

Where the Money Goes in a Business



If you don't have enough money coming from sales to cover all the expenses underneath, then you're running on loans and investment. Those will have to be paid back so they are only temporary cash – not real money. All the money has to come from sales to have a stable business.

Cost of Goods Sold

The first money that comes out of a sale covers cost of goods – inventory, plus packaging, shipping and related labor.

Cost of Sales

Next are the costs to sell that item. These are called Variable Costs. They go up or down in exact proportion to the number of items you sell.

Operations

Operations are the costs to keep the lights on, pay salaries etc. They are called fixed costs because they don't change much from month to month.

Payback

Investors & lenders want to know that there will be some left for them after you've paid all the costs of staying in business.



Every expense line item on your books should show up in one of these categories.

What's left after paying each stage makes a contribution to the one below. What's left after the first two is called MARGIN. That has to be high enough AND you have to sell enough units to cover the last two stages and still have some profit left. Otherwise, you're out of business.

