**Activity – Pizza paradise**

1. You are required to calculate the breakeven point for the example below and express this on a graph (10)

**Pizza Paradise – Bridgend**

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

Insurance and road tax £300 per month;

Utility bills - £600 per month

Average cost of each item £4.00;

Salaries - £900 per month;

loan repayment £400 per month for twelve months.

Rent for the shop - £800 per month

His market research indicates that each item will have an average sales price of £9.00.

**Break-even output = Fixed costs**

**Contribution per unit.**

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

**Activity Pizza paradise – Answers**

**Fixed costs**

Insurance and road tax £300 per month;

Utility bills - £600 per month

Salaries - £900 per month;

loan repayment £400 per month for twelve months.

Rent for the shop - £800 per month

**Total fixed costs - £3,000**

**Variable costs**

Average cost of each item £4.00;

**Total Variable costs - £4.00 per item**

**Sales revenue**

£9 per item

**Break-even output = Fixed costs**

**Contribution per unit.**

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

Break even in units = £3,000

£9 - £4

Break even in units = £3,000 / 5

**Break even in units = 600 items**

**Break even graph calculations**

**Fixed costs**

Plot horizontal on graph

£3,000

**Variable costs**

Plot vertical on graph

**Number of units x variable costs = Variable cost per number of units**

Point 1 – Zero

Point 2 - 700 = 700 x 4 = 2,800

Point 3 – 1,000 = 1,000 x 4 = 4,000

**Total costs**

Plot vertical on graph

**Total costs = Fixed costs + variable costs at selected number of units**

Point 1 – Fixed costs

Point 2 – Units – 700 = 3,000 + (700 x 4) = £5,800

Point 3 – Units – 1,000 = 3,000 + (1,000 x 4) = £7,000

**Revenue**

Plot vertical on graph – Why?

Revenue = quantity sold x selling price

Point 1 – Zero

Point 2 - 700 x 9 = £6,300

Point 3 – 1,500 x 9 = £13,500

**Breakeven point**

Where profit line and total costs line intersect.