NAME:

Igloo Ices – Break-even (Solution)

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 has an appointment with her bank manager, and she has asked Marsha to provide information about her break-even point. Although Marsha has heard of break-even, she doesn't really understand it and asks for your help. Complete the tasks below to provide Marsha with the information that she needs to prepare for her appointment.

Task 1

Marsha has provided the following information about her business for next year:

Fixed costs next year are expected to be...	**£ 2,900**
Variable costs per cone sold are expected to be...	**£ 0.05**
Selling Price per cone will be...	**£ 1.50**

Using these figures, Marsha would now like you to calculate her expected break-even point for next year. Start by writing down the formula for break-even:

$$\text{Break-Even Point} = \frac{\text{Fixed Costs}}{\text{Selling Price per Unit} - \text{Variable Cost per Unit}}$$

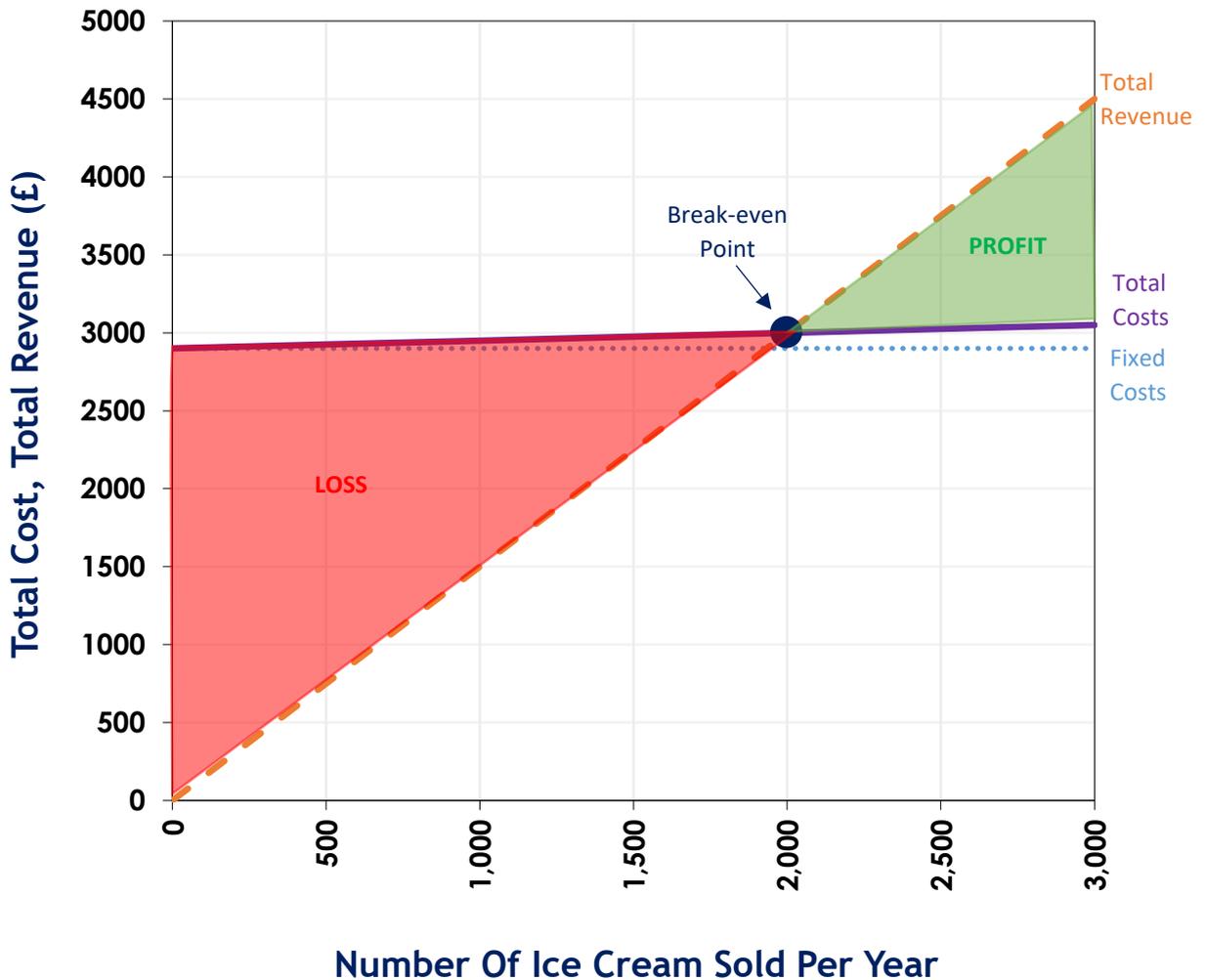Now use this formula to calculate Marsha's break-even point:

$$\text{Break-Even Point} = \frac{£2,900}{£1.50 - £0.05}$$

$$= \frac{£2,900}{£1.45}$$

$$= \boxed{2000} \text{ Ice Cream Cones}$$

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Task 2

Marsha, preferring to work with visual information rather than numbers, has used her cost and revenue figures to plot her break-even chart, as shown below:

Break Even Chart For Igloo Ices

Marsha asks if you can:

- label the
  - fixed cost line
  - total cost line
  - total revenue line
- identify the break-even point on the chart
- shade in the relevant areas for profit and loss