Profit Planning Process

Being able to make money is one of the keys to long term success in any business. Profit Planning is a five step process.

1. Determine your Fixed [FC] and Variable [VC] costs

	Fixed Cost	**Variable Cost**
Fixed cost do not have direct relationship with sales.		
Variable cost change directly with sales.		
Total FC + VC must equal your total costs	$ ______	$ ______

2. Calculate the Variable Cost Percentage [VC%]

$$\frac{\text{Present Variable Cost Total}}{\text{Present Sales level}} \qquad \frac{\$\_\_\_\_\_\_}{\$} = \_\_\_\_\_\_\%$$

3. Calculate the Contribution Margin [CM%]

100.0% minus Variable Cost % [VC%]

$$100.0 - \frac{\_\_\_\_\%}{\text{VC\%}} = \_\_\_\_\_\_\%$$

4. Calculate Break Even Point:

Before you can make money you have to stop losing it by calculating one of these formulas:

Break Even Volume:

$$\frac{\text{Present Fixed Cost Total}}{\text{Present Contribution Margin}} \qquad \frac{\$\_\_\_\_\_\_}{} = \$\_\_\_\_\_\_$$

Break Even Units

$$\frac{\text{Present Fixed Cost Total}}{\text{Contribution Margin per Unit [Price/unit – Variable Cost/unit]}} \qquad \frac{\$\_\_\_\_\_\_}{\$} = \_\_\_\_\_\_$$

5. Calculate Target Profit Levels:

Volume Level for Profit:

$$\frac{\text{Present Fixed Cost Total + Profit Objective}}{\text{Present Contribution Margin}} \qquad \frac{\$\_\_\_\_\_\_}{} = \$\_\_\_\_\_\_$$

Unit Level for Profit

$$\frac{\text{Present Fixed Cost Total + Profit Objective}}{\text{Contribution Margin per Unit [Price/unit – Variable Cost/unit]}} \qquad \frac{\$\_\_\_\_\_\_}{\$} = \_\_\_\_\_\_$$