

5.5 Break-even analysis

Checklist

What you should know

By the end of this subtopic, you should be able to:

- define the following terms: (AO1)
 - contribution per unit
 - total contribution
 - break-even quantity/point
 - margin of safety
 - target profit output
 - target profit
 - target price
 - contribution costing (HL)
 - absorption costing (HL)
 - make or buy analysis (HL)
- distinguish between total contribution and contribution per unit (AO2)
- calculate the break-even point and construct a break-even chart (AO4)
- analyse the effects of changes in price or cost on the break-even quantity, profit and margin of safety, using graphical and quantitative methods (AO2, AO4)
- discuss the uses and limitations of break-even as a decision-making tool (AO3)
- apply the contribution tool in a given context (AO2) (HL)

