

Enterprise Budgets- Note Organizer Advanced

What is an Enterprise?

- ▶ A specific aspect of a business
- ▶ Each _____ or _____
- ▶ Example:
 - ▶ Grocery store enterprises
 - _____
 - Fruits
 - Dairy, etc.
 - ▶ Dairy farm enterprises:
 - Cows
 - _____
 - Alfalfa hay
 - Pasture, etc.
 - ▶ Lawn care business enterprises:
 - _____
 - Installation
 - Maintenance of lawns (spraying, etc.)

Why Do We Care?

- ▶ Income statements show the _____ for the ENTIRE business
 - But you can't easily see where you are _____ or _____ money from an income statement

Enterprise Budgets

- ▶ Enterprise budgets show the _____ of each SECTION of the business
- ▶ Enterprise budgets allow _____
- ▶ Show the profitability of one specific aspect of the business
 - ▶ Main sections:
 - _____
 - Operating (_____) Costs
 - Gross Margin (Return Above Operating Costs)
 - Overhead (_____) Costs
 - Net Income (Return Above Total Costs)
- ▶ Usually constructed on a per-unit basis
 - Per _____
 - Per head (or per herd)
 - Per _____

- Per lawn (or per square foot)
 Use the unit that makes it easiest for you

Revenue Section

- ▶ Shows all products associated with that enterprise
 - Quantity produced & sold
 - Selling price or value of each product
 - Revenue for each product
 - _____
- ▶ Total Revenue (_____)
 - Total value of the enterprise's products

Operating (Variable) Expenses

- ▶ Shows all of the operating inputs used in that enterprise
 - _____
 - Cost/unit of each input
 - Total cost for each input
- ▶ Total Operating Expenses
 - _____
 - Referred to as "short run cost of production"

Gross Margin

- ▶ aka _____
- ▶ Gross Margin:
 - Total Revenues – _____
 - Shows how much money is left over after you pay all of your operating expenses
 - _____
- ▶ You want Gross Margin > \$0
 - If it's less than \$0, you are losing money for every unit you produce

Overhead (Fixed) Expenses

- ▶ Shows all of the overhead costs for the enterprise
 - _____
 - Insurance, interest on term loans
- ▶ Total Overhead Expenses
 - _____
- ▶ Total Expenses
 - Total Operating Expenses + Total Overhead Expenses

Net Income

- ▶ aka Return Above Total Costs
 - _____
- ▶ Net Income = Total Revenues – Total Expenses
- ▶ Shows how much money is left after you pay all of your expenses for the enterprise

Return above Operating Costs (RAOC)

- ▶ How much money is left after your total operating costs
- ▶ Also called “_____”
- ▶ $RAOC = \text{_____} - \text{Total Operating Costs}$
- ▶ Always want RAOC to be greater than 0
 - Means that you have money available above your variable costs

Return above Total Costs (RATC)

- ▶ Represents the “_____” of your enterprise
- ▶ Shows how much money is left over after you pay all of the operating and overhead costs
- ▶ Also called “_____”
- ▶ $RATC = \text{Total Revenues} - \text{Total Costs}$ OR $RATC = \text{Total Revenues} - \text{Total Operating Costs} - \text{Total Overhead Costs}$
- ▶ RATC should be greater than 0
 - Generating enough revenue to pay _____
 - Earning enough to replace equipment over time
- ▶ RATC is less than 0
 - Make changes to your enterprise
 - _____

How to increase RAOC and RATC

- ▶ Reduce costs of production without hurting the level of production or quality of product
 - _____
- ▶ Identify 5 largest expenses and determine how one of them can be reduced through,
 - Production methods
 - _____
 - Changes in business practices
 - Lowering your fixed costs
- ▶ Examine pricing strategy
 - Can you increase the price without “_____” the customer?