

Fixed costs and variable costs

Business



Sole proprietor is a type of business owned by one person and is without corporation or limited liability status (Zahorsky p1). The individual thus represents the business entity in all aspects that is legally and fully. In the process of carrying out business costs are incurred and these are classified into variable costs and fixed costs. Variable costs are directly related to the volume of business operation that is they increase directly in proportion to the sales volume in monetary terms for example dollar sales or the units produced.

Fixed costs on the hand remain fairly constant regardless of the sales volume or the number of units produced (Business Owners Toolkit p1). Restaurant operation by a sole proprietor:- A sole proprietor operating a restaurant purchases consumable items such as milk, tea leaves, sugar, cakes, coffee, eggs, bread, juices, drinking chocolates, fruits, and others. The purchasing level of each of these items will be dictated by the number of customers and the quantity consumed.

As the consumption of these items increases, so will be the amount required to meet cost of purchases. These types of costs are referred to as variable costs. To run his business, the individual shall pay other costs such as rent, business licenses, interest charges on his/her debts, salaries of the permanent staff, insurance, and money for his personal expenses and others. These items must be paid for at regular intervals monthly, quarterly, annually or as stipulated in the agreements.

These types of costs are referred to as fixed costs in the accounting jargon.

References Business Owners Toolkit: “ Total Know-How for Small Business. ” 1995-2009. Toolkit Media Group 3 February 2009. <http://toolkit.https://assignbuster.com/fixed-costs-and-variable-costs/>

com/small_business_guide/sbg.aspx?nid=p06_7510 Zahorsky, D. "Sole Proprietorship: The Right Business Structure." About.com: Small Business Information. 3 March 2009