

Instructions - Breakeven Analysis

Using figures from your 12 month Cash Flow Projection, enter expected annual fixed and variable costs.

Fixed costs are those that remain the same regardless of your sales volume. They are expressed in dollars. Rent, insurance and real estate taxes, for example, are usually fixed.

Variable costs are those which change as your volume of business changes. They are expressed as a percent of sales. Inventory, raw materials and direct production labor, for example, are usually variable costs.

Under the variable expenses column, use whole numbers as a percentage, not decimal numbers. For example, use 45%, rather than .45%.

For your business, each category of expense may either be fixed or variable, but not both.

The categories of expense shown in the worksheet are just suggestions. Change the labels to reflect your own accounting systems and type of business. Breakeven is a "big picture" kind of tool; we recommend that you combine expense categories to stay within the 22 lines that this template allows.

One of the best uses of breakeven analysis is to play with various scenarios. For instance, if you add another person to the payroll, how many extra sales dollars will be needed to recover the extra salary expense? If you borrow, how much will be needed to cover the increased principal and interest payments? Many owners, especially retailers, like to calculate a daily breakdown. This gives everyone a target to shoot at for the day.