Your notes

GCSE Business: revision notes

Revenue, costs and profit

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Revenue

- **Revenue** (turnover) = selling price × quantity sold. Selling 2,000 units at £4 each gives **revenue** of £8,000.

Costs

- **Fixed costs** don't change with output, such as rent, salaries and insurance. **Variable costs** change with output, such as raw materials and packaging.
- **Total costs** = **fixed costs** + total **variable costs**. With fixed costs of £3,000 and variable costs of £1.50 per unit, making 2,000 units costs 3,000 + 1.50 × 2,000 = £6,000.

Profit

- **Profit** = total **revenue** – **total costs**. A negative answer is a loss. In the example, 8,000 – 6,000 = £2,000 profit.
- **Gross profit** = **revenue** – cost of sales. **Net profit** = gross profit – other operating expenses (and interest).

Interest and average rate of return

- Interest is the cost of borrowing. Interest (%) = (total repayment – amount borrowed) ÷ amount borrowed × 100. Borrowing £5,000 and repaying £5,750 means £750 of interest, which is 15%.
- **Average rate of return** (ARR) compares the **profit** from an investment with its cost: ARR = average annual **profit** ÷ cost of investment × 100.
- If a £20,000 investment returns £30,000 over 5 years, the total **profit** is £10,000, the average annual **profit** is £2,000, and the ARR is 10%.

Key terms

Revenue	The money a business receives from sales: price × quantity sold.
Fixed costs	Costs that don't change with output, such as rent.
Variable costs	Costs that change with output, such as raw materials.
Total costs	Fixed costs plus total variable costs.
Profit	Total revenue minus total costs.
Loss	When total costs are greater than total revenue.
Gross profit	Revenue minus cost of sales.
Net profit	Gross profit minus operating expenses and interest.
Average rate of return	Average annual profit as a percentage of the cost of an investment.

Quick questions

Cover the answers and test yourself: remembering is what makes it stick.

1. A business sells 500 items at £6 each. What is its revenue?
2. Which of these is a fixed cost?
3. Which of these is a variable cost?
4. Fixed costs are £2,000 and variable costs are £3 per unit. What are the total costs of making 400 units?
5. Revenue is £10,000 and total costs are £7,500. What is the profit?
6. What is gross profit?
7. What is net profit?
8. A business borrows £5,000 and repays £5,750 in total. What is the interest as a percentage?

Answers

1. £3,000
2. Rent
3. Raw materials
4. £3,200
5. £2,500
6. Revenue minus cost of sales
7. Gross profit minus operating expenses
8. 15%

What to do next

Practise 12 questions on this topic

Try 4 exam questions, with mark schemes

Read the lesson, one step at a time

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