

Ensuring Financial Success for Your Business

Can you point your company in the direction of financial success, step on the gas, and then sit back and wait to arrive at your destination?

Unfortunately, the answer to this question is no. You simply can't let your business run on autopilot and expect good results. Any successful business owner knows that numerous adjustments - from decisions about pricing to hiring and investing - must be made along the way in order to achieve success.

So, how do you handle the array of questions facing you?

One way is through cost accounting.

Cost Accounting Helps You Make Informed Decisions

Cost accounting reports and determines the various costs associated with running your business. With cost accounting, you track the cost of all your business functions including raw materials, labor, inventory, and overhead, among others.

Note: Cost accounting differs from financial accounting in that it's only used internally, for decision making. Because financial accounting is used to produce financial statements for external stakeholders, such as stockholders and the media, it must comply with generally accepted accounting principles (GAAP). Cost accounting does not.

Cost accounting allows you to understand the following:

1. **Cost behaviour.** For example, will costs increase or stay the same if production of your product increases?
2. **Appropriate prices for your goods or services.** Once you understand cost behaviour, you can tweak your pricing based on the current market.
3. **Budgeting.** You can't create an effective budget if you don't know the real costs of the line items.

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To monitor your company's costs with this method, you need to pay attention to the two types of costs in any business: fixed and variable.

Fixed costs don't fluctuate with changes in production or sales. They include:

- rent
- insurance
- dues and subscriptions
- equipment leases
- payments on loans
- management salaries
- advertising

Variable costs DO change with variations in production and sales. Variable costs include:

- raw materials
- hourly wages and commissions
- utilities
- inventory
- office supplies
- packaging, mailing, and shipping costs

Tip: Cost accounting is easier for smaller, less complicated businesses. The more complex your business model, the harder it becomes to assign proper values to all the facets of your company's functioning.

We Can Help

If you'd like to understand the ins and outs of your business better as well as create sound guidance for internal decision making, consider cost accounting.

If you need assistance we can help. We'll evaluate your business from top to bottom and determine the real cost of each component. With that as a foundation, we will help you draft budgets, adjust pricing, keep an appropriate level of inventory, and much more. Give us a call today!