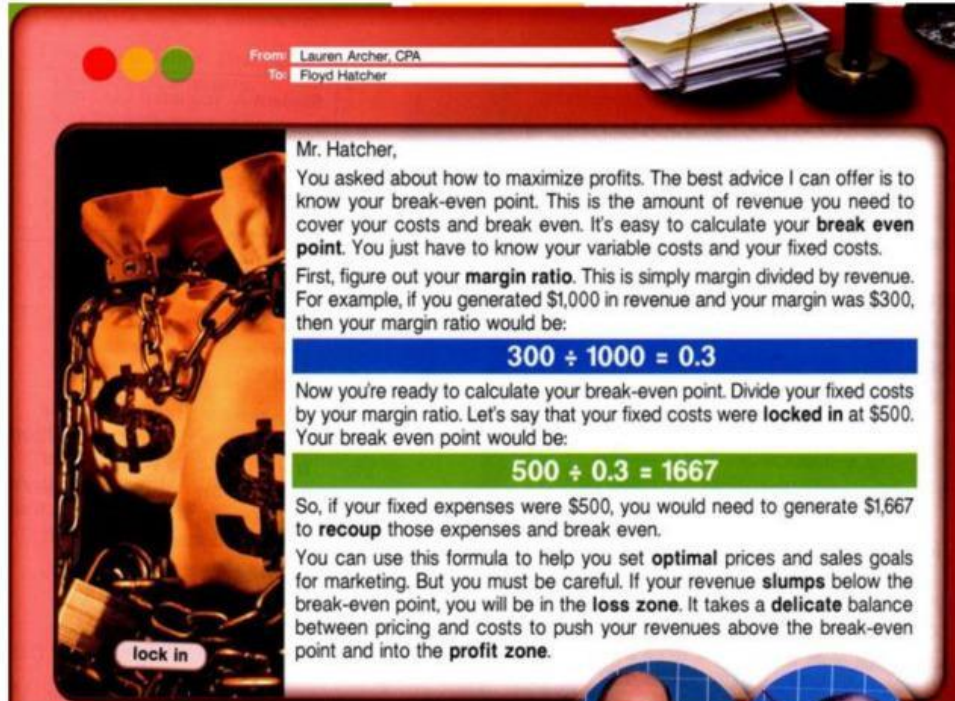


STUDENT'S NAME: _____

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:** _____