# Student Guide

# Unit 6

# Cash Budget

Directions: Read through the information and create a cash budget. Fill in all three columns, estimated, actual and difference. Review the numbers and discuss in your group the reasons for any differences.

**Three Friends' Lawn Service**
Nate, Pedro and Jack own a lawn service business that they operate out of Nate's home. They do not pay rent. Their expenses include: $ 2,000 salaries, $1,200 gasoline, $250 equipment maintenance, $200 cell phone service, $250 advertising, $50 insurance, and $100 miscellaneous. Most of their customers pay on account on a monthly basis and they can expect $6,500 in accounts receivable payments. They also have customers who pay cash and they can expect $3,200 in cash sales.

Last month was an interesting month for Three Friends' Lawn Service. They acquired several new customers and had to hire a part-time employee. So their actual salary expense was $2,800. The new customers increased their cash sales to $4,300 and their accounts receivables to $7,000. The new business meant higher costs for gasoline and their gas costs rose to $1,500. One of their trimmers required an engine overhaul and a mower blade was ruined when it ran into a rock pile, so the equipment maintenance costs increased to $325. They went over their allotted minutes on the cell phone plan and had to pay $250.

**Three Friends' Lawn Service Cash Budget for Month 1, 20xx**

| A | B | C | D |
|---|---|---|---|
| | Estimated | Actual | Difference |
| **Cash Receipts** | | | |
| Cash sales | | | |
| Accounts receivable payments | | | |
| Total cash receipts | | | |
| **Cash Disbursements** | | | |
| Salaries | | | |
| Gasoline | | | |
| Equipment maintenance | | | |
| Cell phone service | | | |
| Advertising | | | |
| Insurance | | | |
| Miscellaneous | | | |
| Total cash disbursements | | | |
| **Net Cash Increase/Decrease** | | | |

# Extending Credit Debate

Directions: Your teacher will assign your group either the affirmative or opposition position. In your group, brainstorm all the reasons that entrepreneurs should either be for (affirmative position) or against (opposition position) extending credit to their customers. Be prepared to present your position with a solid opening statement, at least three key facts and a bold closing statement.

## *To succeed in business, entrepreneurs should extend credit to their customers.*

Affirmative position:

Opposition position:

# Who's Got the Cash

Directions: Complete the cash flow statements for each business. Analyze the each business' cash flow statement and answer the questions posed.

## Natasha's Nature Blooms — **Date:** June, 20xx

| | | |
|---|---|---|
| **Beginning Cash Balance** | | $800 |
| **Cash Receipts** | | |
| Cash sales: | $2,500 | |
| Accounts receivable payments: | $3,750 | |
| **Total Cash Receipts (Inflow)** | _____ | _____ |
| | | |
| **Cash Disbursements** | | |
| Inventory: | $1,280 | |
| Variable costs: | $365 | |
| Fixed Costs: | $580 | |
| **Total Cash Disbursements (Outflow)** | _____ | |
| | | _____ |
| **Net Cash Flow** | | _____ |
| | | |
| **Ending Cash Balance** | | _____ |

## Taylor's T-Shirts — **Date:** June, 20xx

| | | |
|---|---|---|
| **Beginning Cash Balance** | | $500 |
| **Cash Receipts** | | |
| Cash sales: | $1,800 | |
| Accounts receivable payments: | $1,500 | |
| **Total Cash Receipts (Inflow)** | _____ | _____ |
| | | |
| **Cash Disbursements** | | |
| Inventory: | $1,025 | |
| Variable costs: | $275 | |
| Fixed Costs: | $750 | |
| Equipment: | $210 | |
| **Total Cash Disbursements (Outflow)** | _____ | |
| | | _____ |
| **Net Cash Flow** | | _____ |
| | | |
| **Ending Cash Balance** | | _____ |

Which business is in a better cash flow position?

Can you identify some areas that should be addressed?

# Seasons Come, Seasons Go

Directions: Consider each business listed and describe what you think that business's cash cycle would be for one year. Explain how you think that business's cash flow would be affected during the year - be specific about any positive or negative impacts. In addition, provide any ideas you have for how to manage the cash flow to ensure success.

## Vanecia's Fresh Vegetable Market

## Stan's Snowboard Rentals

## Tanya's Tax Preparation Service

# My Cash Budget

Directions: Create your own personal cash budget. Consider how much money you have to spend every month. List the amounts in the appropriate space. Next consider what you spend your money on each month. Use the blank lines to add your own expense items that are not listed. After you have filled in the estimated column, begin tracking your actual cash inflow and outflow for the next four weeks. When the four weeks are up, total up your receipts and bills to complete the actual column. Finally, fill in the difference column and step back. Do you have a positive or negative cash flow?

| A | B | C | D |
|---|---|---|---|
| | Estimated | Actual | Difference |
| **Cash Receipts** | | | |
| Allowance | | | |
| Income | | | |
| Other | | | |
| Total cash receipts | | | |
| **Cash Disbursements** | | | |
| Fast food | | | |
| Gasoline | | | |
| Entertainment | | | |
| Cell phone service | | | |
| Clothes | | | |
| Insurance | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| Total cash disbursements | | | |
| **Net cash increase/decrease** | | | |

# What's Hot, What's Not

Directions: Complete the table below by filling in the products and the total sales for each product sold in your in-school business (you will need access to your Daily Drawer Sales and Balance Sheet, or Weekly Gross Margin information depending on what time period you are working with). Add up the total sales per product and check your number against the actual total sales for the period you're working with (day, week, month). Now determine the percent of total sales each product represents. Round up where necessary. Remember to use the following formula:

**Product Sales ÷ Total Sales = Percent of Sales**

| Product | Sales | Percent of Total |
|---|---|---|
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| Total Sales | $ | 100 |

Based on your sales by product analysis, which products are hot sellers and which are not?

HOT: _____

_____

NOT: _____

_____

# Can You Pay the Bills?

Directions: Determine the current ratio for each of the businesses by using the information provided on their separate balance sheets. Remember, the current ratio compares current assets with current liabilities:

$$\frac{\textbf{Current Assets}}{\textbf{Current Liabilities}} = \textbf{Current Ratio}$$

Carver's Cabinets
Balance Sheet
December 31, XXXX

| **Assets** | | **Liabilities** | |
|---|---|---|---|
| **Current assets** | | **Current liabilities** | |
| Cash | $ 16,000 | Accounts payable | $13,000 |
| Accounts receivable | $9,000 | | |
| Less allowance for uncollectible accounts | -800 | **Long term liabilities** | |
| | | Loans payable | $15,500 |
| Inventory | $15,000 | | |
| **Total current assets** | **$39,200** | **Total liabilities** | **$28,500** |
| **Fixed assets** | | **Net worth** | |
| Equipment | $10,200 | Mike Carver | $36,005 |
| Less depreciation | $ -2,195 | | |
| Furniture | $2,300 | | |
| Less depreciation | $ -200 | | |
| Vehicles | $19,000 | | |
| Less depreciation | $ -3,800 | | |
| **Total fixed assets** | **$25,305** | | |
| | | **Total liabilities** | |

What is the current ratio for Carver's Cabinets (show your calculation)?

# Can You Pay the Bills?

Directions: Determine the current ratio for each of the businesses by using the information provided on their separate balance sheets. Remember, the current ratio compares current assets with current liabilities:

$$\frac{\textbf{Current assets}}{\textbf{Current Liabilities}} = \textbf{Current Ratio}$$

Bethany's Baubles
Balance Sheet
December 31, XXXX

| **Assets** | | **Liabilities** | |
|---|---|---|---|
| **Current assets** | | **Current liabilities** | |
| Cash | $ 2,500 | Accounts payable | $ 8,000 |
| Accounts receivable | $8,000 | | |
| Less allowance for uncollectible accounts | -600 | **Long term liabilities** | |
| | | Loans payable | $19,500 |
| Inventory | $12,000 | | |
| **Total current assets** | **$21, 900** | **Total liabilities** | **$27,500** |
| **Fixed assets** | | **Net worth** | |
| Equipment | $15,000 | Bethany Bell | $26,025 |
| Less depreciation | $ -1,175 | | |
| Furniture | $2,800 | | |
| Less depreciation | $ -200 | | |
| Vehicles | $18,000 | | |
| Less depreciation | $ -2,800 | | |
| **Total fixed assets** | **$31,625** | | |
| | | **Total liabilities** | |

What is the current ratio for Bethany's Baubles (show your calculation)?

# Ratio Analysis

Directions: You will need to refer to the two balance sheets provided in the previous exercise (***Can You Pay the Bills?***). Complete the calculations (show your work) for each company as directed below. When you have completed all of the calculations, answer the final question based on your newfound knowledge.

✯ Working Capital **Current Assets – Current Liabilities = Working Capital**

Carver's Cabinets:

Bethany's Baubles:

✯ Debt ratio $\frac{\textbf{Total liabilities}}{\textbf{Total Assets}}$ **= Debt Ratio**

Carver's Cabinets:

Bethany's Baubles:

✯ Use of Debt $\frac{\textbf{Total Liabilities}}{\textbf{Owner's Equity (net worth)}}$ **= Use of Debt Ratio**

Carver's Cabinets:

Bethany's Baubles:

✯ Quick Ratio $\frac{\textbf{Current assets – Inventory}}{\textbf{Current Liabilities}}$ **= Quick Ratio**

Carver's Cabinets:

Bethany's Baubles:

Based on the ratios, which business has better financial performance?

# Profit or Loss? A

Directions: Read the company scenario and use the information provided to create an income statement for the company. Remember these equations:

Net Income after Taxes ÷ Net Sales = Net Profit on Sales
Gross Sales – Returns = Net Sales
Net Sales – Cost of Goods Sold = Gross Profit
Gross Profit – Operating Expenses = Net Income from Operations
Net Income from Operations – Interest Expense = Net Income before Taxes
Net Income before Taxes – Income Tax Paid = Net Income after Taxes

***Paul's Auto Parts***

- Paul owns a small automotive parts store. He sold $195,000 worth of auto parts and had $2,600 worth of merchandise returned. What were Paul's net sales?
- Last year, Paul spent $87,500 for parts that he sold. What was Paul's gross profit?
- Paul's operating expenses include: Utilities $1,500, Salaries $28,500, Advertising $800, Insurance $900, Rent $6,800, Other expenses $500. What was Paul's net income from operations?
- Paul has a loan from the Small Business Administration and paid $1,600 in interest last year. What was Paul's net income before taxes?
- Paul is a sole proprietor and paid $8,200 in taxes last year. What was Paul's net income after taxes?

| **Revenue from sales** | |
|---|---|
| Gross sales | |
| Less returns | |
| *Net sales* | |
| Cost of goods sold | |
| *Gross profit* | |
| Operating expenses | |
| Utilities | |
| Salaries | |
| Advertising | |
| Insurance | |
| Rent | |
| Other expenses | |
| *Total expenses* | |
| **Net income from operations** | |
| Less interest expense | |
| **Net income before taxes** | |
| Less income tax paid | |
| **Net income after taxes** | |

# Profit or Loss? B

Directions: Read each company scenario and use the information provided to create an income statement for the company. Remember these equations:

Net income after taxes ÷ Net sales = Net profit on sales
Gross sales –Returns = Net sales
Net sales – Cost of good sold = Gross profit
Gross profit-Operating expenses = Net income from operations
Net income from operations – interest expense = net income before taxes
Net Income before Taxes – Income Tax Paid = Net Income after Taxes

***Tiffany's Baskets and Balloons***

- Tiffany owns a retail business that offers specialty gift baskets and balloons. She sold $245,000 worth of baskets and balloons and had $3,600 worth of merchandise returned. What were Tiffany's net sales?
- Last year, Tiffany spent $150,000 for merchandise that she sold. What was Tiffany's gross profit?
- Tiffany's operating expenses include: Utilities $1,800, Salaries $32,500, Advertising $1,200, Insurance $1,300, Rent $8,600, Other expenses $1,000. What was Tiffany's net income from operations?
- Tiffany has a loan from her local bank and paid $2,800 in interest last year. What was Tiffany's net income before taxes?
- Tiffany is a sole proprietor and paid $13,870 in taxes last year. What was Tiffany's net income after taxes?

| | |
|---|---|
| **Revenue from sales** | |
| Gross sales | |
| Less returns | |
| *Net sales* | |
| Cost of goods sold | |
| *Gross profit* | |
| **Operating expenses** | |
| Utilities | |
| Salaries | |
| Advertising | |
| Insurance | |
| Rent | |
| Other expenses | |
| *Total expenses* | |
| **Net income from operations** | |
| Less interest expense | |
| **Net income before taxes** | |
| Less income tax paid | |
| **Net income after taxes** | |

# What I Value

Directions: Take a few moments to consider what you value. Then write your top three values in rank order from the most important.

Values are beliefs or ideas you consider important or desirable. Everyone has values, but everyone does not value the same things equally. Remember—when you decide something is good, right or preferable, your values are guiding you.

1. _____

   _____

2. _____

   _____

3. _____

   _____

Can you identify where your values come from?

_____

_____

_____

# What's Going On?

Directions: Listed below is a series of questions that have been excerpted from the Josephson Institute of Ethics Report Card 2006: The Ethics of American Youth. In your small group, take a moment to discuss each question and consider how you would respond and share your thoughts. As a group, consider each question and decide what percent of the 36,000 students actually surveyed answered the question in a specific way. For example, if your group feels that 87% of teens agree with the first statement, mark 87% in the Agree column for that statement.

## Section II: WHAT DO YOU THINK?

| | Strongly Agree | Agree | Disagree | Strongly Disagree | No Opinion |
|---|---|---|---|---|---|
| Being a good person is more important than being rich. | | | | | |
| When it comes to doing what is right, I am better than most people I know. | | | | | |
| In personal relationships, trust and honesty are essential. | | | | | |
| In business and the workplace, trust and honesty are essential. | | | | | |
| In the real world, successful people do what they have to do to win, even if others consider it cheating. | | | | | |
| A person has to lie or cheat sometimes in order to succeed. | | | | | |
| My parents/guardians would rather I cheat than get bad grades. | | | | | |
| It's important to me that people trust me. | | | | | |
| It's not worth it to lie or cheat because it hurts your character. | | | | | |
| Most adults in my life consistently set a good example of ethics and character. | | | | | |
| I am satisfied with my own ethics and character. | | | | | |

## SECTION IV: HAVE YOU DONE THESE THINGS?

Answers should be based on the last 12 months.

| | Never | Only Once | Two or More Times | Blank |
|---|---|---|---|---|
| Lied to a parent about something significant. | | | | |
| Lied to a teacher about something significant. | | | | |
| Copied an Internet document for a classroom assignment. | | | | |
| Cheated during a test at school. | | | | |
| Stole something from parents or relatives. | | | | |
| Stole something from a friend. | | | | |
| Stole something from a store | | | | |

# Steps to Ethical Decision Making in Business

1. **Gather the facts.**
   Many people jump to conclusions before actually checking out the facts. Make certain that you have accurately defined the problem.

2. **Identify the people who are affected by the decision.**
   Sometimes you have to think of everybody involved. You must consider the benefits, burdens and risks to each stakeholder.

3. **Identify the consequences.**
   Think about all the potential consequences of your actions. Consider the worst-case scenario. Will your position today still be valid over a long period of time?

4. **Consider how your actions will look to others.**
   Use the New York Times test - would you feel comfortable if your activities were mentioned on the front page of the New York Times newspaper for the world to see? How would you feel if your parents were observing you?

5. **Think creatively about potential actions.**
   Look at all sides of the situation. Formulate a full range of alternatives. Force yourself to develop at least three ethically justifiable options.

6. **Check your gut.**
   If your gut is bothering you, it probably means that something is not right. Ask yourself if you are treating others as you would want to be treated.

7. **Implement decision.**
   Commit to monitoring the effects of your decision. Be prepared and willing to revise your plan or take a different course.

Sources: Harvard Business Review, The Ethics Scoreboard, Josephson Institute of Ethics.

# Six Pillars of Character

When entrepreneurs develop their company's ethics policy, they must decide what they want the business to stand for. According to the Josephson Institute of Ethics, The Six Pillars of Character are ethical values to guide our choices. The standards of conduct that arise out of those values constitute the ground rules of ethics, and therefore of ethical decision making. They may also form the foundation for developing a code of ethics for a business.

## Trustworthiness

Be honest • Don't deceive, cheat or steal • Be reliable — do what you say you'll do • Have the courage to do the right thing • Build a good reputation

## Respect

Treat others with respect; follow the Golden Rule • Be tolerant of differences • Use good manners, not bad language • Be considerate of the feelings of others • Don't threaten, hit or hurt anyone • Deal peacefully with anger, insults and disagreements

## Responsibility

Do what you are supposed to do • Persevere: keep on trying! • Always do your best • Use self-control • Be self-disciplined • Think before you act — consider the consequences • Be accountable for your choices

## Fairness

Play by the rules • Take turns and share • Be open-minded; listen to others • Don't take advantage of others • Don't blame others carelessly

## Caring

Be kind • Be compassionate and show you care • Express gratitude • Forgive others • Help people in need

## Citizenship

Do your share to make your school and community better • Cooperate • Get involved in community affairs • Stay informed; vote • Be a good neighbor • Obey laws and rules • Respect authority • Protect the environment

Source: Character Counts! Josephson Institute of Ethics

# Developing a Business Code of Ethics

According to the U.S. Small Business Administration, “A well-defined ethics policy along with an outline of related standards of conduct provides the framework for ethical, moral behavior within your company. A company policy is a reflection of the values deemed important to the business. As you develop your company’s policy, focus on what you would like the world to be like, not on what others tell you it is.”

Directions: Consider what you want your in-school business to stand for. Take some time to discuss the values that are important to you and the success of the in-school business. For example, think about how you want to be treated when you are a customer. Think about things you want to avoid in your business practices. Write down your ideas and begin drafting a code of ethics for your in-school business.

# My Code of Ethics

Directions: Think about the three words you wrote down that best described your own individual guiding principles. A personal code of ethics documents the ideas and philosophies that are the essence of your life and allows you to say “I will do this because I believe this.” Write your own personal code of ethics below.

# Philanthropy and Me

## Philanthropists:

Directions: Take a moment to think of people you know or have heard of who are examples of philanthropists. Make a list of characteristics that you feel philanthropists have in common.

Now, review your list and put a ✓ mark next to the characteristics that you feel you possess.

## Time, Talent and Treasure:

Directions: Take a moment to reflect on the things you have done for others in the past two years or so. Maybe you've donated your time by volunteering at school or at a community center; perhaps you've donated your talents by tutoring a classmate or singing at a senior citizen apartment complex; or perhaps you have donated money for hurricane relief, or to help pay medical bills for someone. Write down your recent philanthropic activities. If you have not recently donated your time, talent or treasure, consider how you could become a philanthropist in the future— write down what you plan to do.

I have given (or plan to give) my **time** by…

I have given (or plan to give) my **talent** by…

I have given (or plan to give) my **treasure** by…

# To Give or Not To Give…

Directions: The business that you and your classmates operate has done very well this past year—so well, in fact, that you are thinking about donating $5,000 to a local charity. You have called a meeting of the team to determine how you are going to decide which nonprofit/charity should receive your generous donation.

1. The first step is to agree on the *overall* cause, mission or purpose of the charity. For example, from which category will you select? Nonprofits and charities are commonly grouped as such:
    - Religious
    - Public and Social Benefit
    - Health and Human Services
    - Art, Culture, and Recreation
    - Education
    - Environmental

    Circle the agreed-upon category - remember, everyone on the team must be in agreement.

2. The next step is to consider a *specific* cause, mission or purpose within the nonprofit/charity category you've selected. For example, if you selected the category of Health and Human Services, you might want to donate to cancer research, or providing medical supplies to people in less-developed countries. If you selected Environmental, you might want to donate to building more windmills or solar energy development.

    Write down your agreed-upon cause, mission or purpose and explain your choice.

# Tips for Giving Wisely

1. **Budget for giving.**
   Plan your philanthropic activities right into your budget just as you would snacks, entertainment, clothes or vacations.

2. **Know your charity.**
   Charities have an obligation to provide detailed information to interested donors. Request written literature that includes a list of the board of directors and a mission statement. Never give to a charity that you know nothing about.

3. **Find out where your dollars go.**
   Ask how much of your donation goes for general administration and how much is left for the program services you want to support. The general rule of thumb is that less than 40% should be spent on general administration and fundraising.

4. **Keep records of your donations.**
   Ask for a receipt if you give cash. If you can write a check, that's a better record of your donation and has a better chance of going directly to the nonprofit.

5. **Do not fall for emotional appeals.**
   Beware of the pathetic "sob story." Make sure you get the real story behind the charity. Ask for as much information as you need to be comfortable giving money to the charity.

6. **Consider giving generously.**
   Once you are satisfied that the charity is worthwhile, give generously if you can. There are many good nonprofit organizations that need your support. By doing your homework, you can give wisely and you will be giving more effectively.

Adapted from: *Independent Sectors guidelines, posted at www.IndependentSector.org.*

# What's It To You?
# Employees

Directions: As a group of business owners, discuss what you consider to be a business's social responsibility to its *employees*. Consider the legal requirements, but also think about policies and procedures you could put into place to create a work environment that attracts and retains good employees. Write down your ideas for meeting the social responsibility to your employees.

# What's It To You?
# Customers

Directions: As a group of business owners, discuss what you consider to be a business's social responsibility to its *customers*. Remember, your customers are the most important asset your business has. If you don't treat them correctly, they will not buy your products or use your services and you may go out of business. Make a list of things you think you should do when dealing with customers.

# What's It To You?
# Suppliers

Directions: As a group of business owners, discuss what you consider to be a business's social responsibility to its *suppliers*. Remember, you depend on your suppliers to provide you with the goods you need to manufacture or sell your products. Make a list of things you think you should do to maintain good relationships with your suppliers.

# What's It To You?
# Community

Directions: As a group of business owners, discuss what you consider to be a business's social responsibility to the local *community*. Keep in mind that businesses can contribute money, products, services and more. Make a list of at least 8 ways business can get involved with the community.

# Doing the Right Thing

Directions: Think about the impact your in-school business has on employees, customers, suppliers, the local community and the environment. Consider each of the areas of impact and think how you want your in-school business to behave. List at least 3 ways your in-school business will meets its social responsibilities.

**Employees**:

1. _____
_____
2. _____
_____
3. _____
_____

**Customers:**

1. _____
_____
2. _____
_____
3. _____
_____

**Suppliers:**

1. _____
_____
2. _____
_____
3. _____
_____

**Community:**

1. _____
_____
2. _____
_____
3. _____
_____

**Environment:**

1. _____
_____
2. _____
_____
3. _____
_____