**AREC 213**

**Fall 2015**

**Break Even Definitions**

**Variable Costs**

Business costs, such as overhead and staff, which change based on the volume at which you produce products, or the volume of your sales.

**Fixed Costs**

Business costs, such as rent or utilities, that do not change based on the volume of production or sales.

**Breakeven Analysis**

Breakeven analysis is a tool used to determine when a business will be able to cover all its expenses and begin to make a profit. For the startup business, it is extremely important to know your startup costs, which provide you with the information you need to generate enough sales revenue to pay the ongoing expenses related to running your business.

A startup business owner must understand that $5,000 of product sales will not cover $5,000 in monthly overhead expenses. The cost of selling $5,000 in retail goods could easily be $3,000 at the wholesale price, so the $5,000 in sales revenue only provides $2,000 in gross profit. The breakeven point is reached when revenue equals all business costs.

To calculate your breakeven point, you will need to identify your fixed and variable costs. Fixed costs are expenses that do not vary with sales volume, such as rent and administrative salaries. These expenses must be paid regardless of sales, and are often referred to as overhead costs. Variable costs fluctuate directly with sales volume, such as purchasing inventory, shipping, and manufacturing a product. The formula for determining your breakeven point requires no more than simple arithmetic.

Additional information on determining your breakeven point:  
Will Your Business Make Money

Software:  
On-line Breakeven Calculator