

Subject Content	What students need to learn?
1.3.2 Business revenues, costs and profits	<p>The concept and calculation of:</p> <ul style="list-style-type: none"> ● revenue ● fixed and variable costs ● total costs ● profit and loss ● interest

Before a business starts to sell their products and services, money needs to be spent setting up the business so it can run properly.

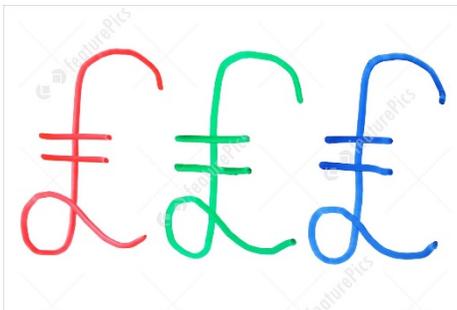
START – UP COSTS

Start-up costs are not paid on a regular basis and are often one off. E.g. buildings, equipment and machinery.

RUNNING COSTS

A business will also have costs that they have got to pay regularly as a normal part of trading. These are usually paid monthly.

These are known as **running costs**. Eg. Rent, raw materials, **wages**.



COSTS are the spending that is necessary to set up and run a business.

FIXED COSTS

Are costs that **DON'T** change when sales go up or down i.e. they **DO NOT** vary with output. E.g. Rent, salaries, insurance.

VARIABLE COSTS

Are costs that **DO** change when sales go up or down. i.e. they **DO** vary with output. E.g. Raw materials, electricity, wages.

Variable Costs = Variable cost per unit x Output

TOTAL COSTS

All the costs a business must pay in a set period of time.

Total Costs = Fixed Costs + Variable Costs

REVENUE

Revenue is the money generated from selling products/services. It is often referred to as sales revenue. **Revenue = Selling price x Quantity Sold**

PROFIT

Profit is the amount of money the business has to keep once all costs have been covered.

Profit = Sales Revenue – Total Costs

If the figure is **positive**, the business has made a **profit**. If it is **negative**, the business has made a **loss**.

INTEREST

Interest is the **cost of borrowing** money. When you take out a bank loan you must pay back the amount with interest. E.g. a loan of £100 at a rate of 5% interest you pay back £105.

It is also the **reward for saving**. If you saved £100 in your bank account with an interest rate of 1%, by the end of the year you would have £101 in your account.