



The Two Piece Suit and Costs

Step by Step Guide to Fixed Costs

more money for shoes

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Fixed costs are those expenses which do not change based on production or sales volume. They will be incurred whether your business doors are open or not. They include expenses such as rent, leases payments, bank charges etc.

To help identify the fixed costs in your business, follow the steps below using the table in the Fixed Costs Analysis guide.

1. Print a profit and loss statement for the previous 12 months from your accounting software program. If you are new to business you will need to make a list of all the expenses you think your will incur.
2. Think about and highlight the costs that you would incur regardless of the amount of sales you make. This could include:
 - Rent
 - Insurance
 - Bank charges
 - Contract payments for phone and / or internet
 - Lease payments
 - Wages and salaries (for non factory staff)
3. Update the fixed cost table with the fixed costs that you specifically incur in your business
4. Using your last year's profit and loss statement as a guide (or using your costs that you have written down that you think you will incur if you are a new business), write down the amount of each fixed cost into the table in the Fixed Cost Analysis. Of course, if you are using last year's profit and loss, be aware that these amounts are as per the previous year so they are a guide only. If your costs will increase this year then you will want to increase any of these expenses for the increase. If you are a new business you should have done some research into what these costs will be and you can estimate them here
5. Total the amounts of all the fixed costs listed. This is the amount you need to make each year before you even consider what it costs to create your product or service.
6. You can now break your fixed costs to an hourly amount, a monthly amount, a per fee-producing employee amount or a per unit of product produced amount depending on the type of business that you have