

Finance

The objectives of these notes are to:

- Identify and list the costs to produce each unit of your product/service (variable costs).
- Identify and list other costs associated with advertising, displays, cost for the school facilities etc. (fixed costs).
- Calculate total costs (total costs = fixed costs + variable costs).
- Confirm the selling price for each unit (from your market research).
- Calculate break-even
 - This is when total revenue (price x quantity sold) = total costs (fixed + variable costs).
- Estimate the quantity the company expects to sell based on your market research results.
- Calculate estimated sales revenue (sales revenue = price x quantity sold).
- Calculate estimated profit by preparing an estimated Income Statement.

From the results from your market research you should be able to estimate how many products/services your company could sell. In order to know if you are making a profit you will first need to calculate the cost of your product/service and any other associated costs. To do this you need to dissect your product/service into individual components and then give each component a price.

Scrunchie & Co can identify the following cost components:

Material for each scrunchie (VC)	\$ 0.40
Cotton & elastic for each scrunchie (VC)	\$ 0.10
Advertising material (FC)	\$ 2.00
School Hall fee (FC)	<u>\$ 10.00</u>

These costs will allow the company to make 40 items.

The next step is to calculate the break-even point. In order to break-even, total revenue must cover total costs. It indicates how many units of your product/service are required to be sold before you make a profit.