

# Start-up costs

**COSTS** are the money paid out by a business for the items it needs. Before a business can begin **TRADING**, it usually needs to spend money. These expenses are called **START-UP COSTS**.

## Start-up costs for Sam's Sandwiches

Here are **TWO** examples of start-up costs that a new sandwich shop might have.



### Worked example

Jason is starting a gardening business. He and an assistant will travel to customers' houses and mow their lawns and look after their gardens.

Give **two** examples of start-up costs Jason might have. **(2 marks)**

1

Buying a lawnmower

2

Buying a van

Think of things Jason will need **before** he starts work. Be careful that you do not include **on-going** costs like paying wages or buying fertiliser. There is more about costs like these on page 2.

### Paying for start-up costs

Businesses must pay their start-up costs **BEFORE** they start trading. This means that money for start-up costs must be raised from **SAVINGS** or from **LOANS**.

### Online test

Remember that your Unit 2 exam will be **ONLINE**. Read the question carefully before you answer it. Sometimes you might have to click an image or move a tile. If you type an answer in a box, use good spelling, and make sure your answer is **SPECIFIC** to the context of the question.

### Now try this

Sarah is going into business making celebration cakes. She wants to convert her garage into a commercial kitchen.

Give **two** examples of start-up costs Sarah might have. **(2 marks)**

Make sure your response is specific to Sarah's business.



# Operating (running) costs

OPERATING (RUNNING) COSTS are the EXPENSES a business has in its day-to-day operations.

## Running costs for Sam's Sandwiches

Here are TWO examples of running costs that the sandwich shop might have.

**1** Ingredients and staff wages are running costs for a sandwich shop.



**2** Utility bills for water, gas and electricity are running costs. So, too, are rent and rates.



## Operating costs

Running costs are sometimes called OPERATING COSTS because they are the costs involved in operating the business.

Running costs usually occur AGAIN AND AGAIN.

## Running costs or start-up costs?

In the online test you may have to identify which costs are running costs and which costs are start-up costs.

Start-up costs only occur before the business opens.

## Worked example

Some of the costs for Jason's gardening business are shown below. Tick the box to show whether each statement is a start-up cost or a running cost.

Which of these are start-up costs and which are running costs? (4 marks)

	Start-up costs	Running costs
Buying a lawnmower	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Purchasing a van	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Paying wages to an assistant	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Buying diesel for the van	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Both the lawnmower and van are needed before Jason can start work, so they must be **start-up costs**. Paying wages and buying diesel will happen again and again so these are **running costs**.

In the online test you may be asked to select the correct items from a list. You won't be able to select **all** the boxes, and you can **change** your answer as often as you like before finishing.

## Now try this

Sarah makes celebration cakes.

Give **two** examples of running costs she might have. (2 marks)



Make sure your answer is specific to Sarah's business. Think about what Sarah would have to spend money on as part of the **day-to-day** running of her business.

# Fixed and variable costs

The **RUNNING COSTS** of a business can be divided into **FIXED COSTS** and **VARIABLE COSTS**. Businesses also have **DIRECT** and **INDIRECT** costs. Fixed costs are often indirect and variable costs are often direct.

## Fixed and variable costs

Fixed costs **STAY THE SAME** no matter how many products the business makes or sells.

Wendy has to pay £30 for a pitch no matter how many hot dogs she sells. This is an example of a **FIXED COST**.

Variable costs **CHANGE** depending on the number of products made or sold.

The more hot dogs Wendy sells, the more rolls and sausages she needs. This is an example of a **VARIABLE COST**.

## Direct and indirect costs

A **DIRECT COST** is directly related to output, for example the cost of wood in a furniture factory. An **INDIRECT COST** is independent of output, for example the cost of staff uniforms.



The ingredients used to make Wendy's hot dogs are a **variable cost**.

## Worked example

Anna makes silver jewellery in her garage and sells it online.

- 1 Give **one** example of a fixed cost that Anna might have. **(1 mark)**

Internet access

- 2 Give **one** example of a variable cost that Anna might have. **(1 mark)**

Cost of materials

Think about the costs that Anna has, no matter how much jewellery she sells. Other examples of **fixed costs** might be:

- rent
- utility bills
- insurance.

Think about the costs that increase as Anna sells more jewellery. Other examples of **variable costs** might be:

- postage and packing
- commissions paid to a website
- credit card fees.

## Now try this

In his workshop, Ken makes wooden rocking horses for small children and paints them in bright colours. He usually makes ten horses each week.

- (a) Give **one** example of a fixed cost Ken's business might have. **(1 mark)**  
 (b) Give **one** example of a variable cost Ken's business might have. **(1 mark)**

# Calculating total costs

You might need to calculate costs for a business. You can use the **FIXED COSTS** and the **VARIABLE COSTS** to calculate the **TOTAL COSTS**. You need to learn how to calculate total costs.

## Calculating total costs

**TOTAL COSTS** are ALL the costs of a business.

WENDY'S HOT DOGS	
Fixed costs	£30
Variable costs	+£40
Total costs	£70

They are calculated using this formula:

$$\text{TOTAL COSTS} = \text{FIXED COSTS} + \text{VARIABLE COSTS}$$

## Calculating variable costs

Variable costs change depending on the number of **UNITS** produced or sold. It may be useful for you to know the formula:

$$\text{VARIABLE COSTS} = \text{COST OF ONE UNIT} \times \text{NUMBER OF UNITS}$$

Number of hot dogs sold = 200  
 Cost per hot dog = 20p  
 Variable cost = 20p × 200  
 = 4000p  
 = £40



## Worked example

Jenny plans to start making bracelets to sell. She has estimated the following monthly costs if she sells 40 bracelets:

- variable costs of £15 for each bracelet she sells
- fixed costs of £300.

1 Complete the table using this information. (2 marks)

	40 items sold
Variable costs	£600
Fixed costs	£300
Total costs	£900

$$\begin{aligned} &£15 \times 40 \\ &= £600 \end{aligned}$$

2 What would be the total cost if Jenny sold 50 items? (2 marks)

£1,050

Make sure you have a calculator nearby when you are practising questions like these.

## Calculator tool

In your online test you can use the calculator tool to work out calculations like the ones above.



## Now try this

James runs a business making wicker chairs. He estimates the following monthly costs:

- variable costs of £30 for each chair he makes
- fixed costs of £120.

James makes six chairs in February.

- 1 Work out James' variable costs for February. (1 mark)
- 2 Work out James' total costs for February. (1 mark)

Use both the formulae in this question:

$$\text{Variable costs} = \text{Cost of one unit} \times \text{Number of units}$$

$$\text{Total costs} = \text{Fixed costs} + \text{Variable costs}$$

You need to learn these formulae. They will not be given to you in the online test.