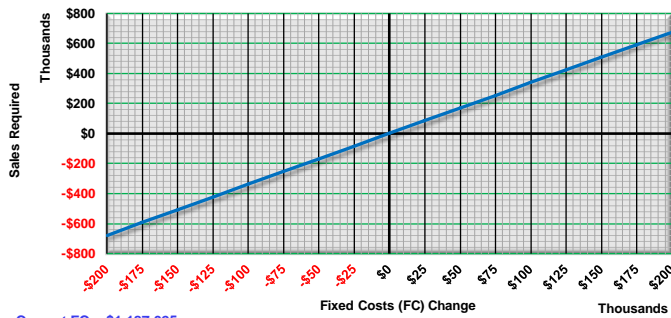


Planning Impacts of Fixed and Variable Cost Changes

Hello Telephone Company

Sales Required to Support Fixed Costs Changes

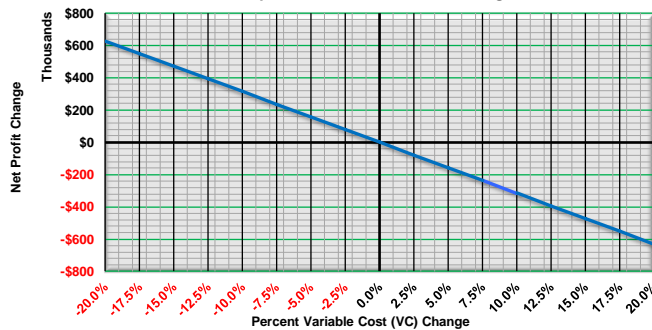


Current FC = \$1,187,025

For every \$1 FC increase, \$3.38 sales increase is needed for same Net Profit.

This chart reflects the amount of sales increase that will be needed for various changes in the fixed cost levels in your company.

Net Profit Impact with Variable Cost % Change



Current Contribution Margin = 29.6%

Every 1% VC decrease will result in \$31,448 of an annual Net Profit increase, correspondingly, every 1% VC increase will result in \$31,448 of an annual Net Profit decrease.

This chart shows the change in net profit resulting from selected % decrease in your variable cost.

[Tutorial](#)

Planning: Impact of Fixed and Variable Costs

Planning for the impact of fixed and variable costs in your business can help you understand the relationship between these costs and Sales required to offset them.

1) Top Chart:

Sales Required to Support Fixed Cost Changes

This chart tells you the impact on Sales that will result from an addition (or reduction) of a Fixed Cost if you wish to generate the same Net Profit. In this sample company case, every \$1 of Fixed Cost increase requires an increase of \$3.38 in sales to achieve the same Net Profit. The inverse is true as well: for every \$1 decrease in Fixed Costs, \$3.38 less in Sales is needed to yield the same Net Profit. The chart graphs this equation:

$$\$1 \text{ Fixed Cost (FC)} = \$3.38 \text{ Sales.}$$

Other practical examples of the power of this information about your company would include hiring a new employee at a cost \$100,000 in Salary and Fringes - the company would have to increase its sales by \$338,000 to support that new employee.

The same would be true for the purchase of office equipment such as computers: a \$5,000 cash purchase of a computer would require \$16,900 of additional sales. Likewise, on the negative side, you could determine fixed cost reduction requirements if your sales forecast were to be reduced. For example, if your forecast sales reduction were to be \$200,000 you would need to reduce your operational expenses by \$676,000 in order to maintain the same Net Profit.

2) Bottom Chart: Net Profit impact with Variable Cost % Change

This chart illustrates the impact on Net Profit as a result of Variable Cost increases and decreases. Variable costs are directly related to sales and are primarily affected by the Costs of Goods Sold (COGS) or the total cost to deliver your product or service to a customer. In this sample company, every 1% VC decrease will result in \$31,448 annual Net Profit increase. Correspondingly, every 1% VC increase will result in \$31,448 annual Net Profit decrease.

This is very useful when planning future profit improvements for your company. As demonstrated with this sample company, if you wanted an additional \$400,000 in profits you would need to reduce your variable cost by 12.5%. Conversely, if you knew you were going to have a variable cost increase due to a supplier raising prices, this chart would help you understand the impact on your profits. So, if a supplier cost increase has an overall 5% increase in your variable cost, this sample company would realize a \$157,240 decrease in their profits.