



A4G BUSINESS, TAX AND FINANCIAL SOLUTIONS

Helps you with....

A4G Business, Tax and Financial Solutions
Kings Lodge, London Road, West Kingsdown,
Nr Brands Hatch, Kent TN15 6AR
Phone: 01474 853 856 **Fax:** 01474 852 456
E-mail: enquiries@a4gsolutions.co.uk
Website: www.a4gsolutions.co.uk

Understanding your break-even point

Whilst everyone knows that the phrase "break-even point refers" to the level of sales you need to break-even, few business owners are confident enough to try and calculate their own.

As you are probably both manager and owner, the start point has to be what you need to take home in order to meet all of your living costs. To this you then add the amount of tax that is going to be paid one way or another to leave you with the required net figure. Good tax planning can make a huge difference in this regard.

To this new figure, you must add on your overheads i.e. the general running costs of the business. Your calculation must be realistic and include a contingency figure for price increases and unforeseen costs. Now you have the figure for the gross profit that you need to achieve.

The next step involves your gross profit margin i.e. the percentage of profit that you make on each sale after deducting what are known as direct costs or cost of sales. A4G can help you determine, which costs are cost of sales and which are overheads.

Next, divide the gross profit required by your anticipated margin and the result will be your break-even point of turnover. Be

careful to remember that your average gross profit margin will vary if you have a different mix of products or services. Plus, the impact of pricing on your break-even point can be considerable.

But once you have a start point figure what do you do with it?

The first thing you should do is set monthly sales targets. Most businesses are seasonal to one degree or another and dividing the break-even point by 12 will probably not give you an appropriate monthly target. If you have established that 20% of your turnover is made in the hottest month of the year then your break-even point for that month should be 20% of the annual target. Effectively to break even for the year you need to make a bigger profit in some months to compensate for the loss in others.

If your sales are not at the level required, then drastic action is needed. You may have to tighten your belt personally to reduce your drawings or perhaps slash some overheads. More positive solutions include selectively increasing your prices for higher value services and products or going on a major sales push.

Whether you need help measuring the performance of your business or working out how to improve, A4G can help. Please speak to any of our team who will be able to put you in touch with the right adviser.

In this help sheet

We reveal the importance of knowing your Break-Even point. e.g:

Break-even calculation:

$$B/E = \frac{\text{Gross drawings} + \text{overheads}}{\text{Gross profit percentage \%}}$$

Eg For Company A below, this worked out to be:

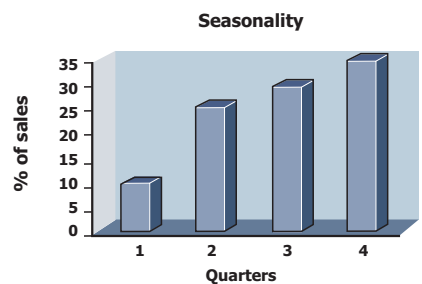
$$£2 \text{ million} = \frac{£50,000 + £450,000}{25\%}$$

Case Study

Thus Average weekly break-even (based on 52 weeks) = **£38,500**

This company calculated it's average product value at £23 per unit, which means if it maintains this average, it needs to sell 1675 units per week or 280 units per day (based on a 6 day working week).

Historically the Company's season has looked like this:-



Which therefore means they need to achieve the following break-even levels:-

Q	Weekly £ value	Weekly volume	Daily volume	5% price rise
1	15,385	670	112	107
2	38,500	1,675	280	267
3	46,150	2,007	335	320
4	53,850	2,342	390	374

Having this level of understanding enabled the business to drive up performance and adjust costs/prices quickly to react to market demand and exceed their goals.

Would you like a FREE copy of our Help sheets and Newsletters on any of the following topics?

Help sheets

- 1) Alternative Ways Of Investing
- 2) Keeping The Show On The Road
- 3) Inheritance Tax Planning
- 4) Protecting You and Your Family
- 5) The Most Tax Efficient Investments
- 6) Hedging Your Bets
- 7) Finding The Right Mortgage
- 8) Understanding S.I.P.P.'s
- 9) Ways To Save Tax Within My Business
- 10) The Ultimate Tax-Efficient Business Structure
- 11) Reducing tax on my vehicles
- 12) Purchasing Assets.
- 13) Paying me more and the tax man less
- 14) Making tax-free profits on property
- 15) Understanding Break-Even
- 16) Understanding your balance sheet
- 17) Being in Partnership (shareholder agreements etc)
- 18) Getting the best deal on Business Insurance
- 19) Protecting Your Name & Brand
- 20) Setting the right employee terms & guidelines
- 21) Getting the Best Deal From My Bank

Newsletters

- 1) The big plan -
Develop a strategy for your business
- 2) The Silent Salesman
- 3) Are you a prisoner of your own Business?
Reduce the level of dependence on you.
- 4) Getting the right people -
Building the best possible team
- 5) Cash is reality - Manage the cash flow for your
Business and raising Finance
- 6) Turning on the lights - Getting the information
about the performance of your Business
- 7) What if? - 'Good' Price Increases
- 8) Accounting for growth -
Maxminising your personal Wealth
- 9) Paying the legal Minimum
- 10) Just starting -
Getting your new Business up and running
- 11) It's not the how it's the why?
- 12) The £1000 Ornament -
Making the best use of your Business
- 13) Who'd be an employer?
- 14) Why are we different?

Name:

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Please tick any of the boxes above and fax to us on **01474 852456** if you would like us to send you any other **FREE Help Sheets** or **Newsletters** to help you with your business.



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