FN1140 – Introduction to Finance

Chapter 5 (10thed)

Cost Volume Profit and Breakeven

Weeks 2&3- Paul Tilley

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| **Introduction** |  | Managers must determine product quantity, total revenue and total costs in order to maintaing profitability. In this chapter we we will learn how to methamatically address these basic concerns. To do that we have to undersatand the relationship between Costs, Volume and Profit. With a good knowlegde of this relationahip we can begin to apply these concepts to management decision making |
| **Basic Formulas for Cost-Volume-Profit Analysis** |  | Profit = Total Revenue – Total Cost  Total Revenue = Selling Price \* Volume  Total Cost= Total Fixed Cost + Total Variable Cost  Fixed Cost remain unchanged over a relevant time and operating range  Total Variable Cost = (Unit Variable Cost \* Volume)  Total Revenue = Total Fixed Costs + Total Variable Costs + Profit |
| **Break Even Charts** |  | http://www.mybusiness1st.co.uk/getattachment/New-Start-Up/Starting-Up/Break-Even-Analysis/break-even-diagram-(1).png.aspx |
| **Break-even Formula** |  | Break Even Volume (in units) = Fixed Costs / Contribution margin per unit  Break Even Sales (in dollars) = Fixed Costs / Contribution Rate |
| **Contribution Margin** |  | Contribution margin per unit = selling price per unit – variable cost per unit  Total Contribution Margin = Contribution margin per unit \* Volume |
| **Contribution Rate** |  | Contribution Rate = Unit Contribution Margin / Unit Selling Price |