cups cost \$2 for each drink. Its monthly stall rent is \$300.

- **Revenue** from 100 drinks = \$5 × 100 = \$500.
- **Variable cost** = \$2 × 100 = \$200.
- **Fixed cost** = \$300.
- Profit = \$500 − \$200 − \$300 = \$0.

The stall reaches **break-even** at 100 drinks. At break-even, total revenue equals total cost.

2 Practice

2.1 State whether monthly rent is a fixed cost or a variable cost. [1]

2.2 A venture sells 80 drinks at $5 each. Calculate its revenue. [1]

2.3 The drinks in Question 2.2 cost $2 each to make and monthly fixed costs are $300. Calculate profit or loss. [3]

3 Exam-style questions

3.1 A student plans to sell phone cases for $12 each. Each case costs $5 to buy. Monthly fixed costs are $350. Explain why the student should prepare a financial plan before opening. [4]

3.2 The student expects to sell 40 cases in the first month. Use calculations to recommend whether this target is enough to cover the month's costs. [4]