

## How to calculate your break-even point

### Knowing your break-even point is important for setting goals for your business.

Put simply 'break-even' is the point at which your revenues cover your expenses. By knowing your break-even point you can determine how many units you need to sell to cover your costs.

This will allow you to evaluate the viability of your business and enable you to locate areas where efficiency and profitability can be improved.

It's calculated by reviewing your fixed costs, variable costs and price.

#### Fixed Costs

Fixed costs exist no matter how much you sell or don't sell; these include costs like rent, power, insurance, and wages.

#### Variable Costs

Variable costs are the costs that vary depending on sales volumes; these include things like raw materials.

#### Price

Price is simply the amount being charged per unit.

## How to calculate break-even

The breakeven point can be expressed as the following formula:

$$\text{Fixed costs} / (\text{price} - \text{variable costs}) = \text{breakeven point in units}$$

For example if a product is sold for €50 per unit and the business' fixed costs are €3000 with variable costs of €20 per unit the breakeven point can be calculated as shown:

$$3000 / (50 - 20) = 100$$

This means that the company will need to sell 100 units of its product in order to cover its costs and breakeven.

If your business has multiple products, calculate the breakeven point for each product separately.

If the amount of units you're required to sell is more than you can realistically achieve, then you know that your products or services may not be priced well and need to be recalculated, or you need to work to reduce costs.

By engaging in breakeven and ratio analysis you can obtain indicators of your business' performance and determine where achievement has improved or deteriorated over time and where changes may need to be made.

You can use the formula above to calculate your breakeven point and for ratio analysis please use our [ratio analysis template](#).

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