# Activity sheet 3.26: Introduction to break-even

*Learning aim C: Financial planning and forecasting*

*Learning aim C4: Break-even analysis and break-even point*

**Read this scenario then complete the tasks that follow.**

Moma’s Pizza is a takeaway business on the edge of a town centre. It has monthly fixed costs of £500. The sales price per pizza is £7. Variable costs are £4.50 per pizza.

The owner of the business is considering how break-even output might be reduced.

1. Explain two fixed costs that a business like Moma’s Pizza has to pay.

1. Explain two variable costs that a business like Moma’s Pizza has to pay.

1. In the box below, calculate the break-even level of output for Moma’s Pizza. Show your working.

|  |
| --- |
|  |
|  |
|  |

1. Moma’s Pizza finds that its fixed costs rise to £800 per month. Explain the effect of this on its break-even level of output.

1. Suggest two ways that Moma’s Pizza might reduce its break-even level of output following the increase in fixed costs.

# Activity sheet 3.27: Break-even charts

*Learning aim C: Financial planning and forecasting*

*Learning aim C4: Break-even analysis and break-even point*

**Read this scenario then complete the tasks that follow.**

Jason and Balvir are planning to set up a restaurant in London. London’s restaurant scene is growing; however, many new restaurants close within the first year.

Jason and Balvir have decided to use break-even analysis as part of the planning for their business. They are planning to offer a set menu for a price of £20.

They have estimated their costs as:

* fixed costs = £5000
* variable costs = £10 per set menu
1. Draw a break-even chart based on the information above. Assume the maximum number of customers per month is 1200.

**Extension activity**: add new lines to the chart based on the following information. For each change, describe the impact on break-even output:

|  |  |
| --- | --- |
| Change | Impact on break-even output |
| Fixed costs rise to £7000 per month |  |
| Price is increased to £25 |  |

# Activity sheet 3.28: Sources of business finance

*Learning aim C: Financial planning and forecasting*

*Learning aim C5: Sources of business finance*

All businesses need sources of finance. New businesses will need start-up funds, whilst established businesses may need extra finance to fund expansion or investment projects.

1. Look at the table below. For each business, identify three possible sources of finance, and reasons as to why the finance is needed.

|  |  |  |
| --- | --- | --- |
| Business | Possible sources of finance | Reasons why finance is needed |
| An entrepreneur starting a new car-wash business | 1.2. 3.  |  |
| The owner of a successful restaurant plans to open a new restaurant in a local town | 1.2. 3.  |  |
| The owner of a hairdressing business is worried that sales and profits are falling. They need finance to cover costs over the next six months | 1.2. 3.  |  |

1. Explain one benefit to a business of using profits from the business as a source of finance.

**Extension activity**: Research online to find the most important source of finance for new businesses in the UK.

# Activity sheet 3.29: Internal sources of finance

*Learning aim C: Financial planning and forecasting*

*Learning aim C5: Sources of business finance*

Internal sources of finance are those from the operation of the business.

1. Complete the table below to show the advantages and disadvantages for each source of finance listed.

|  |  |  |
| --- | --- | --- |
| Source of finance | Advantages | Disadvantages |
| Owner funds |  |  |
| Retained profits |  |  |
| Sale of assets |  |  |

1. Explain one reason why a business may choose to use internal sources of finance rather than external sources.

1. Explain why small businesses may not be able to rely on internal sources of finance.

**Extension activity**: Research examples of businesses using ‘sale and leaseback’ strategies. Identify the reasons as to why this method of financing projects is popular with some businesses.

# Activity sheet 3.30: External sources of finance

*Learning aim C: Financial planning and forecasting*

*Learning aim C5: Sources of business finance*

External sources of finance are those from the operation of the business.

1. Complete the table below to show the advantages and disadvantages for each source of finance listed.

|  |  |  |
| --- | --- | --- |
| Source of finance | Advantages | Disadvantages |
| Hire purchase |  |  |
| Venture capital |  |  |
| Government grants |  |  |

1. Explain one reason why a business may choose to use external sources of finance rather than internal sources.

1. Explain why businesses may not be able to rely on internal sources of finance.

Chris Hepburn owns Hepburn’s Ltd, a building company. Chris is looking to fund an expansion and is exploring external sources of finance. The business needs £10,000 and is looking at the following options: a) bank loan, b) overdraft.

**Extension activity**: Research current rates for loans and overdrafts. Produce a summary of the costs for the different options over:

a) 1 year

b) 3 years

c) 5 years.