

Financial Terms

Before we discuss the meaning of the financial figures used in this course, we need to determine what it is you're selling.

You may believe a butcher sells meat, but in fact he sells weight, i.e. kilograms. And a tile store doesn't sell tiles, it sells area i.e. square metres; and a dairy doesn't sell milk, it sells litres.

Consequently, the financial results are determined by the quantity of what you're selling as a unit. Therefore, the more units you sell at the correct price, the more money you'll make.

So, let's go ahead and make simple sense of the financial terms used.

A Unit Cost is usually established from adding the raw materials to make the product to its packaging cost, its delivery or transport cost and its labour cost.

For example, the packaging cost uses the average cost of packaging; and the delivery and labour costs are a percentage of the raw materials cost.

A Unit Sell is established by adding the percentage you want to make, taking into account the ceiling the customer is prepared to pay, to the Unit Cost.

The Total Cost is the Unit Cost multiplied by the quantity of the units purchased.

The Total Sale is the Unit Sell multiplied by the quantity of the units purchased.

The Gross Profit is the Total Sale less the Total Cost.

The Gross Profit % i.e. GP%, the easy way to find this is to use a calculator and divide the Gross Profit by the Total Sale, then press the % button.

The Net Profit is the Gross Profit less the Operating Expenses.

This is a simple explanation of the meaning of the financial terms used in this course.