

# Edexcel (B) Economics A-level

## Theme 1.6: Revenue, Costs, Profits and Cash

### Flashcards

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Give the equation for Total Revenue (TR)  
and Average Revenue (AR)



Give the equation for Total Revenue (TR) and Average Revenue (AR)

1.  $TR = \text{Price} \times \text{Quantity Sold}$
2.  $AR = TR / \text{Quantity Sold}$



Define Marginal Revenue and recall how to calculate it



Define Marginal Revenue and recall how to calculate it

This is the extra revenue earned from producing one extra unit of output.

Calculated by taking the differences of total revenue between different levels of output



What are the two different types of costs in business?



What are the two different types of costs in business?

Fixed Costs and Variable Costs



Give an example of fixed and variable costs





Give an example of fixed and variable costs

Fixed: Rent

Variable: Raw material costs



Give the equation for the percentage change (%) of two figures



Give the equation for the percentage change (%) of two figures

$$\frac{(\text{Final Value} - \text{Starting Value})}{\text{Starting Value}}$$



# Define 'contribution'



## Define 'contribution'

This is the total profit made by selling each product



Give the equation for 'contribution'



Give the equation for 'contribution'

Contribution = Selling price - Variable Costs



Why does the contribution equation  
exclude fixed costs?





Why does the contribution equation exclude fixed costs?

This is because fixed costs do not vary with output



# What is the Margin of safety?



## What is the Margin of safety?

This is the difference between the actual level of output and the break-even level of output, thus indicating how much sales can fall by before the firm breaks-even



# How does profit act as a signal in markets?



# How does profit act as a signal in markets?

High profit margins incentivise new firms to enter the market, and vica versa.



# How does price act as a signal in markets?



# How does price act as a signal in markets?

It signals where resources are most needed in the market.



What is the statement of comprehensive income?





# What is the statement of comprehensive income?

This shows the revenues & expenses of a firm, thus giving an overview of a firm's financial position.



How will an increase in expenditures  
change net income?



How will an increase in expenditures change net income?

It reduces net income, because expenditures are cash outflows.



Name the 3 ways a firm measures profitability



Name the 3 ways a firm measures profitability

1. Gross profit margin
2. Operating profit margin
3. Profit for the year margin



# Define operating profit margin



# Define operating profit margin

This is the profit earned from the core business operations



# What is a cash flow forecast used for?





# What is a cash flow forecast used for?

These are used to identify where businesses are spending more than they can afford

