

Break-Even Point Practice

The break-even point is the point at which sales revenue equals the costs and expenses of making and distributing a product. After reaching the break-even point, a firm begins to make a profit. The formula for determining the break-even point is as follows:

$$\text{Break-even point in units} = \frac{\text{Total fixed cost}}{\text{Selling price} - \text{Variable Costs}}$$

$$\text{Break-even point in \$\$} = \text{Sales price} \times \text{BEP Units}$$

Figure BEP in units and dollars for the following:

A firm expects to sell 60,000 pairs of pants at \$12.50 each. The cost of manufacturing and marketing them is \$10.00 each. The fixed costs associated with the pants is \$15,000.

Calculate the break-even point in units for the pants. _____.

Calculate the BEP in \$\$: _____

If they sell all 60,000 pairs, what will the profit be? _____.

A firm expects to sell 2,000,000 rubber knobs at \$.25 each. The cost of manufacturing and marketing them is \$.20 each. The fixed costs associated with the pants is \$25,000

Calculate the break-even point in units for the rubber knobs. _____.

Calculate the break-even point in \$\$ for the rubber knobs. _____.

If they sell all knobs, what will the profit be? _____.

XYZ Corporation has calculated that it has fixed costs that consist of its lease, depreciation of its assets, executive salaries, and property taxes. Those fixed costs add up to \$60,000. Their product is the widget. Their variable costs associated with producing the widget are raw material, factory labor, and sales commissions. Variable costs have been calculated to be \$0.80 per unit. The widget is priced at \$2.00 each.

What is the break-even point in units? _____

What is the break-even point in \$\$? _____