## TASK 6: ANALYZE BREAK EVEN POINT & SALES TARGET

### Objectives

Student will be able to:

- Understand and comprehend the analysis of break even point and its implementation in determining the sales target
- Determine the goods inventory according to the sales target

### Introduction

In generating gain, the company must be able to sell its product/ service in accordance with the sales target with the value/ price aboe the total cost within a certain period. In order to determined the sales target, the company may perform the analysis of break even point. Once the sales target is revealed, the company must estimate the quantity of required goods inventory.

### Preparation of Tools and Materials

- Laptop/ Computer for each department
- Internet connection

### Activities

| No | Activities | Duration |
|---|---|---|
| 1 | ▪ Facilitator will explain the objective and stages of the analysis of break even point. Explain that the company uses this analysis of break even point to determine how many units of product which must be sold at the specific price in order to cover all costs or achieve the break even point.<br>▪ Explain that there are 2 types of cost related to the product, namely variable cost and fixed cost. Variable cost is subject to such change depending on the production level and sales volume while the fixed cost is relative stable and not affected by the sales volume. | 10’ |
| 2 | ▪ Each department is directed to analyse the break even point of the company based on the units sold by using this following formula.<br>**Break Even Point (in unit) = fixed cost / (selling price per unit – variable cost per unit)**<br>In order to determine Break Even Point (BEP) (in unit), you have to understand these following matters:<br>– The average selling price of each product/ service,<br>– The average variable cost, and<br>– The fixed cost for 1 year<br>The calculation model may be learned on **Example 1.**<br>▪ The Company may also wish to calculate the break even point in nominal sales in rupiahs with the following formula:<br>***Break Even Point (in nominal sales (rupiah)) x percentage of average profit of each sale = fixed cost***<br>In order to determine the break even point in the total nominal sales, you have to understand these following matters under this following formula :<br>– Percentage of average profit from each dollar of sales<br>– Fixed Cost | 60’ |

| | | |
|---|---|---|
| | The calculation model may be learned on **Example 2.** | |
| | Make the analysis of break even poin by using the available break even point format (The format of break even point can be downloaded on VCI Portal). | |
| 3 | Each department will present the calculation result of their respective break even point and recommendation for the sales target. | 10' |
| 4 | If the calculation result of break even point and sales target has been in accordance with the company's target, then the company may determine the quantity of goods inventory and credit the quantity of goods inventory into the company's budget. The quantity of goods inventory will be reconciled to the sales target of goods. | 10' |
| 5 | Re-check each component of the company's budget from the miscalculation or link. | |

**Example 1 :**

A company sells a pair of shoes for Rp 500,000. The company must pay Rp 300,000 for each pair to the shoes manufacturer, therefore the company generates gross profit of Rp 200,000 for each pair. This company has fixed cost amounting to Rp 100,000,000 per year.

**Break Even Point (in unit) = Rp 100.000.000,- / (Rp 500.000 – 300.000)**

**Break Even Point (in unit) = Rp 100.000.000 / (Rp 200.000)**

**Break Even Point (in unit) = 500**

The company must sell 500 pairs of shoes in one year to achieve its break even point. If the company sells less than 500 pairs of shoes, the company will suffer from loss; if the company sells more than 500 pairs of shoes, the company will generate profit.

**Example 2:**

By using the above number, the Break Even Point reflected in nominal sales may be calculated as follows:

***Break Even Point in nominal Sales x Percentage of average profit from each sale = Fixed Cost***

**Break Even Point in Rupiah x 0.4 = 100.000.000**

**Break Even Point in Rupiah = 100.000.000/ 0,4**

**Break Even Point in Rupiah = 250.000.000,-**

Note: Percentage of average profit = (Average Sellign Price – Costs of goods sold) / Average selling price

**(500.000 - 300.000) / 500.000**

**200.000 / 500.000 = 0,4**

**Output**

- Sales Target from the analysis result of break even point
- Needs upon the goods inventory

**Reference:**

Mescon, M., Bovee, C. L., Thill, J.V., *Business Today*, (Ninth ed.; Prenctice Hall).