Break-Even

Business & Management

The volume at which a business stops losing money.

Break-even volume equals fixed costs divided by contribution per unit.

BEV = fixed costs ÷ (price − variable cost)

£50k fixed, £20 price, £12 variable 50,000 ÷ 8.	**6,250 units**
Margin of safety How far sales can fall.	**Actual − break-even, as a %**
Target profit Same logic.	**(fixed + target) ÷ contribution**

THE COMMON MISTAKE

× Treating all costs as variable

✓ Splitting fixed from variable carefully

Semi-variable costs — utilities, some labour — must be split, or break-even is wrong in both directions.

High fixed cost businesses have high operating gearing: profits swing far more than sales do, in both directions.