Breakeven Charts

Firm just covering costs
Not making profit or loss

- 1. Costs
  - Fixed Costs
    Remain unchanged, regardless of level of production
    Paid whether or not anything is produced
    Rent
    - Total Costs = fixed costs + variable costs
  - Variable Costs
    Costs that vary with level of production
    Raw materials
    - Total Variable Costs = variable cost per unit x number of units produced
- 2. Revenue
  Money received by a firm for the sale of its goods or services
  - Total Revenue = Selling Price x Qty Sold
- 3. Contribution
  Measures how much each unit sold contributes to fixed costs
  - Contribution = total revenue - Variable Costs
    Contribution per unit = Selling Price per unit - Variable cost per unit
- 4. Break even
  Level of output where costs = revenue
  Not a profit or lists
- 5. Breakeven point
  Level of sales at which the firm breaks even
  Not making a profit or loss
  - Break even Point
    Fixed Costs/Contribution per unit
- 6. Margin of Safety
  The difference between sales volume and break-even point
  Amount sales can fall before a loss incurred
  - Margin of Safety
    Sales Volume - Breakeven point

- USES
  - Shows no. of units that need to be sold to Breakeven
  - Shows mos at diff. Levels of output
  - Profit at full capacity
  - Shows impact of changes in sp on profitability
  - Impact of changes in costs on profitability