

Participation exercise #5

Finance



Participation Exercise 5: Question One: Any potential business needs to identify their point of making profits and the costs they need give them a profit. The business incurs fixed costs and variable costs. The variable costs vary based on volumes available for sale hence having an impact on the profits that the business will register. Having volumes from which the organization obtains profit defines the breakeven point of that business. A breakeven point aids the business owner to estimate the level of profits that they will generate from it overtime. These guide one in decisions on whether to invest in the idea or not. Calculation of a breakeven also aids the business owner in learning the different costs both fixed and variable to easily determine the much they need as capital and that aside to propel the business to profitability. These provide the advantages of calculating the breakeven point before starting a business. The point that aids the business owners realizes the returns from their efforts. The point that defines their real profits the business earns (Rodriguez).

Question Two:

During the calculations if the resulting breakeven point indicates a performance below the needed breakeven point, a number of options may aid improve the position. The increase in the selling prices may allow the company to improve the position and increase in volumes of sales provides another option. The circumstances surrounding the business environment determine the action to take with the option to increase the selling price much determined by the competitor's prices among other factors. An increase in volumes sold will provide a more viable option to improving the position on the breakeven point.

Work cited:

<https://assignbuster.com/participation-exercise-5/>

Rodriguez, George. Is Your Business successful? 3 Indicators of Success. Powerhomebiz. Viewed on May 1, 2015 from [http://www. powerhomebiz. com/starting-a-business/success-factors/indicators-of-success. htm](http://www.powerhomebiz.com/starting-a-business/success-factors/indicators-of-success.htm)