Lesson 1 – Introduction to the Language of Business

Bell Ringer: As quickly as you can write as many expenses that are associated with a beef cattle operation. Consider everything from labor to fuel and don't leave anything out!

A. Section 1 – Est. time: 10-15 minutes

Have each student briefly introduce his/her farming or business background to the rest of the class.

1. Type of farm or business experience
    a. This farm experience may be from their parent's or grandparents' operation, or a neighbor
2. Have students tell what type of farm experience – what type of operation
    a. Dairy, Poultry, Beef, Row Crop, Produce etc.
3. If no farm experience, ask them what business experience they have
    a. Again, can be from a family operation or a neighbor's operation, summer job, etc.
4. Have students tell what their main responsibilities were on this farm or business
5. Look for commonalities among the students' experiences
    a. each business had to deal with people
    - manager, clients/customers, employees, suppliers, etc.
    b. each business had assets (buildings, equipment, livestock, land, etc.)
    c. it took money to run each business
    d. each business was trying to make profits
    e. there are laws and regulations that impact each business
    f. anything else that came up in the discussion

B. Section 2 – Est. time: 45 minutes

Define basic business terms through the use of an example business

1. There is a "unique language" in the business world. You should understand the main business, finance, and accounting terms so that you can talk with lenders, accountants, lawyers, consultants, etc.
2. Let's use a simplified business such as a lawn-mowing business or a roadside stand (or convenience store, or some other business with which the students will be familiar) to illustrate the main business terms.
3. Lawn-mowing business: It is a sole proprietorship owned and operated by Tim. Tim owns 2 riding lawn mowers, 2 string trimmers (Weed-eaters), and 1 blower. He also owns a truck and trailer to haul his equipment. Tim mows lawns within a 20-mile radius of his home. He has 1 hired worker to help him. Most of Tim's customers pay him with a check or cash each time he mows; but, some of his customers ask to be "billed" so that they can pay him at a later date.
    a. Understanding profits
    - Most businesses operate so that they can make profits. They use these profits to buy new equipment for the business and to pay the owners for their living expenses.
    - "Profits" refer to the money from the sale of products that is "left over" after all expenses are paid.

i. **Profits** = Revenues – Expenses

ii. **Revenues** are the money coming in from the sale of products/services over a given period of time (week, month, quarter, year).
- Revenues for a product = Price/unit x Quantity sold
- For Tim's business, revenues for mowing lawns are equal to the price that he charges per lawn times the number of lawns that he mows.
- Tim charges an average price of $50/lawn. He mows 20 lawns per week. His revenues for the week are $1,000 ($50/lawn x 20 lawns)
- If Tim offered other services besides lawn mowing (fertilizing, weed control, mulching, etc.) he would calculate the revenues from each of these services. He would add the revenues from each service to get the **Total Revenues** for his business.

iii. **Expenses** are the cost of doing business. There are 2 main types of Expenses:
- Operating (or Variable) Expenses – aka "Cost of Goods Sold"
  1. These expenses are the "day-to-day" expenses of running the business. Many times these expenses are referred to as "out of pocket" expenses. Managers have the most control over operating expenses.
  2. For Tim's business, the main operating expenses are: (have the students name these)
     -Fuel, repairs, and hired labor
  3. Total Operating expenses change with the level of business. The more business you do, the higher the operating expenses will be. For example, if Tim does more lawns each week, his total expense for fuel, repairs, and labor will increase. If he does fewer lawns due to bad weather or due to losing customers to other lawn mowing businesses, his total operating expenses will decrease.

- Overhead (or Fixed) Expenses
  1. Fixed expenses, or "overhead" expenses, are expenses that you have just because you are in business. These expenses typically do NOT change with the level of production. For example, Tim's overhead expenses will not change dramatically if he mows more lawns each week – these expenses will remain fairly constant.
  2. Examples of business overhead expenses are:
     -Insurance (auto, building, health, etc.)
     -Rent or lease expenses
     -Advertising
     -Office expenses (utilities, office supplies)
     -Administrative labor (secretary, receptionist, office manager, etc.)
     -Property taxes
     -Interest payments on loans
     -Business licenses
     -Owner's salary (what the owner pays himself/herself)
     -These expenses remain fairly constant whether Tim does 5 lawns per week or 100 lawns per week. For example, the insurance premiums (the cost of the insurance policy) on the truck will not change if Tim does 5 lawns this week or if he does 100 lawns this week.

3. Depreciation is a fixed (overhead) expense related to buildings and equipment (assets) that are owned by the business. Depreciation is simply the loss of value of an asset (building, lawn mower, truck, etc.) because:
   -It gets older ("Rust out")
   -It wears out from use ("Wear out")
   -Newer equipment is more efficient ("Fade out")
   -Depreciation is an expense to the business. If a business does not generate enough revenues to "cover" the depreciation of its assets, those assets cannot be replaced when they wear out. It is VERY important to include depreciation in your total expenses!

- Total Expenses = Operating Expenses = Overhead Expenses

Over time, a business must be able to generate enough revenues to pay its Total Expenses. That means it is able to pay for its operating inputs and the fixed costs of running the business

iv. **Gross Margin** = Revenues – Operating Expenses

Gross Margin is the term businesses use to show the difference between the operating expenses (or Cost of Goods Sold) of a product/service and the selling price of that product/service. You typically want your gross margin on your products and services to be greater than zero.

-For Tim's business, assume it costs him $35/lawn in operating expenses (fuel, repairs, hired labor). If he charges $50/lawn, his gross margin per lawn is $15/lawn ($50 - $35). This margin can be used to pay the overhead expenses of the business, including Tim's salary.

-If Tim mows 20 lawns per week, his weekly gross margin is $15/lawn x 20 lawns = $300/week.

v. **Profits** = Revenues – Total Expenses

Or Profits = Revenues – Operating Expenses – Overhead Expenses

Or Profits = Gross Margin – Overhead Expenses

- A manager wants the profits for the business to be greater than zero. This means that the business is generating enough revenues to pay for all of the operating expenses and have enough left over to pay for the overhead expenses. By covering the overhead expenses, the business will be paying the owner for his/her efforts and it will be setting aside funds to buy new equipment to replace the older ("depreciated out") equipment.

-It is important to understand that Revenues are NOT the same thing as Profits. A group of students were selling t-shirts at a college event. I asked them, "how's business today?" They replied by saying, "We've made almost $200 today." In reality, they had $200 of revenues that day. Assuming it cost them $125 in operating expenses to buy those t-shirts, their Gross Margin was only $75 ($200 - $125). If they had $50 in overhead expenses (for example, they had to pay $50 to be able to set up a table at that event), then their Profit for the day would be $25 ($200 - $125 - $50; or $75 gross margin - $50 overhead). There is a big difference between thinking you made $200 of profits and actually making only $25 of profits!!

-Revenues = $200

-Operating Costs (or Cost of Goods Sold) = $125
-Gross Margin = $75
-Overhead = $50
-Profit = $25

b. The "Capital Structure" of business
   i. "Capital" is a term for the resources that a business owns – land, buildings, equipment, and money. If a business makes a "capital purchase", that means they are buying something to use in the business – buying a new piece of equipment, replacing an older machine with a newer one, expanding the size of the business, etc. A "capital purchase" does not include the purchase of feed, fertilizer, or other things that will be used up in the normal operation of the business.
   ii. "Assets" is a similar term to "capital". An Asset is something of value that the business owns or controls through a long-term contract or lease. Examples of assets in a business include (have the students come up with a list of assets for a business):
   - land and buildings ("real property" or "real estate")
   - machinery & equipment – tractors, mowers, wagons, skid loaders
   - livestock – cattle, sheep, hogs, poultry
   - cash on hand, cash in checking or savings accounts
   - accounts receivable – this is money owed to the business for providing a product/service "on credit" – where the customer takes possession of the product today but doesn't pay until later (typically one month later).

   For Tim's lawn mowing business, the main assets are:
   - 2 riding mowers
   - 2 string trimmers
   - 1 blower
   - 1 truck
   - 1 trailer
   - cash in the business checking account
   - accounts receivable owed to Tim from customers who want to be billed and pay at the end of the month

   iii. "Liabilities" are debts that the business owes to someone else (its creditors).
   - Businesses typically use loans to purchase expensive assets (land, buildings, equipment, etc.). The "lender" or "creditor" gives the owner a set amount of money that is used to make the purchase. The owner agrees to repay that money, plus interest (the cost of borrowing money), over a specified time period. This enables the owner to buy the asset without having to use a large portion of his/her savings or profits.

   - There are different types of liabilities:
   - Accounts Payable – these are short-term loans that are commonly used to purchase operating inputs (feed, fertilizer, seed, hired labor, etc.). The owner buys these inputs "on account" or "on credit" – that means they take the inputs back to their business, but they don't actually pay for them until a month or so later.

- Loans – loans are more formal arrangements than Accounts Payable. When an owner wants to borrow money to purchase an asset, he/she will apply for a loan from a lender. If/When the loan application is approved, the lender will provide the owner with a specified amount of money, with the understanding that the money will be used exactly as discussed in the loan application. The owner (borrower) agrees to repay the loan, plus interest, as specified in the loan contract. We'll talk more about loans in the "Balance Sheet" lesson.

iv. Owners Equity (also called Net Worth)

- "Equity" is a term that represents how much of an asset is actually paid for by the owner. For example, if Tim pays $5,000 in cash for a new mower, his "equity" in that mower is $5,000. However, assume that he buys a $5,000 mower by paying $2,000 in cash and borrowing the remaining $3,000. In this case, Tim's equity in the mower is $2,000.
- Equity = Net Market Value of the Asset – The Amount of the Loan that is still owed
- or: Equity = Asset Value – Liability owed on that Asset
- Assume that Tim bought a mower for $4,000 a few years ago. He paid $1,000 in cash and borrowed $3,000 when he bought the mower. Today, that mower is worth $2,500 if he were to sell it. The mower has lost value over time because it has depreciated - due to use and age. As of today Tim still owes $800 on the loan. That means Tim's equity in the mower is $1,700 ($2,500 value - $800 loan outstanding).
- An owner wants to see his/her equity (or net worth) increasing over time. That means that the owner is paying down the loans that were used to build the business, and that the business is earning profits to be able to pay down the loans and reinvest in the business.

Materials: **PowerPoint on "The Language of Business"**
Note Organizer
In Class Exercise and Key
Homework Exercise and Key
Student Driven Learning Activity

THE LANGUAGE OF BUSINESS

The Language of Business

- There are terms specific to the business world
  - *Like learning a new language*
- You should understand these terms:
  - *To improve your business management*
  - *To be able to talk with:*
    - Lenders
    - Accountants
    - Consultants
    - Lawyers
    - Other business owners/managers

Understanding Profits

- Most businesses try to earn profits
  - *Profits allow them to:*
    - Invest in the company
      - *Buy new equipment, expand, replace old equipment*
    - Pay the owners
- Profits = the money left after paying all expenses
  - *Profits = Revenues - Expenses*

Profits

- Revenues
  - *The money coming in (income) from selling your product or service*
  - *Revenues = Selling Price/Unit x Units Sold*
    - For all products/services sold
  - *Revenue refers to the money coming in*
    - It does NOT include any expenses

Profits

- Expenses = cost of doing business
- 2 Main Types of Expenses:
  - *Variable Expenses (Operating Expenses)*
    - These are expenses that change directly with the level of production
      - *If you increase production, these costs increase*
      - *If you decrease production, these costs decrease*
    - Easy to think of "out of pocket" expenses
    - Also called "Cost of Goods Sold"
    - Examples:
      - *Fuel, fertilizer, seed, chemicals,*

Profits

- *Overhead (Fixed) Expenses*
  - These are costs that you have just because you are in business
    - *Business licenses, property taxes*
    - *Office rent, insurance premiums*
    - *Administrative and office expenses, interest on loans*
    - *Depreciation*
    - *Owners salary (not always included in overhead)*
  - These costs do NOT change significantly if production changes
    - *If production increases, office rent does not change*

Profits

- Total Expenses = Variable Exp. + Overhead
  - *Measure of the total cost of doing business*
- Gross Margin = Revenues – Variable Expenses
  - *You want your gross margin to be greater than $0*
- Gross Margin/Unit = Gross Margin divided by the number of units sold
  - *Good number to know*
  - *It shows which products are earning you the most*

Profits

- Total Profit = Revenues – Total Expenses
  - *Or: Profit = Gross Margin – Overhead Expenses*
  - *Also called "net income"*
  - *You want Profit to be greater than $0*
    - The higher the better (usually)!
  - *When a manager talks about "the bottom line", they are referring to profits*

Capital Structure

- Capital = resources that a business owns
  - *Land, buildings, equipment, labor, cash*
  - *A "capital purchase" refers to buying something that will be used in the business year after year*
    - Tractors, breeding livestock, barns, mowers

Capital Structure

- Asset = something tangible that a business owns or controls
  - *Land, buildings, equipment, cash, inventories*
  - *Breeding livestock, feeder livestock, fencing*
  - *Accounts receivable*
    - This refers to money owed to a producer for items sold "on credit" or "on account"
    - Example: A customer buys $5,000 of lumber on credit and will be billed at the end of the month.
      - *The $5,000 is called "accounts receivable" for the seller*

Capital Structure

- Liabilities = something the business owes to a lender or creditor
  - *Accounts Payable = money owed to a supplier for items purchased on credit*
    - You will pay the supplier at the end of the month
  - *Loans = more formal arrangement than Acct. Payable*
    - Loans are used to purchase high-dollar assets
    - Apply to a lender for a loan
    - Lender provides you with funds for your stated purchase
    - You repay the lender over time
      - *Terms are specified in the loan contract*

Capital Structure

- Owners Equity (or Net Worth)
  - *Equity = the difference between market value of an asset and the remaining loan balance*
  - *Equity = Value of Assets – Remaining Loan*
  - *You want your equity to be greater than $0*
  - *You want your equity to grow over time*
    - This means you are:
      - *Earning profits*
      - *Paying down your liabilities*
      - *The value of your business is growing*

The Language of Business– Note Organizer

There are terms specific to the business world

- Like learning a new language

You should understand these terms:

- To improve your business management
- To be able to talk with:
  - _____
  - Accountants
  - _____
  - Lawyers
  - Other business owners/managers

Understanding Profits

Most businesses try to earn profits

- Profits allow them to:
  - _____
    - Buy new equipment, expand, replace old equipment
  - Pay the owners

_____ = the money left after paying all expenses

- Profits = Revenues - Expenses

Revenues

- The money coming in (_____) from selling your product or service
- Revenues = Selling Price/Unit x Units Sold
  - For all products/services sold
- Revenue refers to the money coming in
  - It does NOT include any expenses

_____ = cost of doing business

2 Main Types of Expenses:

Variable _____ (Operating Expenses)

- These are expenses that change directly with the level of production
  - If you increase production, these costs increase
  - If you decrease production, these costs decrease
- Easy to think of "out of pocket" expenses
- Also called "_____"
- Examples:
  - Fuel, fertilizer, seed, chemicals, hired labor, repairs

Overhead (_____) Expenses

- These are costs that you have just because you are in business
  - Business licenses, property taxes
  - Office rent, insurance premiums
  - Administrative and office expenses, interest on loans
  - _____
  - Owners salary (not always included in overhead)
- These costs do NOT change significantly if production changes
  - If production increases, office rent doesn't change

Total Expenses = _____ + Overhead

- Measure of the total cost of doing business

_____ = Revenues – Variable Expenses

- You want your gross margin to be greater than $0

Gross Margin/_____ = Gross Margin divided by the number of units sold

- Good number to know
- It shows which products are earning you the most

Total Profit = Revenues – _____

- Or: Profit = Gross Margin – Overhead Expenses
- Also called "_____"
- You want Profit to be greater than $0
  - The higher the better (usually)!
- When a manager talks about "_____", they are referring to profits

Capital Structure

_____ = resources that a business owns

- Land, buildings, equipment, labor, cash
- A "_____" refers to buying something that will be used in the business year after year
  - Tractors, breeding livestock, barns, mowers

Asset = something tangible that a business owns or controls

- Land, buildings, _____, cash, inventories
- Breeding livestock, feeder livestock, fencing
- Accounts receivable

- This refers to money owed to a producer for items sold "_____" or "_____"
- Example: A customer buys $5,000 of lumber on credit and will be billed at the end of the month.
  - The $5,000 is called "accounts receivable" for the seller

_____ = something the business owes to a lender or creditor

- _____ = money owed to a supplier for items purchased on credit
  - You will pay the supplier at the end of the month

- _____ = more formal arrangement than Acct. Payable
  - Loans are used to purchase high-dollar assets
  - Apply to a lender for a loan
  - Lender provides you with funds for your stated purchase
  - You repay the lender over time
    - Terms are specified in the loan contract

Owners Equity (or _____)

- Equity = the difference between market value of an asset and the remaining loan balance
- _____ = Value of Assets – Remaining Loan
- You want your equity to be greater than $0
- You want your equity to grow over time
  - This means you are:
    - _____
    - Paying down your liabilities
    - The value of your business is growing

The Language of Business– In-Class Exercise

Classify each of the following items associated with Tim's lawn-mowing business under the appropriate term(s).

A. Revenue
B. Operating Expense (Variable Expense)
C. Overhead Expense (Fixed Expense)
D. Gross Margin
E. Profit
F. Asset
G. Account Receivable
H. Account Payable
I. Loan
J. Equity (or Net Worth)

_____ Tim's 2 riding mowers, valued at $4,250 each.

_____ $2,000 paid to Tim for his mowing services this week.

_____ $3,000 remaining on the loan used to purchase one of the riding mowers.

_____ $1,500 that Tim's customers owe him for mowing their lawns "on account". They will pay him within the next month or so.

_____ $500 that Tim owes the supply store for parts to repair his mowers.

_____ $750 that Tim paid to his hired worker for this week's wages.

_____ $2,000 insurance premium payment for auto insurance coverage for the year.

_____ Tim wants to borrow $2,500 to buy attachments for his mowers. He doesn't have the cash on hand, so he will try to borrow this money from a lender.

_____ For the month Tim received revenues of $5,000. He had variable expenses of $2,800 for fuel, parts, and hired labor. He says, "I made $2,200 this month." What is the term for that $2,200?

_____ Tim's truck has a market value of $18,000. He still owes $4,000 on the loan he used to purchase the truck. What is the term for the $14,000 difference between the market value of the truck and the remaining loan balance?

_____ Tim bought $1,400 of fuel and parts for 2 weeks of mowing.

Use the following information to help Tim understand the financial side of his business:
For the entire year of 2016:

Tim mowed 800 lawns at an average price of $50/lawn

He paid for the following items:

Fuel - $6,000

Advertising - $1,000

Office Rent - $12,000

Parts & repair costs - $2,000

Property taxes - $2,000

Hired Labor for mowing - $8,000

Interest on mower loans - $500

Calculate the Total Revenues for Tim's business

Calculate the Total Operating Expenses for the year
(Only include the costs that change as the number of lawns mowed change)

Calculate the Total Overhead Expenses for the year

Calculate the Gross Margin for Tim's business for the year

Calculate the Gross Margin per Lawn for Tim's business.

Calculate the Profit (or Net Income) for Tim's business for the year
Because Tim did not include a salary for himself, the profit for the year is what he can pay himself.

Tim thinks the market value of his business assets is $30,000. He owes a total of $12,000 in loans and accounts payable at the moment. Calculate the total equity of Tim's business.

The Language of Business – In-Class Exercise (KEY)

Classify each of the following items associated with Tim's lawn-mowing business under the appropriate term(s).

A. Revenue
B. Operating Expense (Variable Expense)
C. Overhead Expense (Fixed Expense)
D. Gross Margin
E. Profit
F. Asset
G. Account Receivable
H. Account Payable
I. Liability
J. Equity (or Net Worth)

F — Tim's 2 riding mowers, valued at $4,250 each.

A — $2,000 paid to Tim for his mowing services this week.

I — $3,000 remaining on the loan used to purchase one of the riding mowers.

G — $1,500 that Tim's customers owe him for mowing their lawns "on account". They will pay him within the next month or so.

H — $500 that Tim owes the supply store for parts to repair his mowers.

B — $750 that Tim paid to his hired worker for this week's wages.

C — $2,000 insurance premium payment for auto insurance coverage for the year.

I — Tim wants to borrow $2,500 to buy attachments for his mowers. He doesn't have the cash on hand, so he will try to borrow this money from a lender.

D — For the month Tim received revenues of $5,000. He had variable expenses of $2,800 for fuel, parts, and hired labor. He says, "I made $2,200 this month." What is the term for that $2,200?

J — Tim's truck has a market value of $18,000. He still owes $4,000 on the loan he used to purchase the truck. What is the term for the $14,000 difference between the market value of the truck and the remaining loan balance?

B — Tim bought $1,400 of fuel and parts for 2 weeks of mowing.

Use the following information to help Tim understand the financial side of his business:

For the entire year of 2016:

Tim mowed 800 lawns at an average price of $50/lawn

He paid for the following items:

Fuel - $6,000

Advertising - $1,000

Office Rent - $12,000

Parts & repair costs - $2,000

Property taxes - $2,000

Hired Labor for mowing - $8,000

Interest on mower loans - $500

Calculate the Total Revenues for Tim's business = **800 lawns x $50/lawn = $40,000 revenues**

Calculate the Total Operating Expenses for the year = **$6,000 fuel + $2,000 parts + $8,000 labor = $16,000**

(Only include the costs that change as the number of lawns mowed change)

Calculate the Total Overhead Expenses for the year =

= $12,000 rent + $1,000 advertising + $2,000 taxes + $500 interest = $15,500

Calculate the Gross Margin for Tim's business for the year

Gross Margin = Revenues – Variable Expenses = $40,000 - $16,000 = $24,000

Calculate the Gross Margin per Lawn for Tim's business.

= $24,000 / 800 lawns = $30/lawn

This indicates that Tim is earning $30/lawn above his variable costs – this margin can be used to pay for the overhead expenses of the business.

Calculate the Profit (or Net Income) for Tim's business for the year

Because Tim did not include a salary for himself, the profit for the year is what he can pay himself.

Profit = Revenues – Variable Expenses – Overhead = $40,000 - $16,000 - $15,500 = $8,500

Tim thinks the market value of his business assets is $30,000. He owes a total of $12,000 in loans and accounts payable at the moment. Calculate the total equity of Tim's business.

Equity = Market Value of Assets – Liabilities = $30,000 - $12,000 = $18,000 of equity

The Language of Business - Homework

Jan's Bicycle Sales & Repair is a new business in the area. Jan is an avid bike rider – she competes in several road races each year. She also loves to talk to people about the health benefits of riding bicycles. That's one of the main reasons she opened her business. She sells many different types of bicycles, and she repairs all types as well. Let's practice "the language of business" as it relates to Jan's business.

Here is a list of items that are associated with Jan's business:

$50,000 of bikes in inventory today, ready to sell

$150,000 building (the store) & land

$10,000 in the business checking account

$80,000 loan to purchase the building and land

$40,000 operating loan to purchase the bikes so she can sell them

$7,500 depreciation on the building and equipment for the year

$30,000 of office equipment, displays, cash registers, etc. that she owns

$8,000 of interest paid this year on the loan to purchase the building

$2,000 of interest paid this year on the operating loan to purchase the bicycle inventory

$140,000 of bicycle sales for the year

$12,000 of property insurance for the year

$60,000 spent to purchase the bicycles she sold throughout the year

$5,000 in advertising expenses for the year

$11,000 that Jan owes to her bicycle parts supplier as of today – to be paid within 1 month

$20,000 that Al's Bike Tours owes to Jan as of today for bicycles he purchased but hasn't paid for yet

$25,000 of sales commission (based on the number of bikes sold) that Jan pays to her sales team

Please classify these items into the correct category. Each item belongs in only one category.

Revenues (Item)	**($)**
_____	_____
Operating Expenses (Item)	**($)**
_____	_____
_____	_____
Total Operating Expenses	_____

Overhead Expenses (Item)	**($)**
Total Overhead Expenses	

Asset (Item)	**($)**

Account Receivable (Item)	**($)**

Account Payable (Item)	**($)**

Operating Loan (Item)	**($)**

Term Loan (Item)	**($)**

Please calculate the Gross Margin for Jan's bike business for the year.

Total Revenues: $ _____

- Total Operating Expenses: $ _____

= Gross Margin: $ _____

Jan sold a total of 800 bicycles last year. Calculate Jan's Gross Margin per bicycle? This represents how much money is left over after paying the operating expenses for each bike sold.

Calculate the Profit (or Net Income) for Jan's business for the year.

Total Revenues:	$ _____
- Total Operating Expenses:	$ _____
- Total Overhead Expenses:	$ _____
= Profit:	$ _____

How much profit did Jan earn per bicycle that she sold? Briefly explain what this number means to Jan.

Calculate the Total Assets for Jan's business as of today.

Accounts Receivable:	$ _____
+ Assets:	$ _____
= Total Assets:	$ _____

Calculate the Total Liabilities for Jan's business as of today.

Accounts Payable:	$ _____
+ Operating Loan:	$ _____
+ Term Loan:	$ _____
= Total Liabilities:	$ _____

How much Equity (Net Worth) does Jan have in her business as of today? This is how much Jan has personally invested in her business so far.

Total Assets:	$ _____
- Total Liabilities:	$ _____
= Equity (Net Worth):	$ _____

What does this Equity number mean to Jan?

The Language of Business – Homework (KEY)

Jan's Bicycle Sales & Repair is a new business in the area. Jan is an avid bike rider – she competes in several road races each year. She also loves to talk to people about the health benefits of riding bicycles. That's one of the main reasons she opened her business. She sells many different types of bicycles, and she repairs all types as well. Let's practice "the language of business" as it relates to Jan's business.

Here is a list of items that are associated with Jan's business:

$50,000 of bikes in inventory today, ready to sell

$150,000 building (the store) & land

$10,000 in the business checking account

$80,000 loan to purchase the building and land

$40,000 operating loan to purchase the bikes so she can sell them

$7,500 depreciation on the building and equipment for the year

$30,000 of office equipment, displays, cash registers, etc. that she owns

$8,000 of interest paid this year on the loan to purchase the building

$2,000 of interest paid this year on the operating loan to purchase the bicycle inventory

$140,000 of bicycle sales for the year

$12,000 of property insurance for the year

$60,000 spent to purchase the bicycles she sold throughout the year

$5,000 in advertising expenses for the year

$11,000 that Jan owes to her bicycle parts supplier as of today – to be paid within 1 month

$20,000 that Al's Bike Tours owes to Jan as of today for bicycles he purchased but hasn't paid for yet

$25,000 of sales commission (based on the number of bikes sold) that Jan pays to her sales team

Please classify these items into the correct category. Each item belongs in only one category.

Revenues (Item)	**($)**
Bicycle Sales	$140,000
Operating Expenses (Item)	**($)**
Bicycles Purchased (COGS)	$60,000
Hired Labor	$25,000
Total Operating Expenses	$85,000

Overhead Expenses (Item)	**($)**
Depreciation	$7,500
Interest on Term Loan	$8,000
Interest on Operating Loan	$2,000
Property Insurance	$12,000
Advertising Expense	$5,000
Total Overhead Expenses	$34,500

Asset (Item)	**($)**
Bicycle Inventory	$50,000
Land & Building	$150,000
Checking Account	$10,000
Equipment, Displays, etc.	$30,000

Account Receivable (Item)	**($)**
Al's Bike Tours	$20,000

Account Payable (Item)	**($)**
Payable to Parts Supplier	$11,000

Operating Loan (Item)	**($)**
Bicycle Inventory Loan	$40,000

Term Loan (Item)	**($)**
Land & Building Loan	$80,000

Please calculate the Gross Margin for Jan's bike business for the year.

Total Revenues:	$ 140,000
- Total Operating Expenses:	$ 85,000
= Gross Margin:	$ $55,000

Jan sold a total of 800 bicycles last year. Calculate Jan's Gross Margin per bicycle? This represents how much money is left over after paying the operating expenses for each bike sold.

$55,000 / 800 bicycles = $68.75/bicycle that can be used to pay the overhead expenses

Calculate the Profit (or Net Income) for Jan's business for the year.

Total Revenues:	$ 140,000
- Total Operating Expenses:	$ 85,000
- Total Overhead Expenses:	$ 34,500
= Profit:	$ 20,500

How much profit did Jan earn per bicycle that she sold? Briefly explain what this number means to Jan.

$20,500 / 800 bicycles = $25.63/bicycle sold

Because Jan has paid all of her operating costs and overhead costs, this $25.63/bicycle is basically her "salary".

Calculate the Total Assets for Jan's business as of today.

Accounts Receivable:	$ 20,000
+ Assets:	$ 240,000
= Total Assets:	$ 260,000

Calculate the Total Liabilities for Jan's business as of today.

Accounts Payable:	$ 11,000
+ Operating Loan:	$ 40,000
+ Term Loan:	$ 80,000
= Total Liabilities:	$ 131,000

How much Equity (Net Worth) does Jan have in her business as of today? This is how much Jan has personally invested in her business so far.

Total Assets:	$ 260,000
- Total Liabilities:	$ 131,000
= Equity (Net Worth):	$ 129,000

What does this Equity number mean to Jan?

A couple of ways to describe it:

- **it means she has invested a total of $129,000 of her money into the business over time**
- **if she were to sell the business and pay off her liabilities, she would have $129,000 left over (ignoring taxes and sales expenses)**

The Language of Business – Student Driven Learning Activity

After completing the homework exercise evaluate the expenses and determine 2-3 ways you may be able to cut expenses without compromising the integrity of the business. You may not remove insurance, etc… Upon determining 2-3 ways prepare justifications for why those costs may be cut and how you will offset for the cut expense. Prepare a sales pitch to your investors to describe how you will cut these costs and how it will or will not affect daily business operations.