Contribution & Break-Even

Accounting & Finance

The volume at which a business stops losing money.

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

Contribution = Price − Variable cost · BEP = Fixed ÷ Contribution

£10 price, £6 variable	£4 contribution
£20,000 fixed costs	5,000 units to break even
Target profit £8,000 (20,000 + 8,000) ÷ 4.	7,000 units

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× Treating contribution as profit

✓ It contributes to fixed costs first

Only after fixed costs are fully covered does further contribution become profit. Below that point it reduces the loss.

> The margin of safety is how far sales can fall before losses begin, usually stated as a percentage of current sales.