

# CHAPTER 21 Financial Management

## SOFTWARE ACTIVITY

## Spreadsheet Application

**OBJECTIVE:** Calculate break-even point.

At one point or another, many entrepreneurs must decide whether or not to add new products as a way of increasing profits for the firm. However, they must remember that every change has a cost, and sometimes that cost is more than the change is worth. Before deciding to invest in a change, entrepreneurs should evaluate profit potential by using a break-even analysis.

When deciding whether or not to add a new product, break-even analysis will calculate the number of units that will need to be sold in order to produce a profit. To calculate the break-even point in units, divide Fixed Costs by (Variable Costs subtracted from Selling Price).

### Practice Situation

The printout below illustrates a product that you are considering to add to inventory. Fixed and Variable Costs are given in relation to five suggested selling prices. Calculate the break-even point in units for each of the selling prices given.

Fixed Costs	Variable Costs	Selling Price	Break-Even Point
\$1,000	\$7.50	\$13	
\$1,000	\$7.50	\$14	
\$1,000	\$7.50	\$15	
\$1,000	\$7.50	\$16	
\$1,000	\$7.50	\$17	