

Unit 2: Finance for business

Learning Aim A:

Understand the costs involved in business and how businesses make a profit

Topic A.1 Understand the costs involved in business

A: Understand the costs involved in business and how businesses make a profit

Topic A.1 Calculating breakeven

Learners should:

- understand costs of a business, including:
 - start-up costs – the costs incurred when setting up a business
 - operating (running) costs – the costs incurred in the day-to-day running of a business
- understand fixed and variable costs, direct and indirect costs, total costs calculate total costs
total costs = fixed costs + variable costs



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A.1 - Costs of a business

BUSINESS START-UP COSTS

Once a business idea becomes a plan and you are ready to set it up there are lots of things that need to be paid before the business starts – these are the start-up costs.

Advance planning is key to make sure everything is in order, paid for and in place prior to opening.

Building, alterations or fit-outs may require several months to plan in time. Equally, equipment, supplies etc. may need to be ordered several months before opening.

Other things like logos and website designing, can also take time.

There is a huge variation between businesses – a home website design business is fairly straightforward compared to an office based company and a retail shop.

Start-up costs



EXAMPLES OF START-UP BUSINESS COSTS

- . Professional fees
- . Insurance
- . Premises costs
- . Staffing and employment
- . Equipment and supplies
- . Stock
- . Sales and marketing
- . Finance
- . Technology costs

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A.1 - Costs of a business

PROFESSIONAL FEES



These may include the cost of hiring an accountant, solicitor, lawyer, or other expert professional to deal with the legal aspects of starting a business such as company formation, copyright protection, drafting partnership agreements or other fees you may need to pay to the Government for certificates and inspections for health and safety or food hygiene, for instance.

PREMISES COSTS



Renting or leasing commercial property will include monthly costs that you would factor into your regular outgoings. A deposit of at least a month's rent will also need to be paid.

Local rates have to be paid to the council.

Services (such as and connections of utilities, followed by utility bills (electricity, gas, water, telephone) will also need to be considered.

The premises may need to be 'refitted' according to your needs e.g. shelving, painting and decorating.

Start-up costs



INSURANCE COSTS FOR NEW BUSINESSES



Every business will need some sort of insurance. Some of the typical types of insurance for business start-ups include:

• Employers' liability insurance

The only type of business insurance that's a legal requirement if you employ anyone. Businesses can be fined up to £2,500 for every day they don't have this protection in place. It's designed to protect any compensation claims made by employees for injuries or physical damage caused at work.

• Professional indemnity insurance

This covers your business in the event of any claims made by a client or member of the public in the event they believe you've made a mistake at work.

• Public and product liability insurance

This protection covers your business in the event of compensation claims made by someone who believes injury or damage was caused by your business. Similarly, product liability cover guards your business in the event a product you sell causes injury or damage to a member of the public.

• Building and contents insurance

If you rent an office or studio, or a workshop or a shop front, it's your responsibility to cover the value of the contents within your workplace. Additionally, if you own your premises you'll have to insure the building itself.

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A.1 - Costs of a business

Start-up costs



Task 1

Research different types of commercial property in the local area

Type of property	Location of property	Cost

PREVIEW

A: Understand the costs involved in business and how businesses make a profit

A.1 - Costs of a business



Task

Match the insurance to its definition

. Employers' liability insurance

. Professional indemnity insurance

. Public and products liability insurance

. Building and contents insurance

Start-up costs



It's designed to protect any compensation claims made by employees for injuries or physical damage caused at work.

This covers your business in the event of any claims made by a client or member of the public in the event that you believe you've made a mistake at work.

Businesses can be fined up to £2,500 for every day they don't have this protection in place.

If you own your premises you'll have to insure the building itself.

To cover the value of the contents within your workplace.

This insurance covers your business in the event a product you sell causes injury or damage to a member of the public.

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A.1 - Costs of a business

STOCK

If you are a retailer you are going to need stock to sell. Long before you open you need to find best possible suppliers and manufacturers to good relationships with them.

For many new businesses it can be difficult to get good credit terms, so they might have to pay in full in advance of delivery.

It is difficult for a new start-up to know exactly how much stock to order and which types of stock will sell better than others.



SALES AND MARKETING

Marketing and promoting is an ongoing task. From opening your branding – logo – website will need to be done along with any digital marketing.

Costs can be enormous for these services and can take time before they are completed. Advanced planning is needed.

Promotion of the start-up needs to be in place leading up to the opening. Opening offers are typically employed to entice people to shop with you.



Start-up costs



EQUIPMENT AND SUPPLIES

There are many essential pieces of equipment needed before the business opens. Different types of businesses will need different types of equipment.

Three examples are for an office:

- . Telephony
- . Internet connection
- . Data storage and back-up
- . Computers/laptops
- . Tables + chairs for meetings/conferences
- . Comfortable computer chairs
- . Stationery
- . Signage
- . First aid supplies
- . Power cables/extension cords
- . Accounting system
- . Storage units



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A.1 - Costs of a business

Fixed and variable costs



Fixed costs: same cost not change, not depend on output of the business

Variable costs: variable costs that depend on output

Total cost = fixed + variable



Task

For each cost decide if it is a **FIXED** or a **VARIABLE** cost

Cost	Fixed cost	Variable cost
Insurance		
Stock		
Utility bills		
Salaries		
Website		
Shipping charges		
Raw materials / stock		
Rent		
Interest rates on loans		

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A.1 - Costs of a business

Direct costs are business costs that are linked producing a specific cost object, like a good or service. – goods like trainers or a car.



Task

List the direct and indirect costs for a training shoe factory

Direct and indirect costs



Indirect costs are expenses that apply to more than one business activity, not a specific good or service e.g. office equipment.

Direct and indirect costs can be fixed or variable.

Direct costs for a pair of sports shoes

Indirect costs of the sports shoes factory

