

## *Financial training For non financial staff*



*The financial training specialists*

### **How much? (1) (budgeting)**

I was filling my car with diesel recently, and was shocked by the price. That set me thinking about how costs affect our budgets.

We've all heard of fixed and variable costs. Fixed costs stay the same regardless of the level of activity. My car fixed costs include tax, insurance and AA membership. I pay these even if I drive nowhere. As I drive more miles my fixed costs stay the same, but the fixed cost per mile falls as the cost is spread over more miles.

Variable costs are the additional costs of doing more. That's diesel for the car. Every extra mile uses 0.08 litres of diesel. Variable costs per mile stay more or less the same regardless of how many miles I drive.

There are also semi variable costs, with a fixed and variable element. Depreciation is a function of the age of the car, and its mileage. My car needs servicing every year, but higher mileage will result in more wear and tear, and higher costs.

So if I drive 8,000 miles a year, my car will cost about £5,200, or 65p per mile. If I do 20,000 miles, costs rise to £7,300 pa, but fall to 36p per mile. If I have a fixed budget, the higher mileage is a problem, but if I charge all my mileage to clients at 40p per mile, the higher mileage is good news indeed!

Next time we will look at controllable and uncontrollable costs.