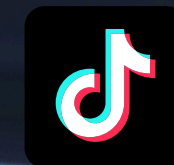
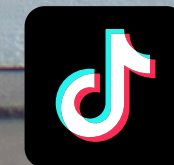


# Financial terms & calculations flash cards



**FOR  
RENT**

# Fixed Costs



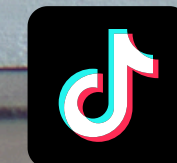
# Fixed Costs

This is a costs that doesn't change with output. It makes no difference in how many products you make, this cost stays the same. Examples are:

Rent

Insurance

Salaries (these are the same each month no matter how many hours the individual works.)



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# Variable Costs

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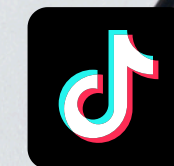
# Variable Costs

These costs change according to output. Normally the more items you make the higher the variable costs. Examples are:

- Raw materials
- Wages (these are paid hourly)
- Packaging
- Shipping costs



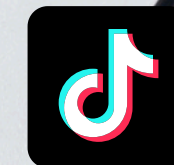
# Total Costs



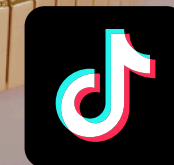
# Total Costs

These are fixed and variable costs added together.

Fixed costs + total variable costs =  
Total costs



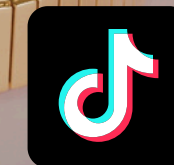
# Revenue



# Revenue

This is all the money the business earns from selling its goods or services before any costs or expenses are deducted.

Price x quantity sold = revenue





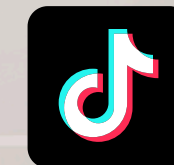
Profit



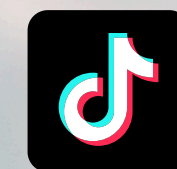
# Profit

Profit is the amount of money a business has left after subtracting all its costs from its revenue.

$$\text{Revenue} - \text{total costs} = \text{profit}$$

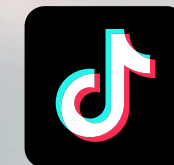


Loss

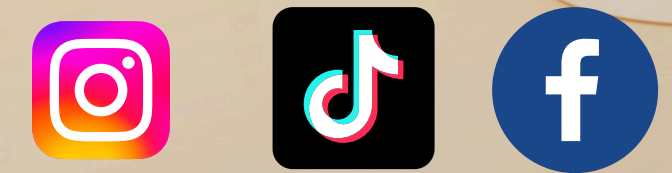


# Loss

A loss occurs when a business's total costs are greater than its revenue.



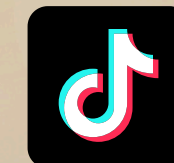
# Average rate of return (ARR)



# Average rate of return (ARR)

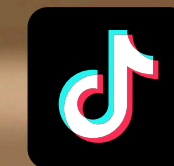
ARR, Average rate of return, shows the average annual profit from an investment as a percentage of the initial investment cost. Businesses will set a target for their ARR, they may also compare projects to see which has the highest return.

$$\frac{\text{Average annual profit (total profit over the years / number of years)}}{\text{Initial investment}} \times 100 = \text{ARR}$$





# Break-even



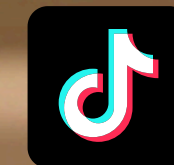
# Break-even

The break-even point is when

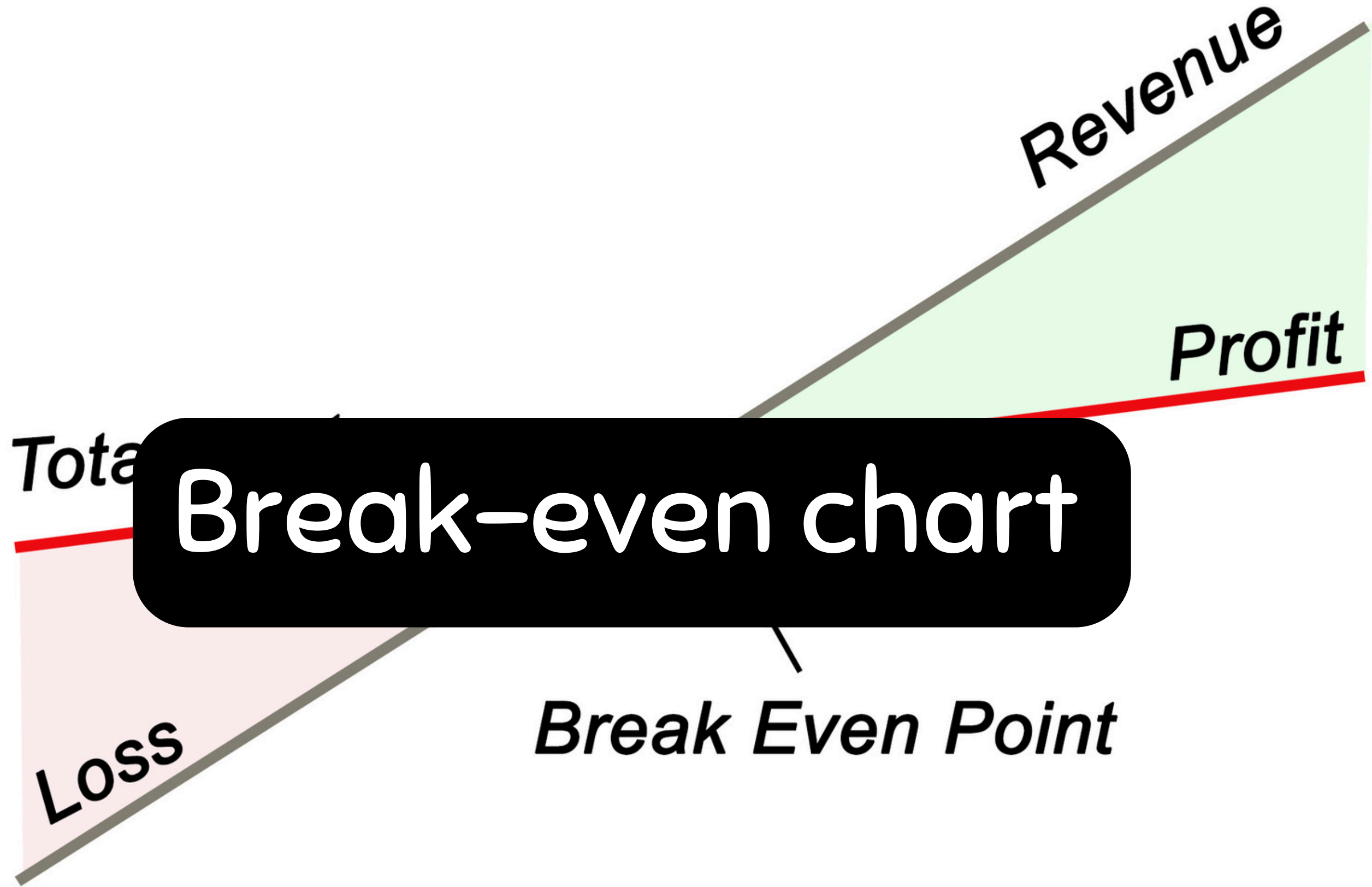
Revenue = Total costs

The business is not making a profit or a loss.

$\text{Fixed costs} / (\text{selling price} - \text{variable costs}) \times 100$



£



# Break-even chart

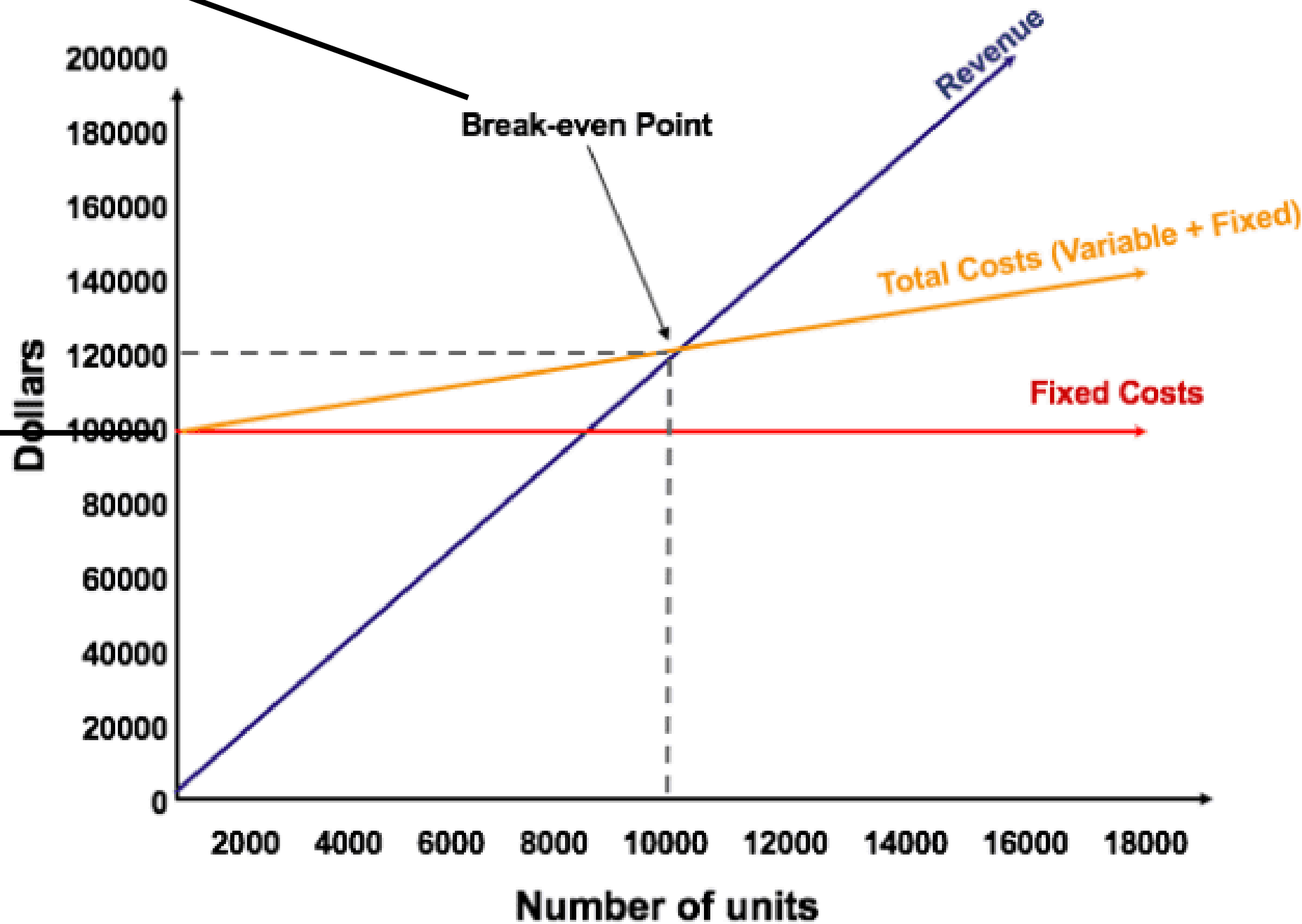
*Break Even Point*



# Break-even chart

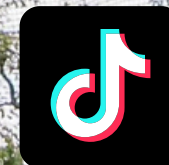
This is the break-even point where the revenue and total cost lines cross

Fixed costs is represented as a horizontal line due to no change with output.





Margin of safety



MS SCOTT  
Revision with MS&B

# Margin of safety

Margin of safety is the difference between current (or expected) sales and the break-even level of sales.

It measures how safe the business is from making a loss.

Margin of safety = Current sales – Break-even sales

