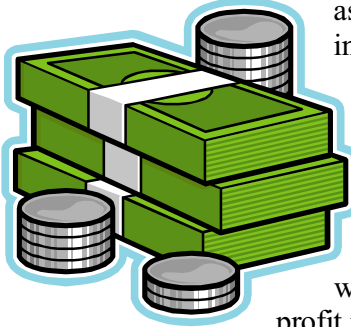


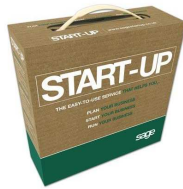
Business studies coursework- part 5

FINANCE

Finance: involves discipline concerned with determining value and making decisions. The finance function allocates resources, including the acquiring, investing, and managing of resources.



Finance is to do with all the money matters connected to my business, it is mainly associated with your assets and it includes the management of the incoming cash in my business. So far I have made several decisions about the main business idea, market research to tell me what the customers want, marketing to get my voice to the public, human resource to employ my staff members and now in this part of the casework I am going to look at how I will gather the money I need to start up my business. Looking in to start-up costs, fixed cost and variable costs to find out what my break- even point is where I am not making a lose or a profit in my business.



FINANCE

Finance deals with matters related to money and the markets. In this part of the coursework, I will be calculating all the start up costs, fixed costs and variable costs (I will be explaining more about these cost below) for my business and finding out different ways in which I can finance my money to meet my requirements of the start up costs. I will need to make sure I have the appropriate stock and service in my business as well as high quality of equipments. Financing my business will help me meet my costs and it will tell me my break even point which is very important for my business. This point will tell me how much products/ services I need to provide each day to make sure my business does not go into a lost. Using this part I will know if I need to advertise my business further more to attract customers or if I need to make my prices go up/down accounting to the amount of profit I make as I will be finding out how much profit I am expected to make. This is an important part of my business because I will need to check on all the money I am spending and if I am not going over board with the cash flow.

There are three main costs which my business will have, and then these three main costs are sub divided in to smaller costs. Below I will summaries how this works:

1. **START-UP COSTS** – Start up costs vary from many things. Start-up costs are the various costs which I will need to set up my business. The start-up costs which will occur in my business are stock, decoration, equipment, general (marketing, advertising, daily bills etc.) and miscellaneous costs.
2. **FIXED COSTS** – Fixed costs are the expenses which have to be paid either I make a lot of profit in my business or none at all. These costs are fixed and do not vary. They are always the same costs. For example if I was paying rent for something weekly this would be a fixed cost because I would be paying the same amount every week, this amount will no change until the rate is paid off over a period of time. Fixed costs are definite and they do not depend upon how much turnover occurs in your business.
3. **VARIABLE COSTS** – Variable costs are the costs which keep vary they are described as costs which are always different (opposite of fixed costs). Variable costs differ depending on a number of things. They may differ on my businesses turnover, the outcome of a firm, the amount of products/services I provide or any other type of business related actions.

Now I am going to move on and calculate all of the tree main types of cost, this will help me to find out how much money I will need before starting my business, it is the ladder to my break- even point which lets me the minimum number of products/ services I need to sell/provide in order to make sure my business is not making a lose.

START-UP COSTS: for the first 2 weeks...



Firstly I will have to think about my start up costs. This is when I am firstly opening my shop I will have to buy many things to ensure my salon is up to date. I am going to think about the stock I am going to need for the first 2 weeks, how I am going to






decorate my shop, the equipments needed for my services and general/ miscellaneous costs.



I will have a number of start-up costs when I first open my business. There are five main categories of start-up costs. These are; opening stock costs, decoration costs, equipment costs, general costs and miscellaneous costs. Below I will state all of my start-up costs, I will need to make a list of all the items I will need/sell for my service and list how many of these items I will need (my decision will be based on an estimate of how many items I will need for 2 weeks).then I will need to research on how much each item will cost me to buy on a wholesalers price. I will compare different companies to make sure I get the best deals and also to make sure that I have a back-up supplier in case the main company cannot supply my stock. I will then total all of these costs and this amount will be the total of my start up costs. I need to know how much my start up costs are so that I can estimate how much extra money my business will be needing when I total up all of my other costs. Doing this will help my business be successful and it will thrive to victory. I am going to buy stock on an every two weekly scale because things can go out of date.

Opening cost stocks are the main products needed for me to start my business. My opening stock will be my ingredients which I will use to make my treatments and so on.

Opening stock:

Picture	Item	Quantity	Whole sale price	Total cost	Supplier
	Towels	5	£2.98 each	£14.90	www.linenwholesale.com I have compared this company's price with Avon and Woolworth's price and I have found that this supplier gives me the best price.
	All creams types (plan creams, facial creams, herbal creams etc.)	30	Max £4.00 each	£120.00	www.avon.com I have compared this price with boots price and Purelyu's price and I found that they are far too expensive so I have decided to buy my creams from Avon.

	<p>Dry herbs/nuts and natural dyes e.g. almonds, green tea leaves etc.</p>	<p>30 different types packets</p>	<p>£1.22 each type</p>	<p>£36.60</p>	<p>Meena store, green street shopping centre This is an Asian store down green street and to my best knowledge this is the cheapest store to buy herbs and nuts from so I have decided to supply all my herbal stock from Meena store.</p>
	<p>Fresh ingredients such as, lemon, mint, fruits etc. (this may need to be brought after some days as it can go off in a short amount of time)</p>	<p>40 different types</p>	<p>Max £0.80 each type</p>	<p>£32.00</p>	<p>www.asda.com I am going for Asda because the prices are slightly less then Sainsbury's and Tosco stores also this store is in seborn-walk which is minutes walk form my shop.</p>
	<p>Masks/scrubs</p>	<p>5 big pots</p>	<p>£6.00 each</p>	<p>£30.00</p>	<p>www.purelyu.com I compared this company price with Avon and Naturiol's price ad I found that even through Purelyu's offer higher price, the products match my needs. They are more suitable for my service.</p>
	<p>Relax massage oil</p>	<p>3 big bottles</p>	<p>£ 7.00 each bottle</p>	<p>£21.00</p>	<p>www.purelyu.com This was the only company I found that sailed this oil so I could not compare the price with other companies.</p>
	<p>Skin care product (full of rare plants extracts, organic herbs, rich botanicals, exotic botanical oils, mineral rich clays, natural vitamins, minerals and anti- oxidants)</p>	<p>80 (10 different types from each category)</p>	<p>Max £8.00 each type</p>	<p>£640.00</p>	<p>www.purelyu.com I compared this companies skin products with Naturiol's and Avons and I found that Purelyu's skin products are more rich in natural ingredients so I have decided to pay a bit extra and get the best product for my customers.</p>

	Organic make-up (foundation, powder, eyeshades etc.)	10 different types from each category	Max £10.00	£100.00	www.naturiol.co.uk I did not find any other companies offering organic make-up at a lower price. I compared Purelyu with Naturiol to make my decision.
	Any other stock which I may need such as hair oil etc. this I can buy at a good price from any store so I do not need to buy this from a wholesaler.	....	....	£500.00	This is just my back-up plan for extra stock as I know the list above is the main stock but I will need more once my business starts so this bought will be used to meet those costs.
Total estimate:				£1494.50	






Above are my basis stock cost, I have kept an extra bought of £500 incase I need to add on to my list. As you can see above I have researched about to different companies' wholesale price to make sure I am saving the maximum amount of money at the start of my business where I do not have a lot to spend. For some of the items I did not find any suitable company that could be a potential wholesaler. I did a search on the internet to try and find a suitable wholesaler but unfortunately I was not able to find any for some items. Some of the websites were unsuitable because the prices of the products were to expensive or they were overseas. Also I rejected some companies and went for the once I have chosen above because they did not sell specific products that would be suitable for my shop so there was no point be buying my stock from those companies examples of these companies are; www.ukhairdressers.com , www.smart-shop.com and www.healthinajiffy.co.uk etc.

The three main companies there I will be buying my stock from is www.purelyu.com, www.avon.com and Meena store. These are my main supplies; however I will also use the other companies such as; www.naturiol.co.uk and www.healthinajiffy.co.uk as my back up supplier in case my main companies are having trouble.

Now I am going to calculate the costs for my decoration cost, decoration costs are the several expenses which occur when I am making your shop look nice and attractive. These vary from paint, general decoration, furniture, flooring, shelving, lighting etc.

Decoration costs:


Picture	Item	Quantity	Whole sale price	Total cost	Supplier
	Paint	5 large pots 2 green 3 white	£15.25	£ 76.25	www.B&Q.com I compared this companies price with Diy's and Ikea's and I found out that even though the prices for B&Q are a bit higher the quality is better so it is long lasting.
	Mirrors	5	£10.50	£52.50	www.diy.com The mirrors are cheaper in Diy then Midwest salon and Argos so I have decided to go for this company's whole sale price.
	Chairs	3	£16.77	£50.31	www.midwestsalon.com I have researched and found that the chairs in Midwest salon company are more quality and less in price so I will be buying my chains for Midwest salon. The other companies that I looked at where; Diy and EBay.
	Flooring (wooden flooring)	Whole shop	£970.00	£970.00	www.diy.com I researched that flooring from Diy is cheaper then Ikea and DFS.
	Lights	10	£7.49	£74.90	www.diy.com As I shop over £900 form Diy there is a special offer on lights so it is cheaper for me to buy lights from Diy at this point.
	Shelf's	2	£30.65	£61.30	www.treehugger.com The shelf's form this company are cheaper compared to Ikea and Argos.

	Paintings	10	£5.00	£50.00	www.homebase.com Home base painting are more attractive and the prices are better then DFS so I will be buying my paintings from Home base.
	Treatment and massaging couch	2	£240.00	£480.00	www.midwestsalon.com Midwest salon offers better chair couch as the prices are lower then buying on EBay and Tree hugger.
	Sinks	2	£159.88	£319.76	www.ebay.com Sinks form EBay are the colour which I would like for my shop and also they are the right size compared to companies such as Ikea and Argos where the prices are also higher.
	Kitchen layout including equipments such as cooker, pans etc.	20 by 20 foot	Max £2,223.76	£2223.76	www.argos.co.uk/ www.ikea.com For my kitchen layout I will like to shop form Ikea as it is cheaper then DFS and EBay. And for my equipments in the kitchen I will shop form Argos as the quality is better and it has better offers then companies such as Home base or Woolworth.
	Toilet equipments	7 different items	Max £6.00	£42.00	www.argos.co.uk I compared this company's price with Ikea's and EBay's and I found that Argos has cheaper costs.
Total estimate: £4400.78					

Above are my decoration costs I have worked out which company I will be using to buy my equipments from. I have companies the price with other companies to get the best price and quality out of my costs. Also as my business increase I can add more decoration equipments to my business to help my customers but for the start of my business I believe that these are the main items that matter.

So far I have worked out my stock and decoration cost now I am going to work out my equipment costs these equipment costs are the range of costs which occur when buying equipment. My equipment costs will be things such as ovens, fridge, till, phone, fax, machines etc. these equipments will start me off and hopefully over the next few years I will be able to use better equipments in my shop.

Equipment costs:

Picture	Item	Quantity	Whole sale price	Total cost	Supplier
	Phone/fax	1	£80.00	£80.00	www.argos.co.uk
	Till	1	£79.99	£79.00	www.argos.co.uk
	Computer	1	£300.00	£300.00	www.ebay.com
	Vacuum cleaner	1	£50.99	£50.99	www.argos.co.uk
	Machines such as grander etc.	About 6	Max £85.00	£510.00	www.argos.co.uk
	Desk	1	£40.99	£40.99	www.argos.co.uk
	Chairs	5	£19.99	£99.95	www.argos.co.uk
	CCTV	2	£200.00	£400.00	www.ikea.com
	Small Fridge	1	£99.00	£99.00	www.ebay.com
	Any other equipments cost such as pen, paper etc.	...	...	£200.00	I can buy these equipments for Argos and Woolworth according to the price.
Total estimate:				£1859.93	

For most of my equipments suppliers I have decided to buy my equipments for Argos and Ikea as there is a Chrisman sale on so it will be cheaper for me to buy

my items form these companies then EBay where the quality is also low. However, I will be buying one or two equipments from EBay because they are better price and I do not think I need to spend a lot of buy for those items. Also Argos has better quality then EBay and Woolworth so the equipments are better.

Above is the main list of equipments I will need to start my business I have kept a bought of £200 which I can use if there is any other equipments I need to buy urgently. Now I will need to add up my general costs form my other parts of the coursework such as; marketing, advertising, job adverting, uniform etc.

General costs:

Picture	Item	Quantity	Whole sale price	Total cost	Supplier
	Marketing & advertising/ job advertisements	N/A	....	£7,500.00(marketing) +£750.00(job advert human recourse) =£8,250.00	....
	Uniform (apparel)	4	£3.50	£14.00	Woolworth I will buy my apparels form Woolworth because it as better price then Asda and Midwest salon.
Total estimate:				£8264.40	

Miscellaneous cost:

These are any little costs that I don't play for so I will just keep a bought for this amount: **£600.00**

Now I have finished calculating my total estimate start-up cost which adds up to:

Opening stock costs: £1494.50
Decorating costs: £4400.78
Equipment costs: £1859.93
General costs: £8264.40
Miscellaneous costs: £600.00 +

Total START-UP costs (for 1st 2 weeks): £16619.61

£16619.61 is my total start up cost for my business to actually open up and get going. I have inherited £5000 at the start of my business so now I will have to deduct that from my total start up cost.

£16619.61

£5000.00 -

£11619.61

For my business labour, building and decoration cost will not be an issue as my friend and family who are builders and decorators are willing to do the work for me so it will not cost me anything.

Now that I know I have to raise £17,000 (£16619.61: put in a whole number) in order to finance the start of my business. There are some options available to me these options are borrow form a bank, go into partnership, sell shares, sell or rent out the flat above my shop or re-mortgage my flat.

(I have rounded up my £16619.61 number to £17,000 because it is easier to work with this number and it is easily remembered)

Option 1:

Borrow the money from the bank using my detailed business plan in order to help them decide whether or not I'm worth of getting a loan, and whether or not I will be able to pay back the loan. The money will have to be paid back over 5 years at a rate of 10% interest.

My amount (£17,000) at the interest rate of 10% over 5 years means that at the end of the 5 years, I have to pay back the full £17,000 plus the additional 10% interest rate.

- 10% of £17,000 = £1,700

This means that I will have to pay back the original amount of £17,000 and an additional £1,700 so in total I will be paying back £17,000 + £1,700 which make's an overall sum of £18,700, which I will have to pay back at during 5 years.

-Therefore I will have to pay 18,700 / 5 =

£3,740 per year

-Therefore I will have to pay back £3,740 / 52 =

£71.92 per week

If I take this option the money will be paid back each week as this cost will be unavoidable. This will be a fixed cost and does not depend upon how much money my business makes.

Advantages of me choosing this option is that most banks generally have a low interest rate compared to other money lenders. This means I will only have to pay back a lower percentage then other money lenders. Another advantage is I will not have to go far because of the internet banking and banks are relying close to me.

Similarly banks are more reliable and save to use so I will not have to go anywhere else.

Disadvantages of me choosing this option is that banks can ask you to pay back more money sooner. If this was to happen to me it could cause further financial problems for my business as I might not have enough money. Also Banks have a fixed rate. This means even if I don't earn the amount I need for the week I will have to still pay it back somehow. So if I do not make much profit in that week I cannot pay less or if I make huge profit I cannot pay more.

A loan would be an easy way for me to get money from but I don't think it would be very practical for me because I will have other fixed cost to pay and adding yet another cost that if I don't manage to pay will have serious consequences which will not help me in my business. However, I would get a loan for a smaller amount and use other remaining options to help me with the rest of the money but before I make any further decision I will move on and look at other remaining options.

Option 2:

My second option is to go into partnership. Partnership is where I can get partner(s) to put money in to my business to help me make up the £17,000. For example I would invest £6000 and I could get two more people to invest £5500 each. So I would make up £17,000 and I wouldn't need to pay them back because they would get a part of the profit I make in my business. (So for example if my partner pays 32% of my cost they will earn the 32% of the profit that I make every time.)

The **advantages** of this option will be that I will not have to pay any money back if I don't make any profit as they will be my business partners. I will have help making major decisions with a partnership. I will only have to pay half the money for whatever investments I make for my business and I will also increase my capital. Moreover, I will not be in debt by my self so I will not have to pay off the money myself. However, this would also be a **disadvantage** as my partners will be in debt with me and they can run away so I will have to be in debt by my self.

Other **disadvantages** are that I can not trust them very quickly unless it's someone I know as they can run off with my money. Also I will have to pay half of the profit to my partner so I will have less for myself and decisions will need to be made by all partners so we may have a disagreement.

This would be a good way to get money for my business as it would be cheaper as there is not interest rate etc. But getting partners would mean that I will not have fully control over my business. So although this is a good idea I don't think it is something that will be right for me and my business.

Option 3:

This option is about selling shares to friend and family and becoming a private limited company (A private limited company is established through the division of shares).for this option to work I will have to sell shares worth of £17,000 which will be very difficult.

Advantages of this option are if I issue shares out my company I can access a new capital to expand my business. My employees will feel more welcome because they will get more recognition and the company will get known more. I could also sell shares to my employees which will give them an incentive. Similarly controls of company cannot be lost to outsider.

Disadvantages of this option are that I can lose out of control if I sell shares. This means I won't be able to run the company how I specifically want it to be run. The shareholders could chuck me out of my business if they own more of the company than I do. I will also have to consider the shareholders interest and also there might be arguments because of people not agreeing with me.

This has the same principle as getting partners to invest in my business but there is the advantage that I am still able to have full control of my business. However, I still don't think that this will be the best option for me to use in my business as I can not rely on it so much there are many big rises for this option and I do not have the time to fall in to those while my business is running.

Option 4:

Sell or rent out the flat: Using this option if I sell the flat I can raise £120,000 or if I rent out the flat above my shop I can approximately earn £40,000 per year.

Advantages of this option would be that I will be able to meet all my start-up cost by selling the flat. I can have a lot of money left to use in the business or save for later on. However the **disadvantages** would be that selling or renting out would mean that I will not be able to use the flat for my use as it will not be in my use. Also it could mean that I need more place to keep my stock in.

So as I have looked at how much money I will be making by sell or ranting my flat I still don't think that this would be a good option as the flat will not be in my use and I think it will be very helpful for me to have the flat in my use for my stock. Also this money does not always keep coming.

Option 5:

This is my last option and it is based on re-mortgage the flat. I could re-mortgage the flat which is above my shop. The flat is worth £120,000 but I could re-mortgage it for £17,000 and use the money for my start up costs. However, I will have to pay back the mortgage over a period of 25 years at a fixed rate of 5%.

-5% of £17,000 = £850.00

At the end of 25 years I will have to pay back £17,000 + £850.00 so I will have to pay back a total of £17,850 at the end of 25 years.

-Therefore I will have to pay 17,850 / 25 =

£714 per year

-Therefore I will have to pay back £714/ 52 =

£13.73 per week

If I choose this method this will also be a fixed cost which means that I have to pay it regardless of how much profit my business makes in that week.

Advantages of this option is that the flat will still belong to me I can still use the flat. I could also make profit by renting the flat at the same time. Also I can borrow any exact amount of money or even more if I need to as I can borrow any amount up to £120,000 at any time.

Disadvantages of choosing this option is that it still has an interest rate but is lower than banks, it is a very long period of time and I will have to keep paying the same amount for 25 years (This also applies if my business is no longer running I will still have to pay). However the amount paid per week is not so much and is very cheap so it will not affect my business.

From the fifth option I have decided that I will re-mortgage my flat and raise the money I need for my business. I will re-mortgage my flat for £17,000. I have chosen this option because I believe that my business will be best able to cope with this payment and also it is a low payment for every week so it will not affect my business. The main point that I like about this option is that I can still rent my flat the flat is still mine I can use it for my stock or any other reason and still raise the money I need. However, the main bad point was that if my business is no longer on the market I will still have to pay this amount but I think that this amount (£13.73) is not a lot for a week.

Now had I have discussed each option and started which one I will be going to finance my business from. I will move on and work out my fixed cost and variable costs. Fixed costs are costs which have to be paid and cannot be avoided for any reason. Variable costs are costs which differ from time to time depending upon how many products I produce or sell.

FIXED COSTS: for the first 2 weeks...

	Total Cost
Wages & salaries	£1815.82 (£907.91*2)
Insurance	£440 (estimated value)
Business rates	£15
Electricity	Approximately £20 Supplier: N-power because I researched that it is cheaper than British gas and London energy .
Gas	Approximately £10 Supplier: N-power because I researched that it is cheaper than British gas and London energy .
Tele-phone line rental	£20
Re-mortgage repayment	£27.46 (£13.73*2)
Water	£15
	Total estimate: £2363.28

These are my fixed costs, these prices stay the remain the same no matter how much or how little profit I make so if my are £2363.28 for two weeks, I will have to pay this

amount if I make 0% profit or 100% profit. I will now move on and state what all my variable costs are.

VARIABLE COSTS:

Products	Variable	Selling price (per service)
Special Shampoo/conditioner (dry hair etc.)	£3	£12
Face mask	50p	£4
Face cream	£2	£6
Dry herbs	£1	£2.50
Nutrients supply	£2	£9
Facial creams	£6	£14
Treatments	Max £9	Max £25
Henna	£3	£10
Massage	£4	£13
Hair service	£3	£14
Total:	£33.50	£109.50

Above is the list of cost that I will have to pay but unlike fixed cost they vary on how much I sell or use. For example if it cost me £6 to make a facial cream and I sell 40 in 2 weeks the variable cost will be £24 however if I sell 0 of the products the variable cost will be £0.

So my average viable cost and selling price is:

$$\begin{aligned} \text{Average variable cost} &= \text{total variable cost/number of products} \\ &= £33.50/6 \\ &= \mathbf{£5.58} \end{aligned}$$

This tells me that when a customer buys a product it will cost me between **£5.58**.

$$\begin{aligned} \text{Average selling price} &= \text{total selling price/number of products} \\ &= £109.50/6 \\ &= \mathbf{£18.25} \end{aligned}$$

This average selling price is the amount I will charge I will charge for a certain product. From my calculation can see that £18.25 tells me that every time a customer buys a product on average they are paying this amount for a product.

Now that I have finished my fixed costs, average variable cost and average selling price I can work out my BREAK EVEN POINT which is very important to business. The break-even point is the point at which the costs of producing a product equal the revenue made from selling the products. It is useful to know because it gives me a clear idea about the number of I need to sale per week to cover all my costs and also to make profit (sales = costs)

$$\text{BREAK-EVEN POINT} = \text{FIXED COSTS} / \text{CONTRIBUTION}$$

To work out my break-even point, I would have to divide my fixed costs by the contribution. (The contribution is the difference between what it costs you to make a product and what it cost the customers to buy it.) So before I could work out my break even point I will need to work out my contribution:

$$\begin{aligned} \text{CONTRIBUTION} &= \text{AVERAGE SELLING PRICE} - \text{AVERAGE VARIABLE COSTS} \\ &= \text{£18.25} - \text{£5.58} \\ &= \text{£12.67 my contribution} \end{aligned}$$

£12.67 is the amount of money the customers contribute towards my fixed cost every time they buy a product or use my service. Once I have made enough of the contribution to cover my cost I will BREAK EVEN. If I exceed what I need to cover fixed cost then I will make profit. When I break even I neither make a loss or make a profit the only time I will make a profit is when the right number of products to exceed the break even point, break even is useful because it tells me how much I need to sell in order for me to be able to cover my costs.

**So this means my BREAK EVEN POINT is =£2363.28 / £12.67
=187 (rounded up to make a whole number, 186.53) my break even point**

This means I will need to sell/provide 187 products/services a week to break even.

With this information I can now make a break-even graph. To do this will need to plot the revenue line (revenue= selling price*number of products), total cost line and fixed cost line. Where the total cost line and the revenues line cross is the break-even point for my business.

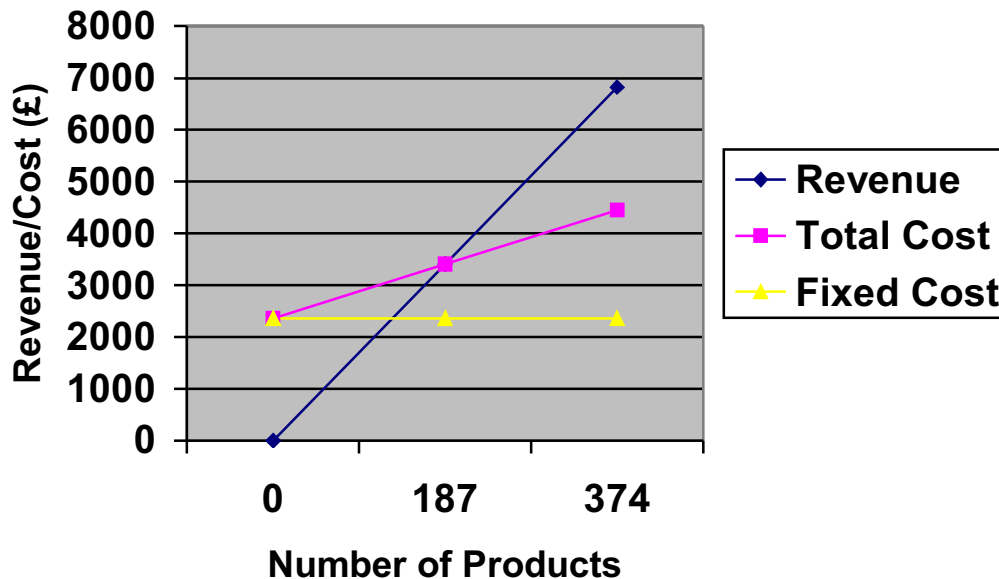
	Point 1	Point 2	Point 3
Number of products	0	187	374
Revenue (= average selling price* Number of products)	0 x 18.25p =£ 0	187 x 18.25=£3412.75	274 x 18.25p =£6825.50
Fixed cost (stay the same throughout)	£2363.28	£2363.28	£2363.28
Variable cost (average variable costs * number of products)	0 x £5.58 = £0	187 x £5.58 = £1043.46	374 x £5.58 = £2086.92
Total cost (=fixed cost + variable costs)	£2363.28+0= £2363.28	£2363.28+£1042.46 = £3405.74	£2363.28+£2086.92 =£4450.20
Profit (or loss) = Revenue – Total costs	£0 - £2363.28 = - £2363.28	£3412 - £3412 (rounded up) =£0	£6825.50-4450.20 = £2375.30

My break even graph shows that I will need to sell at least 187 dishes to break even and any money that I make after that will be MY PROFIT!

My break-even graph:



Break Even Chart



The above graph shows a number of things. It shows the break even point, the profit and the loss. The break even point is at the point which the two lines meet (revenue and total costs). The loss is the bottom part of the graph which has been shaded in red. The profit is the top part after the break even point which is in green.

So, from my break-even graph I can see that my break even point comes up to 187. If the number of sells are higher than my break-even point I will be making a profit in my business which is a good thing for my business. However, if I sell fewer products than 187 my business will be making serious loss as I will not be covering all my costs. My break even point is quite high so to make sure I meet my break even point I will attract customers to use more of my services and buy my products. This will increase the chances of my meeting my break even point every two weeks and I will be able to make more profit for the success of my business.

LIMITATIONS OF BREAK EVEN:

There are a couple of limitations which are connected to break even. Some of these limitations are:

- Break-even analysis is only a supply side (i.e. costs only) analysis, as it tells me nothing about what sales are actually likely to be for the product at these various prices.
- It assumes that fixed costs (FC) are constant
- It assumes average variable costs are constant per unit of output, at least in the range of likely quantities of sales.

- It assumes that the quantity of goods produced is equal to the quantity of goods sold (i.e., there is no change in the quantity of goods held in inventory at the beginning of the period and the quantity of goods held in inventory at the end of the period).
- In multi-product companies, it assumes that the relative proportions of each product sold and produced are constant (i.e., the sales mix is constant).

Above are some of main limitations of break even group now I will apply them to my business and see what these limitations mean to my break even chart and my business.

The number of products which I am expected to sell at the prices set should meet my break even point. This is an estimated statement and could be different when my business starts. If I do not sell the amount of products I need to break even I will be making a loss straight away in my business. However, If I do sell enough to break even I will not be making a profit or a loss in my business or if I sell more than my break even point I will be making a profit for my business, this is what I am aiming to do when I open my new business.

Now I will summaries this section of Finance and example why keeping a close eye on finance is vital to the success of me business and how I will maintain this process of success.

I first of all calculated my total start up costs. I did this by adding up all of my opening stock, equipment costs, decoration costs, general costs and miscellaneous costs. My total start up costs for the first 2 weeks came to **£16619.61**.

After calculating my start up costs, I worked out what all of my fixed costs will be. Fixed costs are the expenses which occur and cannot be avoided. My weekly fixed costs came to a total of **£2363.28**. This may seem high but it also includes all the staffs salaries for 2 weeks which when totalled together come to over two thousand pounds.

After working out my fixed costs I worked out my variable costs and used this to work out my average selling price (ASP) and my average variable costs (AVC). My average selling price came to **£18.25**. This means that every time somebody buys a product or uses my service from my business I will be making £18.25. My average variable costs came to **£5.58**. This means that every time somebody buys a product or uses my service from my business it will be costing me £5.58 to produce that product.

After calculating all of these, I lastly calculated my break even point (Break even point is the point at which I have sold enough products/services to not make a loss but I will neither be gaining a profit. my income in the business will be neutral.) which was 186.53. I rounded this to **187** as it is much easier to deal with whole numbers and also I cannot sell half of a product or service.

Keeping a close eye on finance is absolutely crucial for my business. It can make the difference between my business prospering and not being successful at all. I will need to make sure that I sell enough products/services to at least reach my break even point

within 2 weeks. Finance makes sure that I manage my money so that I know efficiently about my resources and know which risks are worth taking to raise more money for my business. This is very important to my business as I do not want to fall into debts. Therefore, I will make sure my finance is handled properly as I will be keeping a close eye on it myself and I will be monitoring every step of my business. I will make sure I know where my money is being invested, what the risks are if there is any and how much profit or loss I am making to make sure my business is not a fail.