Lesson 4: Costs, revenue and profit

KNOWLEDGE ORGANISER

🎯 Learning goals

- ✓ Define fixed, variable and total costs
- ✓ Calculate total revenue and profit
- ✓ Explain profit, loss and interest
- ✓ Use the formulas with business data

🔑 Key words

Fixed costs Costs that do not change with output (e.g. rent).

Variable costs Costs that change with output (e.g. materials).

Total costs Fixed costs + variable costs.

Total revenue Selling price × quantity sold.

Profit Total revenue – total costs.

📘 What you need to know

Fixed costs + Variable costs = Total costs

Revenue – Total costs = Profit

Total costs = fixed + variable; profit = revenue – total costs.

1. Fixed, variable and total costs

Fixed costs do not change with how much is made or sold — for Pedal Power, shop rent and insurance stay the same whether it sells 10 bikes or 100. **Variable costs change with output** — the more bikes it builds, the more parts it buys. **Total costs** = **fixed costs + variable costs**.

2. Revenue and profit

Total revenue = **selling price × quantity sold**. **Profit** = **total revenue – total costs**. If total costs are greater than revenue, the business makes a **loss**. **Interest** is the cost of borrowing money (or the reward for saving) — a cost to watch if the business has loans.

> *"Total costs = fixed + variable. Revenue = price × quantity. Profit = revenue – total costs."*

3. Fixed or variable?

Knowing which costs are fixed and which are variable helps with pricing and break-even (next lessons). Rent, salaries and insurance are usually **fixed**; raw materials, parts and packaging are usually **variable**.

✅ Test yourself

Cover the answers below, answer Q24–Q31, then check.

Q24 What are fixed costs?
Q25 What are variable costs?
Q26 How do you calculate total costs?
Q27 How do you calculate total revenue?
Q28 How do you calculate profit?
Q29 What is a loss?
Q30 What is interest?
Q31 Give an example of a fixed cost for Pedal Power.

ANSWERS

A24 Costs that do not change with output (e.g. rent).
A25 Costs that change with output (e.g. materials).
A26 Fixed costs + variable costs.
A27 Selling price × quantity sold.
A28 Total revenue – total costs.
A29 When total costs are greater than total revenue.
A30 The cost of borrowing money (or the reward for saving).
A31 Shop rent or insurance.