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 do not have direct relationship with sales.
   - Variable cost change directly with sales.
   - Total FC + VC must equal your total costs

<table>
<thead>
<tr>
<th>Fixed Cost</th>
<th>Variable Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

2. Calculate the Variable Cost Percentage [VC%]
   \[
   \text{Present Variable Cost Total} \div \text{Present Sales level} = \ %
   \]

3. Calculate the Contribution Margin [CM%]
   \[
   100.0 \% - \frac{\% \text{VC}}{\text{VC%}} = \%
   \]

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:
   \[
   \frac{\text{Present Fixed Cost Total}}{\text{Present Contribution Margin}} = \$
   \]

   Break Even Units
   \[
   \frac{\text{Present Fixed Cost Total}}{\text{Contribution Margin per Unit}} = \$
   \]

5. Calculate Target Profit Levels:

   Volume Level for Profit:
   \[
   \frac{\text{Present Fixed Cost Total} + \text{Profit Objective}}{\text{Present Contribution Margin}} = \$
   \]

   Unit Level for Profit
   \[
   \frac{\text{Present Fixed Cost Total} + \text{Profit Objective}}{\text{Contribution Margin per Unit}} = \$
   \]