Variable and Fixed Costs

Institution Affiliation

Date:

Ford company being one of the leading firms in manufacturing of vehicles it has many fixed and variable costs. As a top competitor therefore it incurs a lot of costs in venturing into new markets to provide for consumers worldwide. Some of the fixed costs of the company that are not affected at all by either changes in variable cost or manufacturing are the rent and salary as well as the maintenance cost of manufacturing equipment(Brigham and Ehrhardt, 2013). However the cost of research on technology is also a fixed cost in the company but unlike the others it is affected by changes in other factors.

In addition the company’s variable costs are also as many as its fixed costs. The cost of vehicles the company manufactures is a variable cost. The costs of all the raw materials used in the manufacturing process are also some of the variable costs (Wahlen, Bradshaw and Baginski, 2014). Lastly there is the cost of marketing the final products of the company. These costs have a great impact on some of the fixed costs of the company but not all.

This means that an increase in the variable costs will lead to a decrease in the amount of fixed costs. For example an increase in the cost of the raw material used in manufacturing vehicles in the company will decrease the amount of fixed costs. This is because the salary of employees and management will have to decrease to cater for the extra added cost of raw materials. In addition if the cost of marketing the final product or production supplies of the vehicles increases the amount of fixed costs also decreases. The cost of maintenance of the manufacturing equipment will decrease.

References

Brigham, E. F., & Ehrhardt, M. C. (2013). *Financial management: Theory and practice*. Mason, Ohio: South-Western.

Wahlen, J. M., Bradshaw, M. T., & Baginski, S. P. (2014). *Financial reporting, financial statement analysis, and valuation*.