Guide 17: Estimate your startup costs

Your goal

Work out what your business needs to spend before it can begin. Explain the estimates so another person can understand them.

A useful idea can still be difficult to launch if equipment, materials, or other costs are too high. This task helps you check whether you can obtain the resources you need.

What to produce

A list of startup costs, with estimates and a total for the initial expenses. Show what each cost covers and how you estimated it.

Use your own document or paper. The prompts below help you build the list; they are not additional project requirements.

Key terms

- **Startup costs:** costs involved in preparing and launching a business.
- **One-time cost:** a payment made once for a particular purchase or activity.
- **Recurring cost:** a cost that happens again, such as a monthly charge.
- **Fixed cost:** a cost that does not change with output within a stated period and range.
- **Variable cost:** a cost that changes as the amount produced or sold changes.
- **Direct cost:** a cost that can be linked to a particular product or service. An indirect cost supports the business more generally.

These labels answer different questions. Fabric can be a recurring, variable, direct cost. A monthly workshop rent can be a recurring, fixed, indirect cost.

Step 1: Follow your production plan

Read your supply chain plan from Unit 1. List everything needed to make the first products or deliver the first services.

Think about equipment, materials, packaging, transport, space, wages, insurance, and promotion. Include only costs relevant to your business. Check possible school, safety, or legal conditions with your teacher.

A service also has costs. These could include training, travel, equipment, or the time needed to deliver the service.

Step 2: State the amount and period

Write the quantity and price for each item. State your currency. Explain which payments must happen before sales begin and which happen later.

For example, do not write only “materials: 100.” Write what the materials are, how much you need, and how the total was calculated.

Decide how long your initial budget needs to cover. A business may need money for early operating costs while it waits for sales receipts. Explain the period you selected.

Step 3: Support each estimate

Use information such as supplier prices, published charges, or calculations based on quantities. Record the source and the date you checked it.

If a cost is unknown, mark it as an estimate and explain the assumption. Do not enter zero simply because you do not know the amount. A quote is a price offered by a supplier; it is not proof that you have bought the item.

You do not need to make purchases for this task.

Example: Ready Pouch

Ready Pouch is our fictional example business. Its proposed product is a small pencil pouch for students.

These are fictional planning figures in US dollars, not supplier quotes.

Ready Pouch estimates an initial cash need of USD 400:

- Equipment: USD 200.
- Initial materials stock: USD 100.
- Launch promotion: USD 100.

Total: 200 + 100 + 100 = **USD 400**.

This is a starting estimate. The team must check what the equipment includes, how much stock the materials buy, and whether other launch costs apply.

The USD 400 is money needed at launch. It is not automatically USD 400 of income-statement expenses. Equipment can be an asset used over time. Materials held in stock become part of the cost of goods sold when the relevant products are sold. Promotion is counted once, even if it appears in both a launch budget and a later annual expense plan.

Step 4: Classify and total the costs

For each item, consider whether it is one-time or recurring, fixed or variable, and direct or indirect. State the period and output assumptions where needed.

Add the initial cash payments. Check that each payment appears once. Keep later recurring costs visible so that you can use them in your income statement.

Ask whether the total is realistic. Could you reduce the scale, borrow equipment with permission, or change the production method? Explain the effect on quality and output as well as cost.

Your turn

Build your cost list using these prompts:

1. What must be purchased or paid for?
2. What quantity, unit price, currency, and period did you use?
3. What source or assumption supports the estimate?
4. How would you classify the cost?
5. What is the total initial cash need? Which costs remain uncertain?

Check your work

- My list follows my production and launch plans.
- I included relevant early operating costs.
- My quantities, currency, period, and calculations are clear.
- I explained estimates and unknown costs.
- I did not count the same payment twice.
- I considered whether the resources are realistic for my business.

Next: Find possible funding

In Unit 3, Task 2, you will consider where the money could come from and what conditions each source brings.

Independent guidance based on the AP Business with Personal Finance CED, printed pages 168-169. This is not an official College Board resource.