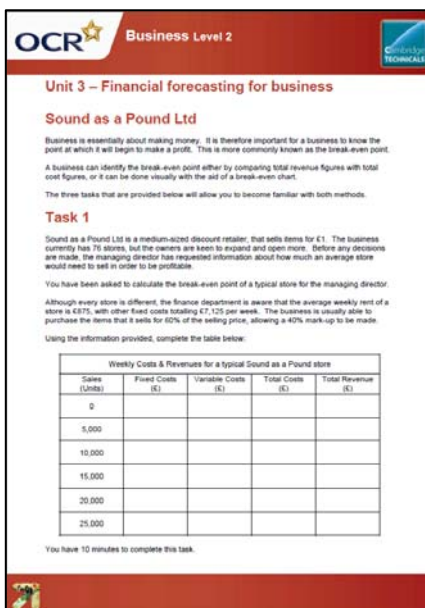


Unit 3 – Financial forecasting for business

Sound as a Pound Ltd

Instructions and answers for Teachers

These instructions should accompany the OCR resource 'Sound as a Pound Ltd', which supports the OCR Level 2 Cambridge Technical Certificate in Business Unit 3 – Financial forecasting for business



Unit 3 – Financial forecasting for business

Sound as a Pound Ltd

Business is essentially about making money. It is therefore important for a business to know the point at which it will begin to make a profit. This is more commonly known as the break-even point. A business can identify the break-even point either by comparing total revenue figures with total cost figures, or it can be done visually with the aid of a break-even chart. The three tasks that are provided below will allow you to become familiar with both methods.

Task 1

Sound as a Pound Ltd is a medium-sized discount retailer, that sells items for £1. The business currently has 75 stores, but the owners are keen to expand and open more. Before any decisions are made, the managing director has requested information about how much an average store would need to sell in order to be profitable.

You have been asked to calculate the break-even point of a typical store for the managing director. Although every store is different, the finance department is aware that the average weekly rent of a store is £375, with other fixed costs totalling £7,125 per week. The business is usually able to purchase the items that it sells for 60% of the selling price, allowing a 40% mark-up to be made.

Using the information provided, complete the table below:

Weekly Costs & Revenues for a typical Sound as a Pound store				
Sales (£000s)	Fixed Costs (£)	Variable Costs (£)	Total Costs (£)	Total Revenue (£)
0				
5,000				
10,000				
15,000				
20,000				
25,000				

You have 10 minutes to complete this task.

Associated Files:
Sound as a Pound Ltd

Expected Duration:
Task 1 – 10 minutes
Task 2 – 15 minutes
Task 3 – 5 minutes

Business is essentially about making money. It is therefore important for a business to know the point at which it will begin to make a profit. This is more commonly known as the break-even point.

A business can identify the break-even point either by comparing total revenue figures with total cost figures, or it can be done visually with the aid of a break-even chart.

This resource contains 3 tasks.

The three tasks that are provided below will allow your learners to become familiar with both methods. Task 1 requires the learners to use the figures provided to calculate the relevant costs and revenues in order to see whether the break-even point can be identified. Task 2 requires the learners to use the same figures to produce a break-even chart. Task 3 is designed to check that the learners are able to read information from the break-even chart that they have created.



Task 1

Sound as a Pound Ltd is a medium-sized discount retailer that sells items for £1. The business currently has 76 stores, but the owners are keen to expand and open more. Before any decisions are made, the managing director has requested information about how much an average store would need to sell in order to be profitable.

You have been asked to calculate the break-even point of a typical store for the managing director.

Although every store is different, the finance department is aware that the average weekly rent of a store is £875, with other fixed costs totalling £7,125 per week. The business is usually able to purchase the items that it sells for 60% of the selling price, allowing a 40% mark-up to be made. This represents their only variable cost.

Using the information provided, learners should complete the following table – the answers are provided below.

Weekly Costs & Revenues for a typical 'Sound as a Pound' store				
Sales (Units)	Fixed Costs (£)	Variable Costs (£)	Total Costs (£)	Total Revenue (£)
0	8,000	0	8,000	0
5,000	8,000	3,000	11,000	5,000
10,000	8,000	6,000	14,000	10,000
15,000	8,000	9,000	17,000	15,000
20,000	8,000	12,000	20,000	20,000
25,000	8,000	15,000	23,000	25,000



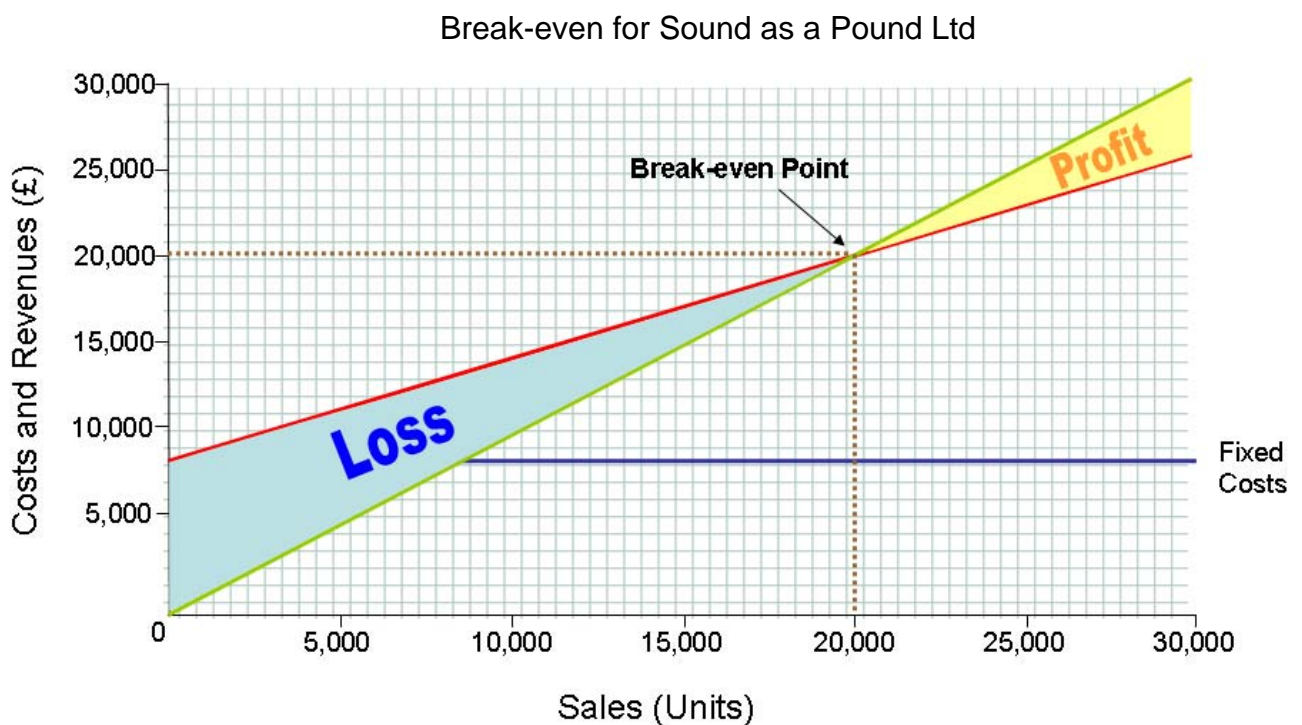
Task 2

Learners are asked to use the figures calculated in task 1 to produce a break-even chart.

Learners should make sure that their chart is correctly labelled, and mark the following on their break-even chart:

- The break-even point
- The area that represents profit
- The area that represents loss

The below is an example of a graph that could be produced for this task.



Task 3

Learners are asked to use their chart to complete the following paragraph. The answers are underlined.

The break-even level of output for a typical Sound as a Pound store is 20,000 units. At this level of output the store would have to pay costs totalling £20,000. If an average store sells 24,000 units per week then the margin of safety would be 4,000 units. The weekly profit made by a store selling 24,000 units would be £1,600.



These activities offer an opportunity for maths skills development.

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