Costs of Doing Business
Hi!!!!!!

I am Omar Chambers
Who are you?
Business Costs
What comes to mind when you think about business costs?
Give examples?

Inventory and Goods
Business License
Work permit
Rent
Utilities – Telephone, Phone, Light
Payroll
Shipping, Port Fees
Costs Categories

Direct Costs
Indirect Costs
Fixed Costs
Variable Costs
Costs Categories

Direct Cost

Cost of the materials used to produce an item for sale. Cost of the item for resale. Costs that can be traced easily to the product for sale.

Costs of materials, labor, equipment, etc.
Costs Categories

Indirect cost

Costs/Expenses that cannot be easily traced or linked to the item for sale. Difficult or impossible to trace.

Insurance, Rent, Admin Staff Payroll, Marketing, Utilities
Costs Categories

Fixed Costs

Remains constant regardless of sales. Also called Overhead costs. Costs that are not affected by the amount of products being sold.

Rent, Salaries, Utilities, Permits and License Fees (can be variable depending on type of business)
Costs Categories

Variable Costs

Changes based on or in relation to sales. Costs that are affected by the amount products sold. Usually Directs costs

Costs to purchase the product for sale; Costs of the materials to produce the products, Labour (wages), Utilities
Elements of Cost

Cost

Material
- Direct
- Indirect

Labour
- Direct
- Indirect

Expenses
- Direct
- Indirect

Factory / Works Overheads
Administration Overheads
Selling & Distribution Overheads
Cost Object

Direct Costs

- Coffee
- Water
- Cream
- Sugar
- Cup
- Lid
- Salary of the employee
Fixed Costs

Variable Costs

Capital Expenditure
INDIRECT COSTS

- rent
- utilities
- benefits
- office supplies
- vaca fund!
- $ to support staff
Business vs Personal Expenses

Business - relates directly to the business
Personal - relates directly to owners personal expense

Examples of personal expenses: Utilities, School fees, Groceries
Is it ok to Mix Business with Personal Expenses?

REALLY!!!!!!!!!!!!!!!
How can I separate Business from Personal Expenses?

Hire a bookkeeper
Open a business bank account
Pay yourself a salary
Sales vs Profit

Sales
Results of efforts in selling products or services

Profit
Net results of efforts after Costs (Direct, Indirect, Fixed and Variables are deducted from your sales
Understanding Profit

First understand your costs and what category they fall in

Direct Costs (Variable)
Cost of selling a product
• Cost of the item or to produce the item
• Shipping costs (Freight and Duty)
• Allocating shipping costs to items
• Shelve time
Understanding Profit

Indirect Costs (Fixed)
Rent
Admin
Utilities
Business Permits
Salaries
Understanding Profit

Second understand your Breakeven Point

How much to sell to stay in Business (Include your Fixed Costs)
Understanding Profit

Third determine what to increase and what to decrease

Products and Services

Costs
Reducing Costs

• Produce financial statements (Profit and Loss Statement);
• Study and learn from your financial statements your costs;
• Create a budget and stick to the budget;
• Monitor budgets frequently;
• Locate reducible expenses;
• Take action (TODAY!!!) time is money;
• Don’t be lazy shop around for better rates and prices;
• Take of advantage of Government grants;
• Outsource Services;
• Use technology
You have to spend money to make money.

Trouble is how do you start?
Questions?
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