

## FINANCIAL FORECASTING FOR YOUR BUSINESS

### To calculate the break-even point

\***Total Costs** = all costs (fixed and variable) of operating the business over a specified period of time.

#### STEP 1: Calculate your total fixed costs.

There are costs that do not vary with the number of products produced.

Also, known as **indirect costs**, these costs include rent, insurance, utilities, administrative salaries, loan interest, and depreciation, etc.

Although referred to as “fixed”, there is no such item as a truly fixed cost.

A fixed cost should be thought of as a fixed cost only over a specific period of time or specific range of production.

#### STEP 2: Calculate your total variable costs.

These are costs that vary directly with the number of products manufactured or cost of goods sold and the cost of selling those goods.

Sometimes referred to as **direct costs**, these include material costs plus a percentage of the overhead costs. Salary and payroll taxes for employees whose number of hours depend on sales volume are variable costs.

**The break-even point may be calculated in two different ways:**

- 1) Units sold
- 2) Sales dollars

(As a service business, you may define your unit as a customer visit).

$$\text{Break-even sales per year in units} = \frac{\text{Fixed costs per year}}{\text{Selling Price} - \text{Variable Costs}} \\ \text{(Per unit)} \qquad \qquad \text{(Per unit)}$$

$$\text{Break-even sales in dollars} = \text{Fixed costs} \times \frac{\text{Sales in dollars}}{\text{Sales in dollars} - \text{Variable Costs incurred to achieve sales}}$$

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