Correct the GLOSSARY TERMS

Variable costs	Also called unit cost. The total costs of producing a product divided by the number of units produced. Over a short period of time it is expected that as output increases, average costs will fall to start with and then rise again as the factory moves towards full capacity. See economies/diseconomies of scale
Cost plus pricing	This is the level of sales/output where neither a profit nor a loss is being made. It is a simple model, often represented in the form of a graph, which can show a business the level of sales/output required if its total revenue is going to cover its total costs. Can be calculated using the formula Break even point = fixed costs ÷ contribution
Fixed costs	A general term given for the resources that are available in a business for production including machinery, plant and labour. Or, the maximum amount of output that can be achieved with a specified level of the factors of production.
Margin of safety	Calculated using the following formula: Selling price per unit – variable costs per unit The contribution is used to pay for fixed costs. Once these are paid, any remaining contribution is profit.
Break-even	The money a business spends in order to produce goods and services for its consumers. They can be classified as variable, fixed, direct, indirect, total, average (or unit) and marginal.
Costs	The basis of a pricing decision. The costs of production are calculated and then a percentage mark-up is added to make sure a profit is made.
Direct costs	The costs which are allocated specifically to a product, machine or department in a business, and which will increase or decrease in relation to the output of that section. These include raw materials and labour costs.
Capacity	Those costs of a business, which remain unchanged at whatever level of output the business is producing at over a period of time. These include rent, depreciation and salaries.
Indirect costs	Those costs that cannot be directly identified with a particular cost centre in a business. The costs of energy, administration and security are examples.
Contribution	The number of units of production above the break-even point produced by a firm. Calculated by: Output – break-even point
Sales revenue	The element of the marketing mix that refers to pricing policies. Price is the market value of goods and services that are bought by consumers and firms.
Price	The income that a business receives as a result of selling its products. It is calculated as price multiplied by the quantity sold.
Average cost	The costs that change directly with the output of a business. They are likely to include wages and raw materials.