**Activity 4 – New bakery Neath**

Your task is to calculate the breakeven point and the profit and loss areas of the below example.

Daniel Thomas has just opened a new bakery in the centre of Neath a specialising in selling Baked good specifically cakes. He drew up a business plan and is now opening a shop.

**The average price of his cakes are £8 per item.**

**The costs he has researched are as follows:**

Insurance and road tax - £175 per month;

Average cost of cakes - £4;

Salaries - £1,225 per month;

Loan repayment - £400 per month

Rent and rates £950 per month.

Utility bills - £600 per month.

Machinery rental - £250 per month.

1. Calculate the total fixed and variable costs of the business. (2 marks)
2. Calculate the contribution per unit? (2 marks)
3. Calculate the breakeven point in units? (2 marks)
4. Calculate the profit that would be made if 1,200 items would be sold (3 marks)

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**Fixed costs**

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Salaries - £1,225 per month;

Loan repayment - £400 per month

Rent and rates £950 per month.

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Machinery rental - £250 per month.

**Total fixed costs – £3, 600**

**Variable costs**

Average cost of cakes - £4;

1. Calculate the contribution per unit? (2 marks)

Contribution per unit = Selling price – Variable costs (per unit)

Contribution per unit = £8 – 4

**Contribution per unit = £4**

1. Calculate the breakeven point in units? (2 marks)

**Break-even output = Fixed costs**

 **Contribution per unit.**

**Contribution per unit = Selling price – Variable costs (per unit)**

Break even in units = 3,600

 £8 – 4

Break even in units = £3,600 / 4

**Break even in units = 900 items**

1. Calculate the profit that would be made if 1,200 items would be sold (3 marks)

**Profit per sales**

**Profit per sales = Predicted sales – Break even sales x Contribution per unit**

Profit per sales = 1,200 – 900 x £4

Profit per sales = 300 x £4

Profit per sales = £1,200

His profits per month on sales 1,200 items will be £1,200