



STUDENT'S NAME: _____

LEVEL: _____

DATE: _____

WORKSHEET 2

THE BREAK-EVEN POINT

From: Lauren Archer, CPA
To: Floyd Hatcher

Mr. Hatcher,

You asked about how to maximize profits. The best advice I can offer is to know your break-even point. This is the amount of revenue you need to cover your costs and break even. It's easy to calculate your **break even point**. You just have to know your variable costs and your fixed costs.

First, figure out your **margin ratio**. This is simply margin divided by revenue. For example, if you generated \$1,000 in revenue and your margin was \$300, then your margin ratio would be:

$$300 \div 1000 = 0.3$$

Now you're ready to calculate your break-even point. Divide your fixed costs by your margin ratio. Let's say that your fixed costs were **locked in** at \$500. Your break even point would be:

$$500 \div 0.3 = 1667$$

So, if your fixed expenses were \$500, you would need to generate \$1,667 to **recoup** those expenses and break even.

You can use this formula to help you set **optimal** prices and sales goals for marketing. But you must be careful. If your revenue **slumps** below the break-even point, you will be in the **loss zone**. It takes a **delicate** balance between pricing and costs to push your revenues above the break-even point and into the **profit zone**.

Activity 1: Vocabulary

Select the correct translation of the following vocabulary. Then choose the appropriate synonym.

1. Break-even point	a) Balance delicado	I. Contracted or committed
2. Delicate balance	b) Costos variables	II. Decrease in performance
3. Fixed expenses	c) Encerrado	III. Deficit region
4. Locked in	d) Gastos fijos	IV. Financial equilibrium
5. Loss zone	e) Índice de margen	V. Income
6. Margin ratio	f) Ingresos	VI. Predetermined expenses
7. Profit zone	g) Metas de ventas	VII. Profit area
8. Recoup	h) Punto de equilibrio	VIII. Profit margin percentage
9. Revenue	i) Recesiones	IX. Recuperate
10. Sales goals	j) Recuperar	X. Sensitive stability
11. Slumps	k) Zona de ganancias	XI. Target sales
12. Variable costs	l) Zona de pérdida	XII. Unstable costs

1	2	3	4	5	6	7	8	9	10	11	12

Activity 2: Comprehension

1. **How is the margin ratio calculated?**

- a) Fixed costs divided by revenue
- b) Margin divided by variable costs
- c) Margin divided by revenue
- d) Revenue divided by margin

Answer: _____

2. **If your fixed costs are \$500 and your margin ratio is 0.3, what is your break-even point?**

- a) $500 \div 0.3 = 1,667$
- b) $500 + 0.3 = 500.3$
- c) $500 \times 0.3 = 150$
- d) $500 \div 1,000 = 0.5$

Answer: _____

3. **What does it mean if a business is in the "loss zone"?**

- a) The revenue is above the break-even point.
- b) The business has reached its optimal sales goals.
- c) The revenue is below the break-even point.
- d) The margin ratio is equal to one.

Answer: _____

4. **What is recommended to do when revenue is in a slump?**

- a) Increase fixed costs
- b) Adjust pricing and push revenues above the break-even point
- c) Lower variable costs
- d) Maintain current sales goals

Answer: _____

5. **Which of the following is an example of "recouping expenses"?**

- a) Reducing sales goals
- b) Setting an optimal price
- c) Generating enough revenue to cover fixed expenses
- d) Locking in variable costs

Answer: _____

6. **What does a "delicate balance" refer to in the reading?**

- a) Maintaining an equal proportion of variable and fixed costs
- b) Keeping expenses and revenue at the break-even point
- c) Adjusting pricing between loss zone and profit zone
- d) Setting marketing budgets based on slumps

Answer: _____

7. **What is the purpose of calculating the margin ratio?**

- a) To identify optimal pricing
- b) To determine the fixed costs
- c) To lock in expenses
- d) To measure the break-even point

Answer: _____