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Variable costs are costs that vary in direct proportion to output; as volume increases, variable costs increase, and the opposite is true. Accountants can analyze variable costs for products, departments, or entire companies to get an idea of how much money they spend on an additional unit of products. Cost variable analysis can reveal optimal production volumes that enable a company to achieve economies of scale. Unlike fixed costs, variable costs rarely remain the same between two periods. Calculating total variable costs for each period can reveal cost trends that allow for better management decisions. Reduce all variable compensation costs, such as wages and sales fees. Leave full-time wages out of the variable cost equation, as employees bear the same labor costs, regardless of output. The increase in output almost always correlates with increased working hours and sales growth, linking wages and commissions directly to volume. Consider any piece of work compensation included in your variable cost labor costs as well. Calculate the cost of direct materials if your business includes a manufacturing component. Include anything that becomes a tangible part of the finished product, including raw materials like steel, wood and plastic or semi-finished components such as computer chips and lenses. Include the cost of inventory purchased for resale if you manage a retail outlet. Take into account any voluminous discounts when calculating the cost of inventory or direct materials. The value of goods sold by retailers can vary depending on the size of their purchases and the strategic relationship they form with suppliers. If your variable value figures turn out to be higher than you expected, first look at your procurement policies to find a solution. Reduce the value of materials that don't end up as the material part of the final product. Accounting for fuel, oil, chemicals or other components used in production processes. Always remember the litmus test of variable costs when deciding which expense expenditures to include in the calculation: if costs rise in proportion to output, they are variables. For example, reimbursement of fuel costs to insurance company managers would not be variable, but fuel costs for the auto company would account for a significant portion of the variable costs. Calculate the cost of any overhead costs that vary with different production volumes. Apply the same test that you for consumables at this stage. Utilities for a service office open 24 hours a day will not be considered variable costs, for example, but utilities for a small production facility that closes after the time of entry into production orders will qualify. Fixed and variable costs are related to both business and personal finance. Although they lie at opposite ends of the spectrum, they are both focused on spending to determine the potential for profit. Much of the efficiency of your business or personal financial plan depends on how well you can control these types of expenses. Fixed costs compared to long-term liabilities. Whether in a business or personal sense, fixed costs remain the same despite economic conditions, annual sales or your annual salary. These include overheads or expenses such as rent, mortgage payment, property taxes, insurance premiums, administrative salaries or any other expenses over which you have no control. The only link is fixed expenses should income as a percentage of your income needed to cover these costs. If your income is high, fixed costs seem to consume less of your income, while if your income falls, fixed expenses can put you out of business or lead you into bankruptcy. Variable costs are flexible costs that grow and fall depending on the economic conditions or actions you take. These include raw materials, sales or production wages, product inventory, utilities, services, food or fuel costs. For the most part, you have a high level of control over variable costs. For example, you can reduce your sales staff if sales start to fall, reduce or increase inventory as needed, become energy efficient, or cancel a cable TV subscription to save money. As they relate to business, the difference between fixed and variable costs can help you determine the break-even point, or the moment you start realizing profits. Break-even analysis is a common step that business owners take when completing a feasibility study for a new business or product. The formula, which will help you determine the level of sales needed to make a profit, requires you to first determine the average unit sale price for a new product. You then divide the average annual fixed cost by 1 minus the average variable unit value divided by the average unit sale price. For example, if the average annual fixed cost was \$60,000, The average unit sale price is \$5 and the average unit variable price is \$2.80, you need \$136,365 in gross sales (\$60,000.00 divided by 1 minus (\$2.80 divided by \$5) is \$136,365) to break even. One way to keep costs under control is to avoid taking on fixed costs altogether, or turning fixed costs into variable costs. In business, you can achieve this by eliminating health insurance consolidation of business locations, or outsourcing, such as your customer service department. At home, consider cutting back to achieve a smaller, more affordable rent or mortgage payment, review insurance policies to make sure you don't have more insurance for your home, car or life and review property tax bills with an eye on the dispute if you feel the score is mistaken. Variable costs are business expenses, business expenses, relate to the volume of production or acquisition of products in the company. In contrast, fixed costs are those that remain constant, regardless of the company's products. Manufacturing materials, labor costs, and transaction fees are among the most common examples of variable costs. Direct production materials can be the purest example of variable value in business. In production, the costs of the materials include the amount you pay to produce the items that you are selling. If the wood, metal and parts are needed to create a widget costing \$10 and you produce 2,000 per month, the monthly cost of direct materials is \$20,000. In the resale business, you don't have direct material costs. Instead, you have the cost of purchasing products commonly referred to as the value of the goods sold. This expense is equal to what you pay for every item you sell. The variety of labor costs is often seen as variable costs as well. Direct labor refers to the amount you pay to employees, which coincides with the production. If you pay a bonus of 10 cents per unit and your employees make 1,000 units per month, you carry a direct labor cost of \$100. Direct pay goes beyond the basic wage you pay employees for working time. The paid wages paid to hourly workers during their work are in many cases also consistent with the definition of variable costs. The commissions paid to sellers, which is equal to the percentage of the income received, are also variables. Some variable costs are incurred when transactions are completed. A common example is the credit card processing fee that merchants pay every time they complete a purchase transaction. If you pay 30 cents per transaction per month with 1,000 sales transactions, the total variable cost is \$300. If you receive payments through PayPal, transaction fees deducted from your income are also variable expenses. The shipping cost you pay to complete each order is also variable. In some cases, the shipments used in production are variables even when they are not included in the production of goods. For example, you may need fuel or oil for cars. These deliveries are used according to the level of production. Assuming that a business can calculate the actual cost of a unit of product, it may view such use of supply as variable costs. Another example is the cost of packaging products for the manufacturer or reseller. Utility costs associated with the use of machinery or equipment are also variable. 10th 2020 October 10, 2020 / Leave a comment You consider the flooring of the vinyl board as an affordable alternative to hardwood floors? Vinyl is quickly becoming extremely popular as a way to get a hardwood look without the price of hardwood, and it also keeps up better than natural woods in wet conditions. But how accessible is it to really install vinyl board flooring? Over there... 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Yes, it's more expensive than some of the alternatives, but it's really an investment in your home. Hardwood flooring goes with pretty much any type of decor. It's timeless, and it's not out of fashion. Wooden... Materials and installation costs More March 30, 2018 March 30, 2018 / 4 Comments Oak flooring is one of the easiest ways to bring strength and character to your home: but installation can cost a fortune. However, hardwood floors are one of the best investments you can make. Rich oak detail and deep tones can warm up the house and give it timeless appeal. The real oak will be ... Oak Floor Price and Installation Price More » March 26, 2018 May 4, 2018 / Leave a comment Your neighbors have just installed a gorgeous new Ipe deck, but exactly how much it cost them? There's no doubt it's a terrific look, and imagine the barbecue you'd hold if you had a deck like this. Unfortunately, your neighbor was too bragging to fill you in on the details, so you'll have... 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