

# SL IB Business Management



Your notes

## 3.3 Costs & Revenues

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## Sales Revenue

### Revenue & Revenue Streams

- Sales Revenue is the **value of the units** sold by a business over a period of time
  - E.g the revenue earned by Apple Music from sales of music downloads
  - Sales revenue is a **key business performance measure** and must be calculated to identify profit
  - Sales revenue is calculated using the formula
$$\text{Sales revenue} = \text{quantity sold} \times \text{selling price}$$
- Sales revenue **usually increases** as the sales volume **increases**
- When a firm sells one product it is easy to calculate the sales revenue
  - The more products a firm sells, the harder it is to calculate the sales revenue
  - **Computer systems** make it easier to track sales revenue when multiple products are sold by the business

#### Worked example

Fotherhill Organics Limited sold 39,264 packs of its specialist compost to mail-order customers in 2022. The price per pack was £8.75. In addition, it sold 4,275 tonnes to gardening businesses for £123.95 per tonne.

Calculate Fotherhill Organics sales revenue for 2022? [3]

#### Step 1 – Calculate the sales revenue from sales to mail-order customers

$$39,264 \times £8.75 = £343,560 \quad [1 \text{ mark}]$$

#### Step 2 – Calculate the sales revenue from sales to gardening businesses

$$4,280 \times £123.95 = £530,506 \quad [1 \text{ mark}]$$

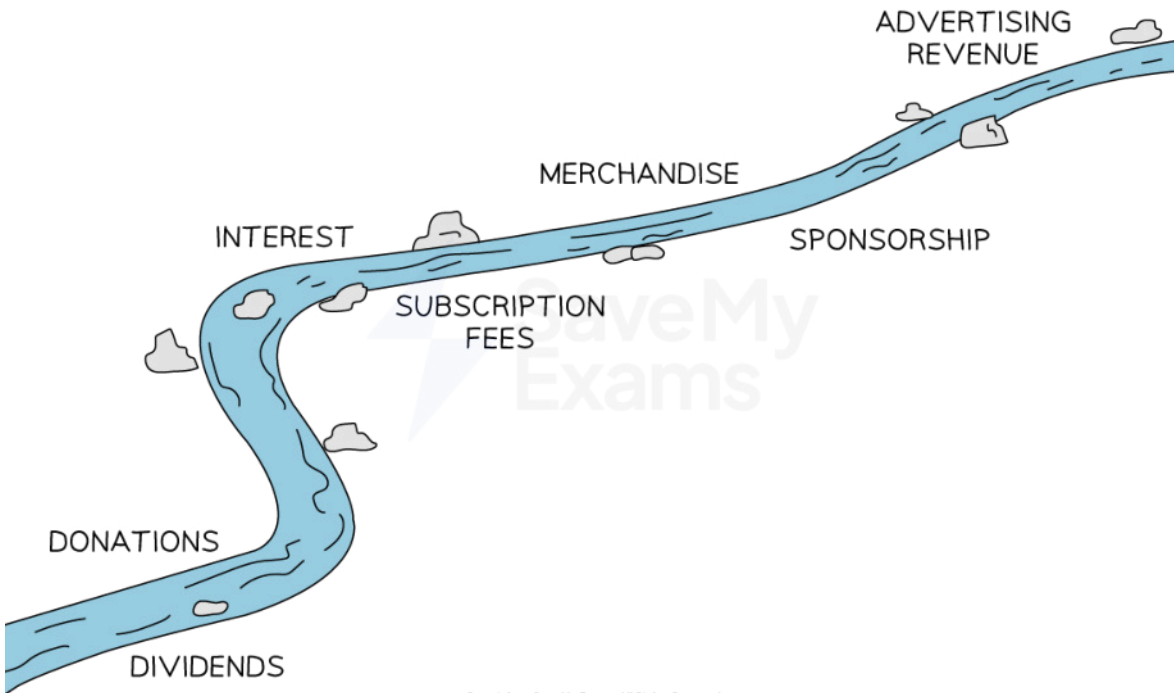
#### Step 3 – Add together the two sales revenue figures

$$£343,560 + £530,506 = £874,066 \quad [1 \text{ mark}]$$

### Revenue Streams



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**Some examples of revenue streams for businesses**

- Revenue may also be generated from sources other than sales
- These sources are called **revenue streams**

**An Explanation of Different Revenue Streams Businesses can Generate**

Revenue Stream	Explanation	Example
<ul style="list-style-type: none"> <li><b>Dividends</b></li> </ul>	<ul style="list-style-type: none"> <li>Businesses sometimes <b>purchase shares in other companies</b> and may be entitled to dividends</li> <li>For holding companies dividends are the primary source of revenue</li> </ul>	<ul style="list-style-type: none"> <li>The UK's leading supermarket Tesco received more than <b>£68m in dividends in 2023</b> from its investments in a range of property companies</li> </ul>
<ul style="list-style-type: none"> <li><b>Donations</b></li> </ul>	<ul style="list-style-type: none"> <li>An important source of revenue for not-for-profit organisations such as <b>charities</b></li> </ul>	<ul style="list-style-type: none"> <li>In 2022 Oxfam received <b>over £70m of revenue in the form of donations</b> and legacies</li> </ul>



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<ul style="list-style-type: none"> <li>▪ <b>Interest</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Many businesses hold substantial amounts of cash as <b>bank deposits which earn interest</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Clothing retailer Zara's parent company Inditex earned £85m net interest revenue in 2022</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Subscription fees</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Some businesses earn the majority of their revenue from subscriptions that <b>allow users to access a product or service for a regular ongoing fee</b></li> <li>▪ Subscriptions are also frequently offered alongside one-off purchases</li> </ul>	<ul style="list-style-type: none"> <li>▪ In 2022 Netflix earned \$31.6 billion in subscription revenue in 2022, 40% of which was generated in North America, its largest market</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Merchandise</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Merchandise is a useful way to earn <b>additional revenue alongside core sales</b> of a product or service</li> </ul>	<ul style="list-style-type: none"> <li>▪ As well as revenue earned from the <b>sale of broadcasting rights and ticket sales, official merchandise sales</b> during 2016's Rio de Janeiro Olympics reached \$15.5 million</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Sponsorship</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Some organisations attract sponsorship from businesses that are keen to <b>associate themselves with the brand</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ In 2022 FC Barcelona received more than \$215 million of <b>sponsorship revenue from 35 worldwide sponsors</b> including Nike, Coca Cola and Allianz Bank</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Advertising Revenue</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Online media businesses - in particular social media - generate the majority of their <b>revenue from advertising</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ In 2022 social media giant Twitter earned \$4.14 billion in advertising revenue</li> </ul>



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## Types of Costs

### An Introduction to Costs

- In preparing goods/services for sale, businesses **incur a range of costs**
  - Some examples of these these costs include **purchasing raw materials**, paying staff salaries and wages, and **paying utility bills** such as electricity
- These costs can be broken into different categories
  1. **Fixed costs (FC)** are costs that do not change as the level of output changes
    - These have to be paid whether the output is zero or 5000
      - E.g. building rent, management salaries, insurance, bank loan repayments etc
  2. **Variable costs (VC)** vary directly with the output
    - These increase as output increases & vice versa
      - E.g. raw material costs, wages of workers directly involved in the production
  3. **Total costs (TC)** are the sum of the fixed and variable costs

#### Sketches Which Represent the Different Types of Cost

#### Worked example

Fotherhill Organics Limited sold 43,539 packs of its specialist compost to mail-order customers in 2022. The cost to make and deliver each pack was £3.40. In addition, it incurred total fixed costs of £430,000

Calculate Fotherhill Organics total costs for 2022. [2]

**Step 1: Calculate the total variable costs of compost**

[1 mark]

**Step 2: Add total variable costs to total fixed costs**


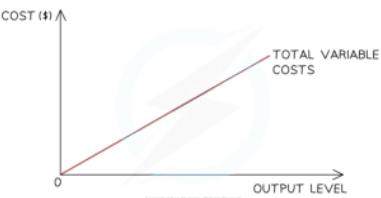
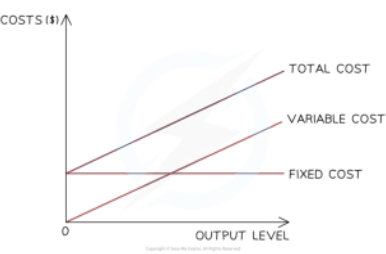
[1 mark]

#### Sketches Which Represent the Different Types of Cost

Type of Cost	Diagram	Explanation
Fixed Cost (FC)		<ul style="list-style-type: none"> <li>▪ The firm has to pay its fixed costs which do not change, irrespective if the output</li> </ul>



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		<p>is 0 or 100,000 units</p> <ul style="list-style-type: none"> <li>The fixed costs for this firm are \$4,000</li> </ul>
<p><b>Variable Cost (VC)</b></p>		<ul style="list-style-type: none"> <li>The variable costs initially <b>rise proportionally with output</b>, as shown in the diagram</li> <li>At some point, the firm will benefit from a purchasing economy of scale and the rise will no longer be proportional</li> </ul>
<p><b>Total Cost (TC)</b></p>		<ul style="list-style-type: none"> <li>The <b>total cost</b> is the sum of the variable and fixed costs</li> <li>The total costs <b>cannot be 0</b> as all firms have some level of fixed costs</li> </ul>

## Direct & Indirect Costs

- Direct costs are related to the production of a particular product and **vary directly with output**
  - Examples include raw materials, components and packaging
- Indirect costs cannot be allocated easily to the production of a particular product
  - They **relate to the business as a whole** and are often called **overheads**
  - Examples include administration costs, salaries and rental fees



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*Examples of direct and indirect costs for a chocolate manufacturer*