Exercise walk-through

2.6
Financial Plan

GAC Business

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 The method

Method — Plan the numbers

A smoothie stall sells each drink for $5.Fruitandcupscost2$ for each drink. Its monthly stall rent is $300.

- **Revenue 收入** from 100 drinks $= 5 \times 100 =$500.
- **Variable cost 变动成本** $= 2 \times 100 =$200.
- **Fixed cost 固定成本** $=$ $300.
- Profit $= 500 -$200 $-$ $300 =$0.

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

2 Practice

Practice 2.1 ▪ 1 mark

State whether monthly rent is a fixed cost or a variable cost.

Solution 2.1

Method: Plan the numbers — p.4

Worked steps

- Fixed cost. **B1**

Practice 2.2 ▪ 1 mark

A venture sells 80 drinks at $5 each. Calculate its revenue.

Solution 2.2

Method: Plan the numbers — p.4

Worked steps

- $5\times 80 =$400. **B1**

Practice 2.3 ▪ 3 marks

The drinks in Question 2.2 cost
2*eachtomakeandmonthlyfixedcostsare*300. Calculate profit or loss.

Solution 2.3

Method: Plan the numbers — p.4

Worked steps

- Revenue = \$400. **B1**
- Variable costs $= 2\times 80 =$160. **A1**
- Profit/loss $= 400$—160 $- 300 =$ —60, so it is a \$60 loss. **A1**

3 Exam-style

Exam-style 3.1 ▪ 4 marks

A student plans to sell phone cases for 12*each.Eachcasecosts*5 to buy. Monthly fixed costs are $350. Explain why the student should prepare a financial plan before opening.

Solution 3.1

Method: Plan the numbers — p.4

Worked steps

- It estimates sales revenue and costs before money is committed. **B1**
- The student can see the number of cases needed to cover fixed costs. **A1**
- It can reveal a likely cash or profit problem early. **A1**
- The student can change price, costs, or sales targets using evidence. **B1**

Exam-style 3.2 ▪ 4 marks

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.

Solution 3.2

Worked steps

- Revenue $= 40 \times 12 =$480. **B1**
- Variable cost $= 40 \times 5 =$200. **A1**
- Total cost $= 200+$350 $=$ $550. **A1**
- The target is not enough: it gives a $70 loss, so more sales, a higher price, or lower costs are needed. **B1**