


UNDERSTANDING COSTS FOR YOUR BUSINESS

FIXED COSTS, VARIABLE COSTS, AND VOLUME


MANAGING COSTS IS CRITICAL TO BUSINESS SUCCESS


TWO Types of costs affect profitability:

- Fixed Costs
- Variable Costs

 **Volume** is a key concept to understand for both types of costs.

WHAT IS VOLUME?


 **Production Volume:** Units your business **produces** over time.

 **Sales Volume:** Units your business **sells** over time.

 **For services** volume is typically the same for production and sales.

 **For products** volume can differ (due to inventory).


FIXED COSTS (OVERHEAD)

 **What are Fixed Costs?** Costs that **stay the same** regardless of sales or production volume.

Examples include:

- Rent or Lease
- Salaries
- Utilities
- Insurance
- Loan Payments
- Business License Fees


VARIABLE COSTS

 **What are Variable Costs?** Costs that **increase** or **decrease** with sales or production. Often labeled in accounting as **Cost of Goods Sold (COGS)**.

Examples include:

- Raw Materials
- Price-Rate Labor
- Production Supplies
- Packaging and Delivery
- Commissions
- Credit Card Fees

COSTS CAN SHIFT

 Some costs depend on the type of business!

For example, consider fuel as a cost:

- **Fixed** for a food truck (same amount needed daily)
- **Variable** for delivery service (more packages = more fuel)

KEY TAKEAWAYS

Understanding how **Fixed + Variable Costs** relate to **Volume** helps you:



- Set smarter prices
- Avoid unnecessary overhead
- Improve profitability