

Bep= fixed costs contribution margin per unit essays example

[Business](#), [Customers](#)



APPLICATION OF BEP ANALYSIS.

The concept can be used in making decisions regarding a new project or set of portfolio. It defines the point at which a portfolio starts to generate returns. It defines the relationship between returns, fixed costs, and variable costs. The breakeven point is the optimum level of output that a firm has to produce in order to start realizing profits. Below this point output will not be profitable. At the breakeven point total costs are equal to revenues.

The concept can be applied in starting a hair-dressing business. The fixed costs in this business include; equipment, fixtures, interest costs, and taxes, among others. Variable costs in such a business include, but not limited to, power, labor, materials, and transport. Assume that the salon charges 50 dollars per head (unit). The total fixed costs amount to 2000 dollars, and variable costs amount to \$ 800 dollars. If the salon's customer turnover per day is 20, then the breakeven point will be determined as follows:

CONTRIBUTION MARGIN PER UNIT = (SALES -VARIABLE COSTS)PER UNIT.

Therefore,

$$\text{BEP} = 2000 / [50 - (800/20)]$$

$$\text{BEP} = 2000 / (50 - 40)$$

$$\text{BEP} = 2000 / 10$$

$$\text{BEP} = 200 \text{ units.}$$

The implication is that for the salon business to start realizing its profits, a total of 200 customers must be attended. Below 200 customers, the salon will not have covered all the costs related to its operations. Above 200

customers, the salon will have met its fixed costs, and the profits generated will be enough to cover the variable costs.

The concept is useful in setting business targets, deciding on the products to produce, and business expansion and contraction. It is also useful in determining the impacts of changes in costs and prices on profitability levels of a business.