

## BTEC First Business – Unit 3 Investigating Financial Control

Investigating how businesses make a profit and break-even – presentation/viva

Question	Comment	PC Achieved (✓)
What is the difference between a FC & VC?	FC doesn't change with level of output. VC does.	P1 ✓
What is revenue and how would you calculate it?	Revenue is how much they make TR = selling price x units	P1 ✓
What is profit and how would you calculate it?	Profit = TR - TC. Represents how successful they are	P1 ✓
What is the formula for calculating BEP?	$BEP = \frac{FC}{price - VC}$	P2 ✓
What does the BEP show?	Business is at point where neither making profit or loss.	P2 ✓
What is the BEP measured in?	Units	P2 ✓
What happens to Fareham FC's BEP & MOS as a result of the increase in FC?	MOS goes down by 400 & BEP goes up by 400 units.	M1 ✓
How much profit will they make at an average match before and after the increase?	Before = £7000 & after = £5000. Goes down by £2000 because FC up £2000	M1 ✓
Recommend 3 ways of coping with this and the problems that might arise.	Advertise to increase number of fans & increase TR. Stadium is not big enough for more than 4800. Increase TR by increasing price. Could put off customers. Reduce costs of police but could affect safety. Employ less staff.	M1 ✓
What is the effect of a price increase on the BEP and profit level at an average match?	BE sooner & more profit	M1 ✓

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Teacher [redacted] Signature [redacted] IV

### Unit 3: Investigating Financial Control

#### Section A:

- a) Variable costs are costs that do change in proportion to the level of output. This includes item such as labour or material costs. For example if output increases by 10%, variable costs will rise by 10%. The variable cost for Fareham FC is the local police fee of £3 per spectator to cover policing. This cost will not need to be paid when there will be no match because Fareham FC will not need to pay the local police as they will not be required.

Fixed costs are constant, they do not change in proportion to the level of output, however they may change over time. The fixed costs for Fareham FC are insurance, office staff, heating and lighting, ground staff, stewards, printing and publicity and players wages. These costs will have to be paid regardless the level of output.

- b) The fixed costs that must be covered per home game are:

Insurance	21,000
Office Staff	36,000
Heating And Lighting	16,000
Ground Staff	12,000
Stewards	6,000
Printing And Publicity	9,000
Players Wages	60,000
	160,000

$$160,000 / 20 = \mathbf{£8,000}$$

- c) The Total cost for Fareham FC, per one game is:

Fixed Costs + Variable Costs \* Units = Total Cost

$$\mathbf{£8,000 + (£3 * 3,000) 9,000 = £17,000}$$

The Total Revenue for Fareham FC per one game is:

Selling Price \* Units = Total Revenue

$$\mathbf{£8 * 3,000 = 24,000}$$

- d) It is important for a business to have a good understanding of costs because they can realise that one way to increase profit is to

reduce costs. The costs of a business can be divided into fixed costs and variable costs, where fixed costs must still be paid even if there are no spectators on the other hand the variable costs will rise if the business has more spectators. The business needs to realise that they could go bankrupt if the costs are not paid, also their revenue needs to be higher than costs otherwise the company will never be profitable.

P1

Profit is also important to understand in a business because; it is a measure of how successful the business is, it provides a source of finance for future investment or developing the business, It is a source of cash which allows the business to meet its debts, they need to know whether to reduce costs or arrange loans etc and it rewards the business people who have taken the risk to run it.

When reading the profit and loss account they need to be aware that gross profit is not an exact indication of profit, they need to refer to the net profit when looking for profit figures.

e)

Profit And Loss statement for Fareham FC

	£	£
Sales Revenue		480,000
Less Cost Of Sales		180,000
Gross Profit		<b>300,000</b>
Expenses		
Insurance	21,000	
Office Staff	36,000	
Heating And Lighting	16,000	
Ground Staff	12,000	
Stewards	6,000	
Printing And Publicity	9,000	
Players Wages	60,000	
	<b>160,000</b>	
Net Profit		<b>140,000</b>

P1

f) The break-even point for a firm is when total costs equals total revenue. Expenditure and income are the same and the firm makes neither a profit nor a loss. If the firm can sell at production levels above this point, it will be making a profit. If sales fall below this point, it will be making a loss. Establishing the break-even point helps a firm to plan

P2

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