Revenue Generated By Sales of The Product

Get Thinking

Why does a business need to know how much money it is receiving from selling it's products?

The Difference Between Revenue and Costs

- The difference between costs and revenue can be explained as:

REVENUE is money that a business receives

Much of it will come from customers buying goods and/or services

COSTS are things that a business has to pay for; it is money being spent by a business

These cost will either be FIXED, such as staff salaries, or VARIABLE, such as raw materials

- Having calculated their costs, it is important that a business is able to calculate their revenue

Revenue

- Revenue refers to the money that a business receives

- Most of this will come from selling goods and services
  - For this reason it is often called either "Total Revenue" or "Sales Revenue"

- Total revenue can be calculated as:

TOTAL REVENUE = SELLING PRICE PER UNIT x NUMBER OF UNITS SOLD

A Worked Example of Revenue

- Sir Ramics is a small pottery business that produces coffee mugs
- Last month it made 30,000 mugs and sold them all at a price of 50p each
- The owner, Ken Coe, would like to know what his revenue was last month:

Total Revenue

Total Revenue = Price per Unit x Quantity Sold

Total Revenue = £0.50 x 30,000

Total Revenue = £15,000

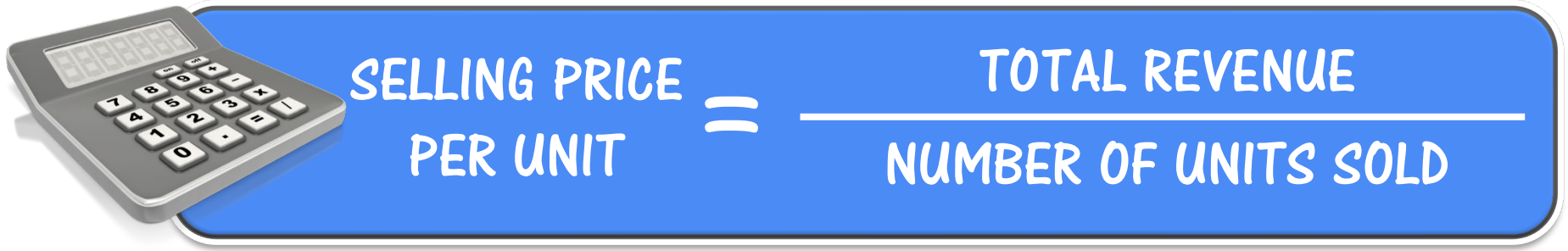
This is the money that Sir Ramics received last month from selling mugs.

Since no other products were sold then Sir Ramics total revenue last month was £15,000

Using The Revenue Formula to Find Price

- The total revenue formula can be rearranged to find the selling price
  - As long as the value of total revenue and the number of units sold are known:

$$\text{TOTAL REVENUE} = \text{SELLING PRICE PER UNIT} \times \text{NUMBER OF UNITS SOLD}$$



$$\text{SELLING PRICE PER UNIT} = \frac{\text{TOTAL REVENUE}}{\text{NUMBER OF UNITS SOLD}}$$

Using The Revenue Formula to Find Quantity

- The total revenue formula can also be rearranged to find out how many units have been sold
  - This can come in very handy when looking at competitors figures

Using The Rearranged Revenue Formula

- Knowing how to use the revenue formula can come in very handy when looking at competitors figures

- For example, Sir Ramics knows that last month a competitor:
  - Received a total revenue of £40,000
  - From selling their orange mug priced at £0.80

- Ken Coe would now like to know how many orange mugs his competitor sold

Number of Units Sold

$$\text{Number of Units Sold} = \frac{\text{Total Revenue}}{\text{Selling Price}}$$

$$\text{Number of Units Sold} = \frac{£40{,}000}{£0.80}$$

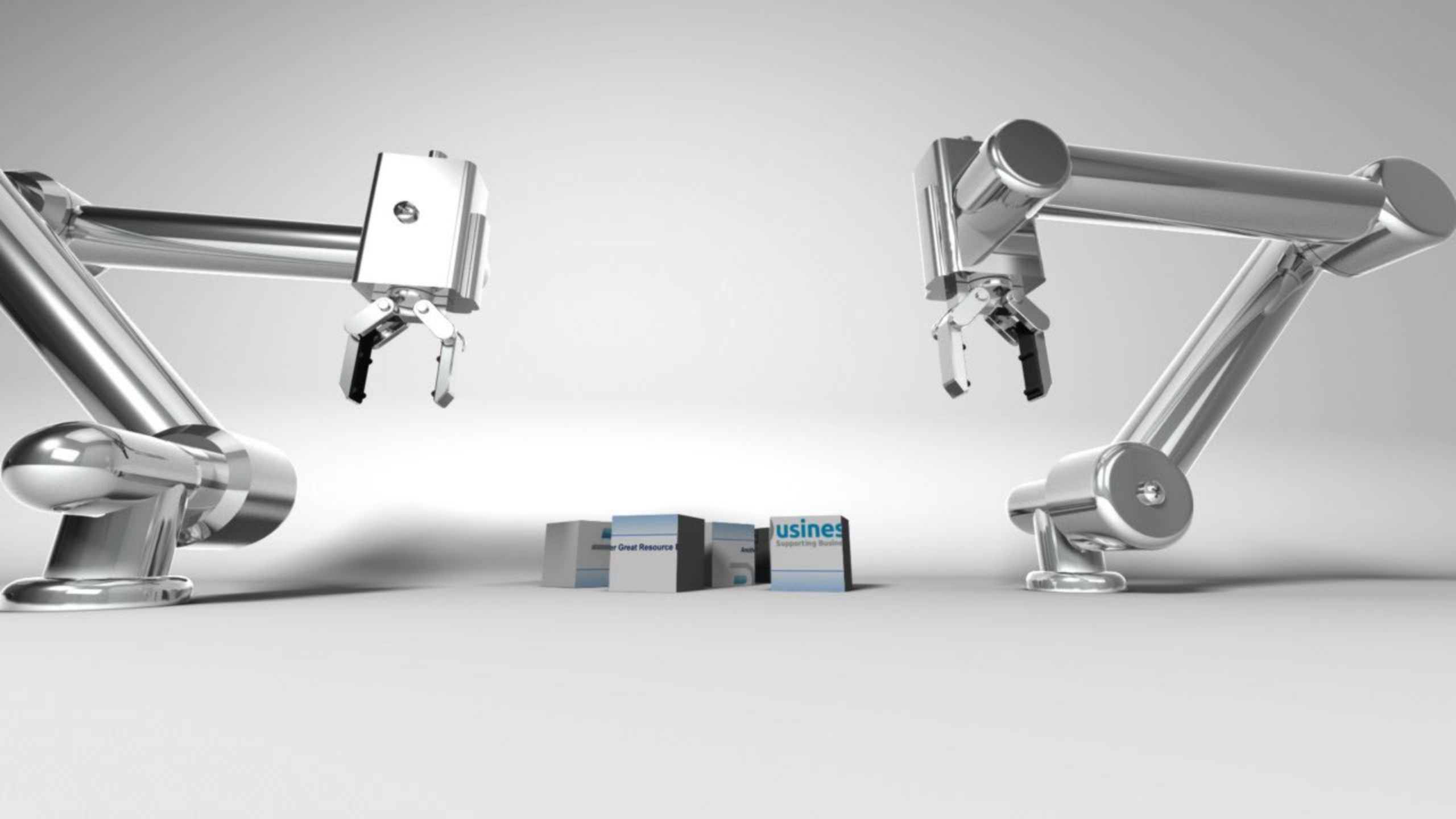
Number of Units Sold = 50,000

So Sir Ramics now knows that this competitor sold 50,000 orange mugs last month.

This might help Ken to make decisions, such as whether to change their selling price

Discussion Point

Revenue is the money received from selling goods and services. It's the same as profit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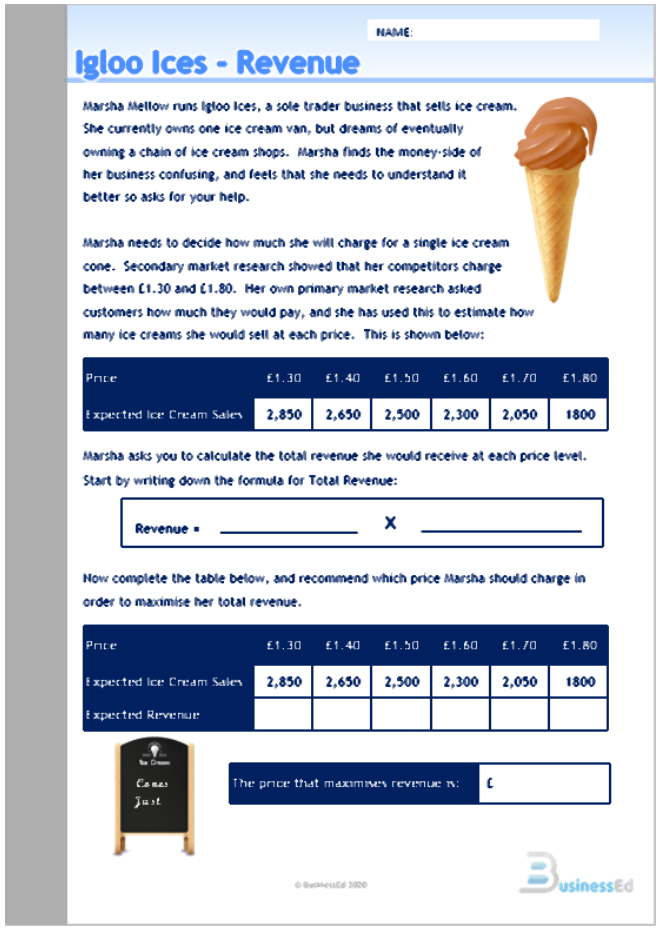
Igloo Ices - Revenue Worksheet



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Igloo Ices - Revenue

Marsha Mellow runs Igloo Ices, a sole trader business that sells ice cream. She currently owns one ice cream van, but dreams of eventually owning a chain of ice cream shops. Marsha finds the money-side of her business confusing, and feels that she needs to understand it better so asks for your help.

Marsha needs to decide how much she will charge for a single ice cream cone. Secondary market research showed that her competitors charge between £1.30 and £1.80. Her own primary market research asked customers how much they would pay, and she has used this to estimate how many ice creams she would sell at each price. This is shown below:

Price	£1.30	£1.40	£1.50	£1.60	£1.70	£1.80
Expected Ice Cream Sales	2,850	2,650	2,500	2,300	2,050	1800

Marsha asks you to calculate the total revenue she would receive at each price level. Start by writing down the formula for Total Revenue:

Revenue = _____ X _____

Now complete the table below, and recommend which price Marsha should charge in order to maximise her total revenue.

Price	£1.30	£1.40	£1.50	£1.60	£1.70	£1.80
Expected Ice Cream Sales	2,850	2,650	2,500	2,300	2,050	1800
Expected Revenue						

The price that maximises revenue is: £

This worksheet is available as part of a BusinessEd subscription.

Alternatively it can be purchased from:
www.businessed.co.uk/store/

- This worksheet is the second in a series that is based upon the finances of Igloo Ices
- This worksheet covers the revenue received by igloo ices
  - It asks students to use the formula for total revenue to calculate the revenue that the business would receive at different sales levels

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