**Review - Finance and Accounts**

**Section 1**

Costs – are items of expenditure that the business must pay for, in order to make and sell its products. Costs can be thought of as fixed costs or variable costs.

Fixed costs are ones which do not vary with output. Variable costs are ones which increase as output increases. Total costs are calculated by adding total variable costs and total fixed costs together.

1. A company has a total costs of $95,000 one month. Variable costs are $2.50 per unit and 26,500 units were made that month.
	1. What was this company’s total variable costs? $66,250
	2. What was the company’s fixed costs? $28,750

**Section 2**

Revenue – Also known as turnover refers to the money a business takes in from selling its products.

Revenue = Price x Quantity Sold

A business sells caravans. Calculate its total revenue from the data below. $15,974,750

|  |  |  |
| --- | --- | --- |
| Product | Selling Price | Number Sold Last Year |
| Small Caravan | $14,750 | 289 |
| Large Caravan | $18,000 | 460 |
| Deluxe Caravan | $22,000 | 156 |

**Section 3**

Profit – Refers to the money a business can keep after it has paid for its costs and can be thought of as revenue minus total costs. Gross Profit refers to the amount of revenue remaining after direct costs of production are subtracted. Those costs are “cost of sales” or “cost of goods sold”.

Gross Profit = Revenue – Cost of Sales

1. A business sells 5500 units one month. The price charged was $6.70 per unit. Cost of sales was $21,000. Calculate this firm’s gross profit. $15,850

**Section 4**

Operating Profit - Shows the amount of revenue remaining after both direct costs and other costs have been subtracted.

Operating Profit = Gross Profit – Other operating expenses

1. A company sells its products for $4.50. Last year it sold 70,000 units. Cost of goods sold was $80,000 last year and operating expenses were half that amount. Calculate the business’s operating profit. TIP\* what are total costs.

$195,000

**Section 5**

Net Profit – Known as profit for the year.

Net Profit = Operating profit + profit from other activities – net finance cost – tax

1. A business has an operating profit of $3850. It has no profit from other activities. The business had $350 net finance costs. It must pay $770 in corporation tax.

$2730

**Section** 6

Profit Margins – To help analyse profitability, it is often useful to compare a type of profit with the sales revenue it came from.

If you express a company’s operating profit as a percentage of its sales revenue, you can see which firm is more efficient at retaining a larger proportion of its sales revenue as operating profit.

Gross Profit Margin = Gross Profit/Revenue x 100

Operating Profit Margin = Operating Profit/Revenue x 100

Net Profit Margin = Net Profit/Revenue x 100

Use the data below to calculate the firm’s gross, operating, and net profit margins.

|  |  |
| --- | --- |
| Sales Revenue | $5 million |
| Gross Profit | $3 million |
| Operating Profit | $1.5 million |
| Net Profit | $.8 Million |

GPM = 60% OPM=30% NPM=16%

**Section 7**

Contribution - Amount of revenue a business has to put towards its fixed costs, after is has paid its variable costs

Formula:

Contribution per unit = price - variable cost per unit

Total contribution = contribution per unit x number of units sold

Total contribution = revenue - total variable costs

Profit = Total contribution - fixed costs

1. A supermarket sells tins of beans for $5 each. Variable costs are $2 per can. One month the supermarket sells 1000 tins of beans.
	1. Calculate the contribution per unit $3
	2. Calculate the total contribution $3000
2. A business has sales revenue of $4000 in one month. It’s variable costs, in the same time period were $1500 and fixed costs were $1000.
	1. Calculate the total contribution $2500
	2. Calculate the business’s total profit $1500

**Section 8**

Break-Even - The number of units which must be sold in order for the firm’s profit to be zero - where total revenue and total costs are equal.

Break-even output = Fixed Costs/Contribution per Unit

Margin of Safety = Planned Output - break-even output

1. A business has fixed cost of $200,000 per year. It sells its products for $8 per unit and has variable costs $3.00 per unit. One year the business sells 120,000 units.
	1. Calculate the firm’s break-even point 40,000 Units
	2. Calculate the firm’s margin of safety 80,000 Units
2. Draw the Break-Even Chart and label each line

Fixed Costs = Red

Black = Variable Cost

Gold = Total Cost

Blue = Total Revenue

$

Output

**Section 9**

Market Share, size and growth – The size of a market can be measured in two different ways: by volume or by value $$$. Measuring the market size by volume looks at the number of units sold. Usually, market size is measured by value: the total revenue earned from selling a product.

1. Last year, 2500 million cans of sprite were sold at the average price of $1.50.
	1. What is the market size by volume? 2500 Million
	2. What is the market size by value? $3750 million

The rate at which a market is increasing in size is known as market growth and is calculated by doing a percentage change.

New market size – Original market size X 100

Original market size

As well as wanting to know market size and growth, business often want to know the proportion of sales in the market that they gained. The higher a firm’s market share, the better.

Sales of one company X 100

Market size

1. The soda drinks market increased in size from 500m liters last year, to 550m liters this year. The market leader saw its market share, in terms of volume, fall from 35% to 30% over the same time period.
	1. Calculate the market growth in the industry. 10%
	2. Calculate the change in number of liters sold by the market leader this year, compared with last year. 6%