Business Costs

In a business there are three different types of business costs these costs are:

Direct & Indirect

Direct costs are expenses that can be attributed making a particular product such costs include factory labour, raw materials and operating machinery.

Indirect costs are the general overheads of running a business for example; salaries, telephone bills and rent. Firms that make more than one product will want each one to earn enough sales revenue to cover its direct costs and make a contribution to indirect costs. If all the products together make enough contribution then the business will make a profit.

Fixed & Variable

Fixed costs are costs which do not vary. They are mostly indirect costs – Management salaries, telephone bills and office rent. They have to be paid even if the firm produces nothing.

Variable costs are costs that cab change every time a bill etc… must be paid, these are mostly direct costs such as factory labour, raw material etc…Some costs are semi variable, they only vary slightly because they have a large fixed element, for example workers wages – most people receive a basic salaries and only part of their pay is linked to output.

Fixed costs are usually only fixed over a short period of time, if a firm is expanding, it will take on more managers and rent more offices so the fixed cost will increase. A firm can work out their break-level of output if they know fixed and variable costs.

Average & Marginal

Average cost is how much each product costs to make. To find the average cost one must divide the total cost by output (number of products made). To make a profit a firm must charge a higher price then this.

Marginal cost tells the firm how much cost to make one more product. It's the cost of increasing output by one unit. This helps the firm decided what price to charge for any new orders.

I am now going to identify what my business costs are.

	Fixed		Variable	
Rent	£		Electricity	£200
Wages	£			
Insurance	£			

Rate	£