



Terms and Definitions

Module 8

Break-even analysis – the process of identifying your break-even point and units

Break-even point – the point at which total cost and total revenue are equal. $\text{Sales Price Per Unit} \times \text{Break-Even Point in Units}$

Break-even units – the number of products or services you have to sell at a cost to break even, meaning your costs are equal to your revenue. $\text{Fixed Costs} / (\text{Sales Price Per Unit} - \text{Variable Costs})$

Burn rate – the rate at which a start-up is spending its capital to finance overhead before creating a positive cash flow from operations

Cash flow – the cash and cash-equivalents being transferred into an out of a business

Cash flow statement – a financial statement that provides information about cash coming in and going out of a business

Commission – compensation an employee receives for making sales; used to motivate employees to sell more by providing a reward for their productivity

Contribution margin – a measure that shows how a particular product or service contributes to the overall profit of a company

Cost of goods sold (COGS) – the direct costs of producing goods sold by a company, including materials and labor

Cost of services sold (COSS) – variable expenses that are spent for each unit of sale; anything including labor and materials that has to be spent to provide a service

Cost structure – the types and relative proportions of all costs that a business has to pay to provide their product or service

Cyclical –a type of industry that is sensitive to the business cycle; revenues generally are higher in periods of economic prosperity and expansion and are lower in periods of economic downturn and contraction

Depreciation – the measure of the decrease in the value of an asset over time

Depreciation expense – the amount deducted from gross profit to allow for a decrease in the value of assets because of age or how much it has been used

Disposal value – the value at which an asset should be sold or disposed of; enough to prevent the company from taking a loss

Economy of scale – the cost advantages reaped by companies when production increases to a point where costs are lowered

Expense – the money a company has to spend to earn revenue

Fixed expense – a cost that does not change with an increase or decrease in the amount of goods or services produced or sold

Labor – the amount of physical, mental, and social effort used to produce goods and services in an economy

Salary –a form of payment from an employer to an employee which may be specified in an employment contract; different from piece wages or hourly wages

Salvage value – the estimated book value of an asset after depreciation is complete

Straight line method of depreciation –a common method of depreciation where the value of a fixed asset is reduced gradually over its useful life

Unit of sale – a specific business model's revenues and costs in relation to an individual unit

Variable expense – business expenses that change in proportion to production output

Volume discount – offered when a seller or manufacturer rewards those buying in bulk by providing a reduced price for each good or group of goods