What are examples of fixed costs and variable costs for a farm

Business planning requires breaking expenses down into fixed and variable costs. Fixed costs are consistent in any given period. Variable costs fluctuate according to the amount of output produced. If you pay an employee a salary that isn't dependent on the hours worked, that's a fixed cost. Other types of compensation, such as piecework or commissions are variable. Annual salaries are fixed costs but other types of compensation, such as commissions or overtime, are variable costs. The difference between fixed and variable costs is essential to know for your business's future. Variable expenses are tied in to your business's productivity. The amount of raw materials and inventory you buy and the costs of shipping and delivery are all variable. The more in demand your products are, the more the costs go up. Fixed costs include rent, utilities, payments on loans, depreciation and advertising. You can change a fixed cost – move to somewhere with lower rent, for instance – but the costs don't fluctuate otherwise. Even if the economy craters and your sales drop to zero, fixed costs don't disappear. Any employees who work on salary count as a fixed cost. They earn the same amount regardless of how your business is doing. Employees who work per hour, and whose hours change according to business needs, are a variable expense. Piecework labor, where pay is based on the number of items made, is variable – so are sales commissions. If you must have a minimum number of employees to keep the sales office or the production line running, their pay may be a fixed cost. If you pay someone a mix of fixed salary plus commission, then they represent both fixed and variable costs. When you look at expanding your business, you have to look at the variable costs. For example, if you plan to grow your lunch eatery to include the dinner shift, you'll need to spend more money on staffing the restaurant at night. If you expand your production line, that may require adding factory workers. When you set staff levels, you calculate how many more work-hours you'll need to pay for, then figure how much you'll need to earn to break even. Suppose you don't think you'll get enough dinner customers to pay for the wait staff, cooks and bussers required. You can either skimp on staff, advertise to bring people in or raise prices on the evening meal. Fixed costs are less of an issue in planning. You pay the same amount for utilities when your business is open regardless of how busy you are. Likewise, if your factory manager is on salary, the cost of employing him stays the same even if you expand production. Fixed costs are those that remain the same regardless of the level of productivity or sales a company generates. All businesses have to balance their financial books based on expenses they know they'll incur (fixed costs), plus expenses needed to get goods to market. A brewery must operate to the minimum break-even level to remain a viable business. This level will be relative to the revenue generated versus the combined fixed and variable costs to run the business. Paying full-time employees is a fixed cost. Payments to those on the payroll will continue regardless of how much unit volume of a brewery's beverage is sold to market. Breweries, like any other for-profit business, are responsible for maintaining a staff that adds value to the business. They must ensure they're retaining employees who create greater revenue through their efforts and increase the brewery's profit margin, balancing the value of having higher-paid more experienced personnel with less expensive and skilled personnel. Utilities, such as electricity for lighting and the running of machinery needed to produce a product, are a fixed cost. Any business, including a brewery, must continue to pay the bills, including heating and cooling the workspace, phone and Internet service. Most of these utility costs are on a monthly billing cycle and must be paid to keep the brewery running, regardless of how many beverages are moving out the door. A brewery needs a place to operate. Physical space in which to carry on business is a resource that can't be quickly changed to keep pace with sales revenue generated and usually entails paying a mortgage or rent. This office and manufacturing space must also be maintained to remain at peak operating efficiency. If equipment that's integral to the production at a brewery needs replacing or fixing, it must be done to remain in business. According to generally accepted accounting principles, depreciation is an expense that needs to be reflected on a brewery's financial books and is tracked to measure an asset's financial benefits over the course of its useful life. An example for a brewery may be its fleet of delivery trucks. While originally paid for by the brewery, the depreciation incurred through use and age must be tracked and accounted for as a fixed cost. Running a business means tracking and planning for expenses. With a good handle on costs, management can forecast future budgets. By adding sales forecasts it also can project revenues and net income. These costs, including advertising, fall into two general categories: fixed and variable An advertising budget can include a wide range of expenses, such as print and broadcast ads, marketing campaigns, brochures, catalogues, and promotional efforts such as giveaways, contests, and focus groups and surveys. Every company sets an advertising budget. The dollar amount can vary from one quarter or year to the next, but it represents a fixed cost. Management budgets fixed costs, such as advertising, and keeps control over the expense. Companies know how much they're planning to spend on advertising over a particular period and can calculate the percentage of that expense as part of their unit costs. Variable costs, by contrast, can change for many reasons: supply and demand of the company's goods, the cost of raw materials, transportation costs, and commissions paid to salespeople and distributors. Generally, the higher sales volume the company experiences, the higher the variable expenses. Advertising represents a discretionary fixed cost, meaning the level of spending is up to company management and the spending level can change from one budget period to the next. There's an ongoing process of evaluating how well advertising spending is working, and how advertising is affecting sales. Advertising can target customers with information about specific products, services and promotions, or it can simply give the company general exposure in the marketplace. A fixed cost like advertising can still increase or decrease throughout the year, depending on the season, the weather, the market and demand, or other factors. Toy companies, for example, ramp up advertising in the fall, just before the holiday season, while warm-weather resorts will budget more for print ads and broadcast spots in the winter. A company that sees an ad campaign working well may deploy more funds to take advantage of a revenue surge, or pull back on advertising when a competitor enters the market and a change in marketing strategy is needed. "Business is personal -- it's the most personal thing in the world." These are famous words by Michael Scott from the TV show, The Office. And although this quote conflicts with the universal belief that business isn't personal, Michael's point of view is perfect when learning about a business's fixed costs -- or those costs that don't change as a company grows or shrinks. To identify and calculate your business's fixed costs, let's start by looking at the ones you're already paying in your personal life. Then, we'll explain how a business manages its own fixed costs and review some common fixed cost examples. What Is a Fixed Cost? Fixed costs are those costs to a business that stay the same regardless of how the business is performing. These costs are known as fixed costs to distinguish them from variable costs, which do change as the company sells more or less of its product. Consider your personal routine. As a single adult, your expenses would normally include a monthly rent or mortgage, utility bill, car payment, healthcare, commuting costs, and groceries. If you have children, this can increase variable costs like groceries, gas expenses, and healthcare. While your variable costs increase after starting a family, your mortgage payment, utility bill, commuting costs, and car payment don't change for as long as you're in the same home and car. These expenses are your fixed costs because you pay the same amount no matter what changes you make to your personal routine. In keeping with this concept, let's say a startup ecommerce business pays for warehouse space to manage its inventory, and 10 customer service employees to manage order inquiries. It suddenly signs a customer for a recurring order that requires another five paid customer service reps. While the startup's payroll expenses go up, the fixed cost of a warehouse stays the same. Average Fixed Cost Keep in mind you have to keep track of your business's fixed costs differently than you would your own. This is where average fixed cost comes into play. Average fixed costs are the total fixed costs paid by a company, divided by the number of units of product the company is currently making. This tells you your fixed cost per unit, giving you a sense of how much the business is guaranteed to pay each time it produces a unit of your product -- before factoring in the variable costs to actually produce it. Let's revisit the ecommerce startup example from earlier. Assume this business pays $5,000 per month for the warehouse space needed to manage its inventory, and leases two forklifts for $800 a month each. And last month, they developed 50 units of product. The warehouse and forklift costs remain unchanged regardless of how many products they sell, giving them a total fixed cost (TFC) of $5,000 + ($800 x 2), or $6,600. By dividing its TFC by 50 -- the number of units the business produced last month -- the company can see its average fixed cost per unit of product. This would be $6,600 ÷ 50, or $132 per unit. Fixed Cost Examples So far, we've identified a handful of fixed cost examples since considering the costs we already pay as individuals. A home mortgage is to a lease on warehouse space, as a car payment is to a lease on a forklift. But there are a number of fixed costs your business might incur that you rarely pay in your personal life. In fact, some variable costs to individuals are fixed costs to businesses. Here's a master list of fixed costs for any developing company to keep in mind: Lease on office space: As long as your business operates in the same building, your rent cost doesn't change. Utility bills: Your heating or cooling bill might fluctuate as seasons change, but it is generally not affected by business operations. Website hosting costs: When you register your website domain, you pay a small monthly cost that remains static despite the business you perform on that website. Ecommerce hosting platforms: Ecommerce platforms integrate with your website so you can conduct transactions with customers. They typically charge a low fixed cost per month. Lease on warehouse space: Warehouses are paid for the same way you'd pay rent on your office space. They do not change in price as you store more or fewer products inside, but can have storage and capacity limits. Manufacturing equipment: The equipment you need to produce your product is yours once you buy it, but it will depreciate over its useful lifetime. Depreciation can become a fixed cost if you know when you'll have to replace your equipment each year. Lease on trucks for shipment: Truck leases work the same way as a car payment, and will not charge differently depending on how many shipments you make. Small business loans: If you're financing a new business with a bank loan, your loan payments won't change with your business's performance. They are fixed for as long as you have a balance to pay on that loan. Property tax: Your office space's building manager might charge you property tax, a fixed cost for as long as your business is on the property. Health insurance: Health insurance costs might be a variable cost to an individual if they add or remove dependents from their policy, but to a business, the recurring costs to an insurer are fixed. Calculating your fixed costs isn't always the most fun part of growing your business. But knowing what they are, and when you'll pay each one, gives you the peace of mind you need to serve and delight your customers. Originally published Oct 20, 2019 3:00:00 PM, updated October 20 2019

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