Peter is a masseur with his own small practice. The practice operates from 9.00 am to 4.00 pm Mondays to Fridays and from 9.00 am to 12.00 pm on Saturdays. Peter takes 10 days annual leave a year and 10 days of public holidays.

The total hours available for Peter to earn his desired income are as follows.

\[
\begin{align*}
52 \text{ weeks} \times 5.5 \text{ days} &= 286 \text{ days} \\
\text{Less 10 days public holidays} &= -10 \text{ days} \\
\text{Less 10 days annual leave} &= -10 \text{ days} \\
&= 266 \text{ days} \\
266 \text{ days} \times 7 \text{ hours per day} &= 1,862 \text{ hours available}
\end{align*}
\]

**NB:** In a service business units of output and level of activity can be measured as total hours charged out.

When calculating his chargeout rate, Peter needs to factor in any ‘unproductive’ time, ie time spent answering the phone, contacting prospective clients, doing the bookkeeping, tea breaks and so on. Peter estimates that two hours per day are spent on administration tasks and breaks.

So the available time is now reduced to 5 hours a day

\[
\begin{align*}
266 \text{ days} \times 5 \text{ hours per day} &= 1,330 \text{ hours available.}
\end{align*}
\]

Having worked out the number of hours Peter has available, we now need to calculate how much he wants to earn during this time.

Peter has the following costs.

- Costs of running the business: $21,500
- Desired income and/or required profit: $40,000

Total: $61,500

To keep this example simple, tax payable and purchase of stock has not been included. You will need to consider them in your own calculations if they apply to you.
For Peter to recover $61,500, his minimum hourly chargeout rate will be:

\[
\frac{\$61,500}{1,330 \text{ hours}} = \$46 \text{ (rounded) per hour}
\]

Variables that will ultimately affect the chargeout rate will include the going rate in the marketplace and whether Peter is working at full capacity.

We can calculate Peter’s weekly break-even point to assist him with more timely and meaningful management of his business operations.

The amount of weekly sales required to earn an annual income of $61,500, is:

\[
\frac{\$61,500}{48 \text{ weeks}} = \$1,281
\]

Of the $1,281, a portion will go towards paying operating costs of the business, which were $21,000 per year. So a weekly amount of $447.92 ($21,000/48) will be needed by Peter to break-even, that is, the point where the business makes neither a profit nor a loss. The break-even point can also be expressed in units of output, or hours to be charged per week.

\[
\frac{\$447.92}{\$46 \text{ per hour}} = 9.7 \text{ hours (rounded)}
\]

So, Peter needs to charge 9.7 hours per week to break-even.

Peter knows that in his type of industry the average chargeout rate is $60, so taking into account this and his own position in the marketplace, he decides to set his chargeout rate at $65. At this rate the number of hours needed to be charged per week, to break-even, would come down to 6.9.