



What Is This Module About?

Do you like to have your own business in the future? What do you think are the skills you need to make your business grow? How would you know if your business is doing well or not? If you thought about these questions before, then this module is for you!

Many people have become rich and successful in their own business. Do you want to be an entrepreneur? One who starts and runs his/her own business is an entrepreneur. To become a successful entrepreneur you must develop the knowledge and skills needed in solving math problems related to business. You should know how to compute profit and loss and prepare budgets. Also, you shall know how to prepare and analyze reports that tell how your business is doing.

In this module, you will learn how to compute profit and losses. You will study how to prepare budgets, balance statements and income sheets.

This module is composed of three lessons.

Lesson 1 – *Computing Profit and Loss*

Lesson 2 – *How to Prepare a Balance Sheet and an Income Statement; and*

Lesson 3 – *Preparing Budgets and Estimating Future Growth*



What Will You Learn From This Module?

After studying this module, you should be able to:

- ◆ compute profit and loss;
- ◆ prepare balance sheets and financial statements;
- ◆ prepare and monitor budgets; and
- ◆ estimate the future growth of a business.



Let's See What You Already Know

Before studying this module, take this simple test to determine what you already know about the topics covered.

1. Mang Kanor owns a TV repair shop. Today, he made P800 in repairs. He has to pay P200 to each of his two assistants and P100 in rent for their shop. He estimated that he has to pay P150 for light and electricity. What is his gross and net profit? Is his business doing well?

Gross Profit:

Net Profit:

2. XYZ Beauty Supplies sold P2,000 worth of goods today. The actual cost of the products sold is P 1,400. The store has two assistants that are paid P250 each. The owner computed the selling cost of goods at P350. Compute for the store's net profit. Is it doing well?

Net Profit:

- F. What questions do data from a balance sheet answer?

- E. What is an income statement?

- F.

Last month, Sarangola Store, sold ₱10,000 worth of goods. The actual cost of goods sold was ₱7,000. The operating and administrative expenses were: salaries ₱1,000, supplies ₱200 and miscellaneous expenses ₱600.

1. Find the gross profit and net profit for the month.
2. Prepare an income statement based on the given information.

Well, how was it? Do you think you fared well? Compare your answers with those in the *Answer Key* on page 40 to find out.

If all your answers are correct, very good! This shows that you already know much about the topics in this module. You may still study the module to review what you already know. Who knows, you might learn a few more new things as well.

If you got a low score, don't feel bad. This means that this module is for you. It will help you understand some important concepts that you can apply in your daily life. If you study this module carefully, you will learn the answers to all the items in the test and a lot more! Are you ready?

You may go now to the next page to begin Lesson 1.

Computing Profit and Loss

People go into business because they have something to sell. They could either sell products or services that people need. In the process of selling, the entrepreneur makes profits. Making profits is an important part of doing business. If the business is not earning, it is doomed to fail.

Doing business is not easy. A storeowner, for example, must be able to perform the basic functions of a businessman – buying, financing, pricing selling and servicing. These involve constantly computing or solving number problems. These functions are not easy. An entrepreneur who lacks the ability to run a store may be facing trouble. Hundreds of businesses have closed because of failure to make a profit.

After studying this lesson, you should be able to:

- ◆ compute gross and net profits;
- ◆ define selling cost, operating cost, and owner's profits; and
- ◆ calculate losses.

Are you now ready to study business math? Read the story below.



Let's Read

Mang Nilo wants to open a small sari-sari store. He has saved P10,000 and plans to use it for the store. Mang Nilo spent P3,000 to make shelves for groceries and paint a store sign. How much does he have left?

The P10,000 that Mang Nilo put into his business is called **capital**. A capital is needed to start a business. The expenses needed to put up a business must be deducted from the capital. These are called **capital expenses**.

$$\text{Capital} - \text{Expenses} = \text{Remaining Capital}$$

$$₱10,000 - ₱3,000 = ₱7,000$$

Mang Nilo has P7,000 left. The P3,000 worth of store equipment (shelves etc.) is now considered a property of the business. They are **assets**, what a business owns. Since this type of assets stays in one place and are usually not sold, it is called **fixed assets**.

Using the P7,000 he had left, Mang Nilo bought groceries to be sold in his sari-sari store. Since that money bought goods that become the business' property, the groceries are also considered assets. But they can be sold anytime. These assets are called **beginning inventory** – the value of goods available for sale. This is also called cost of goods for sale. Mang Nilo has P7,000 worth of beginning inventory.



Let's Try This

Encircle the fixed assets and underline the beginning inventory.

1. Cash register
2. Groceries for sale
3. Refrigerator
4. Bread for sale
5. Glass display cases
6. Softdrinks for sale

Compare your answers with those found in the *Answer Key* on pages _____. Did you get all items correct? That's great if you did. You now know what the types of assets are.

The next thing that Mang Nilo needs to do is to determine the selling price of his goods. How are selling prices set?

A businessman must set prices high enough to cover different costs. There are three basic costs:

1. Operating costs –

These include expenses like salaries of employees, rentals, insurance, light and water payments. Operating costs are also called overhead costs. These are expenses that are needed before a business can run.

2. Selling costs –

These include expenses like delivery charges, transportation expenses, mail and others.

3. Owner's profits –

The owner must receive a profit from his business for personal use. This is a reward or payment for his efforts to keep the business going.

These expenses must be computed or estimated and added to the cost of goods for sale to determine their selling price. This is called the mark-on or gross profit.

$$\text{Mark On} = \text{Selling Price} - \text{Cost}$$

For example, if Carlo decides to sell for P100 each the T-shirts he bought for P75 how much will be the mark-on or profit?

$$\text{Selling Price} = \text{P}100$$

$$\text{Cost of Goods for Sale/Sold} = \text{P}75$$

$$\text{Mark On} = \text{Selling Price} - \text{Cost}$$

$$\text{P}100 - \text{P}75 = \text{P}25$$

Carlo has a mark-on or gross profit of P25 for every t-shirt sold

Will the whole P25 go to him as his personal profit?

No. Remember that there are three basic expenses that must be considered. The selling cost, operational cost and owner's profit. Only after he has allotted an amount to cover the selling and operational costs can he take whatever's left as owner's profit.



Let's Try This

Answer the following questions.

1. If Enrico sells puto at P11.50 for each bag, how much gross profit will he make if he bought each bag of puto for P8.00? What is his gross profit if he sells 60 bags of puto today?

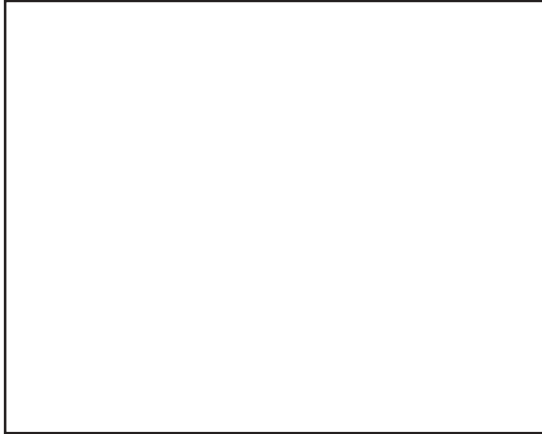
2. Marissa sells buco pie at P50 each. If the cost of each buco pie is P40.00, how much profit will she make from each pie? What is her gross profit if she sells 10 buco pies today?

Compare your answers with those found in the *Answer Key* on page ____.



Let's Think About This

How big should a mark-on be? What would happen if the selling price of a product is too high? What would happen if the selling price is too low?



An entrepreneur must not set his selling prices too high. If he does, he might lose his customers to competitors, other businessmen who sell the same products. If his selling prices are too low, he may only “break-even” or even lose money. Thus pricing and selling products are important to consider in managing a sari-sari store, or any other business for that matter.

How are profits computed? Gross profits refer to the total amount received from selling goods. If Mang Nilo was able to sell ₱700 worth of goods for today, his gross profit would be ₱700.

If Juan made ₱500 in sales from his bake shop today, how much is his gross profit? If you answered, ₱500, you got it right.

But gross profits, like mark-ons, do not all go to the owner. The expenses incurred in selling goods must be deducted. The result would be the net profit. Net profit is the gross profit minus the expenses (cost of goods sold, selling and operational costs). The remainder would be the net or owner's profit.

$$\text{Net Profit} = \text{Gross Profit} - \text{Expenses}$$

For example, Katrina sells candies at school. Today, she was able to sell ₱200 worth of candies. If she computed the actual cost of the candies she sold at ₱150 and the selling and operational expenses at ₱25, how much is her net profit or owner's profit?

$$\text{Net Profit} = \text{Gross Profit} - \text{Expenses}$$

Gross profit =	₱250		
Expenses =	Actual cost of goods sold	₱150	
	+ Selling and operating expenses	₱ 25	
		₱175	
Net Profit =	₱250 -	₱175	
			←

Net Profit = ₱ 75

Katrina's net profit is ₱75. That can also be considered as the owner's profit because she can do whatever she likes with the amount.

Is Katrina earning well from her small business?

She is. She makes ₱75 for every ₱250 worth of goods sold. That's not bad.



Let's Try This

1. Aling Tinay sells jewelry. Today, she sold ₱2,500 worth of jewelry. She estimated the cost of goods sold at ₱2,200. Also she estimated her selling expenses at ₱100. What is her net profit?
2. Tonio runs a barbershop. Today, he made ₱500. He has to pay ₱200 to his assistant and ₱150 for rent. He estimated that he has to pay ₱50 for light and electricity. What is his net profit?

Compare your answers with those found in the *Answer Key* on pages _____.

Computing for net profit is easy as long as you know how to apply the formula. A good businessman makes sure that he makes a profit every day. How big this profit is depends on how much he has sold and his expenses. But how does one know if his/her business is losing money?

Computing for losses uses the same formula as computing for profits.

For example, Ana sells toys. Today, she was able to sell ₱600 worth of toys. If she computed the actual cost of the candies she sold as ₱550 and selling and operational expenses at ₱55, how much is her net profit or owner's profit?

Net Profit = Gross Profit – Expenses

Gross profit = ₱600

Expenses =

	Actual cost of goods sold	₱550
	+ Selling and operating expenses	<u>₱ 55</u>
		₱605

Net Profit = ₱600 – **₱605**

Net Profit = - ₱ 5 (negative 5 pesos)

Did Ana make a net profit? No. She didn't. In fact, she is short of P5. This is considered a loss. How then would you know if there were profits or losses?

If there is a negative sign before the number, this means that there is a loss. This means that she has to raise P5 just to break even. What is breaking even?

Breaking even means that there is no profit but neither is there a loss. Study the problem below.

For example, Jojo sold P400 worth of T-shirts today. He computed the actual cost of the t-shirts he sold as P350 and selling and operational expenses at P50. What is his net profit or owner's profit?

$$\text{Net Profit} = \text{Gross Profit} - \text{Expenses}$$

$$\text{Gross profit} = \text{P}400$$

Expenses =	Actual cost of goods sold	P350
	+ Selling and operating expenses	<u>P 50</u>
		P400

$$\text{Net Profit} = \text{P}400 - \text{P}400$$

$$\text{Net Profit} = 0$$

Did Jojo break even? Yes, he did. A net profit of 0 is called **breaking even**. This means that no profits or losses have been incurred.



To summarize, getting a positive value (above 0) for the net profit tells you that there is a profit made. A negative value signifies loss. A 0 means breaking even.

Is Jojo's business doing well? No. Breaking even is not a sign that the business is doing well. A business should earn or make a profit. If this does not happen, the business is bound to fail.



Let's Try This

1. A drug store has ₱5,000 in total sales. The owner estimated that the cost of goods sold was ₱4,200. Operating and selling expenses are at ₱800. What is the net profit? Is the drugstore doing well?

2. Anton owns a watch repair shop. Today, he made ₱700 in repairs. He has to pay ₱200 to each of his two assistants and ₱200 for rent for their shop. He estimated that he has to pay ₱50 for light and ₱75 for electricity. What is his net profit? Is his business doing well?

3. Flora's Flower Shop sold ₱1,200 worth of flowers. The actual cost of the flowers sold is ₱900. The flower shop has to pay ₱200 in rent for that day. There are two florists to be paid ₱150 each. The owner computed his selling cost at 150. Compute the flower shop's profit? Is it doing well?

Compare your answers with those found in the *Answer Key* on pages _____.
Are your answers correct? That's very good if they are.

If not, go back to your answers and make the necessary corrections. Make sure that you review your computations for accuracy.

How To Prepare a Balance Sheet and an Income Statement

In Lesson 1 you learned how to compute profit and loss. This skill is needed by every businessman or entrepreneur to find out how his/her business is doing. Profit and loss can be presented in an organized and easy-to-read report. Such a report tells whether the business is going well or not. In this lesson, you will study how to prepare balance sheets and income statements. These are reports that will tell whether a business is doing well or not.

At the end of this lesson, you are expected to be able to:

- ◆ analyze balance sheets and financial statements; and
- ◆ prepare balance sheets and income statements.



Let's Read

Preparing Balance Sheets

Do you know what a balance sheet is? A **balance sheet** is a very useful tool in keeping track or monitoring the performance of a business. It gives the owner of a business the **financial status or position of the business on a specific date**. If you want to find out how well the business is doing on a specific date, study its balance sheet.

A balance sheet is prepared daily. Why do you think it should be prepared daily?

Study the example of a balance sheet below.

**Miracle Drug Store
Ana Cruz - Proprietor
Balance Sheet
March 15,2001**

Current Assets

Cash	P7,000	
Accounts Receivable	P 600	
Merchandise Inventory	P6,000	
Total Current Assets		P13,600

Fixed Assets

Store Equipment	₱10,000	
Office Equipment	₱ 5,000	
Total Fixed Assets		₱15,000

Total Assets **₱26,600**

Current Liabilities

Accounts Payable	₱6,100	
Notes Payable	₱ 500	
Total Liabilities		₱6,600

Owner's Equity

Owner's Capital	₱20,000	
Add: Net Profit	₱ 2,000	
Total Owner's Equity	₱22,000	
Total Liabilities		₱6,600

Total Liabilities & **Owner's Equity** ₱28,600

Can you identify the parts of a balance sheet? There are a lot of new terms that you can find in the above example. Do you know what each one represents?

A balance sheet can answer the following questions:

As of today (date), March 15,2001....

- 1. How much does my business own?**
- 2. How much does my business owe?**
- 3. What is the value of my financial interest in the business?**

The first question refers to the **assets** of a business. The second refers to its debts or **liabilities** and the third refers to the **owner's equity**. All of this information is shown in a balance sheet.

Do you know what assets and liabilities are? An **asset** is something of value that a business owns. For example, all the equipment used in a bakeshop are considered assets because they are valuable. They can be sold. They add to the worth of the business. **Liabilities** are debts or amounts that the business owes to people or other business. If you borrowed ₱100 from a friend, then you have a debt of ₱100 to that friend.

If you own something, that is an asset. Can you name some of your own assets and liabilities?

The **owner's equity** is the owner's share of the business. Since he/she is also an "employee" he/she should be given a share of the business, like a salary or payment for the efforts he/she has put into the business. This information is summarized in a balance sheet and a financial statement.

Let us study the parts of a balance sheet.

1. The **Heading** shows the name of the business, the owner and the date for which the balance sheet is made.

Miracle Drug Store
Ana Cruz - Proprietor
Balance Sheet
March 15,2001

2. Current Assets

The **Assets** represent anything of value that the business owns. The **Current Assets** are known as **liquid assets**. Like water that can flow easily, these are anything of value that the business owns that can be readily convertible to cash

Study the sample balance sheet on page 15, what can be found under this category? Write them down below:

- a. _____
- b. _____
- c. _____

If you answered

Cash, Accounts Receivable, Merchandise Inventory

You are correct!

Miracle Drug Store has the following current assets as shown on its balance sheet:

Current Assets

Cash	₱7,000	
Accounts Receivable	₱ 600	
Merchandise Inventory	₱6,000	
Total Current Assets		₱13,600

What do these represent? Read on.

1. **Cash** – money in bills or coins that the owner keeps.
2. **Accounts Receivable** – what customers still owe the company at a given date. These are the amounts that the business expects to receive from others.

3. **Merchandise Inventory** – the value of unsold goods or products
4. **Total Current Assets** – this is the sum of the values for cash, accounts receivable and merchandise inventory of a business.

Total Current Assets = Cash + Accounts Receivable + Merchandise Inventory

Miracle Drug Store's Total Current Assets is the sum of the three sources of current assets of the business.

Compute for the Total Current Assets if:

Cash	₱ 4,000
Accounts Receivable	₱ 2,000
Merchandise Inventory	₱ 10,000

If you answered ₱16,000, that's correct.

Put in the appropriate values for current assets based on your computation.

Current Assets

Cash	_____
Accounts Receivable	_____
Merchandise Inventory	_____
Total Current Assets	_____

Compare your work with the one in the *Answer Key* on page _____.

There is another type of asset. These are the **fixed assets**. These are the property of the business that cannot be readily converted to cash. **Store equipment and office equipment** are placed under fixed assets.

If store equipment is worth ₱6,000 and office equipment is worth ₱4,000, what is the business' total fixed assets?

Total Fixed Assets = Store Equipment + Office Equipment

Put in the appropriate values for fixed assets based on your computation.

Fixed Assets

Store Equipment	_____
Office Equipment	_____
Total Fixed Assets	_____

Compare your work with the one in the *Answer Key* on page _____.

Next, compute the **Total Assets**. It is computed this way:

$$\text{Current Assets} + \text{Fixed Assets} = \text{Total Assets}$$

If Current Assets is ₱15,000 and Fixed Assets is ₱10,000, compute for Total Assets.

If you answered ₱25,000, you got it right.

Go back to page 15. Check if the Current and Fixed Assets when added equal the Total Assets.

What are liabilities?

5. **Liabilities** or **debts** refer to what the business owes other businesses or creditors. **Current Liabilities** are what the business owes other businesses that must be paid immediately, usually within a year.

$$\text{Total Liabilities} = \text{Accounts Payable} + \text{Notes Payable}$$

If Accounts Payable is ₱3,000 and Notes Payable is ₱2,000, compute the Total Liabilities. Input the given data and your answer below.

Current Liabilities

Accounts Payable	_____	
Notes Payable	_____	
Total Liabilities		_____

Compare your work with the one in the *Answer Key* on page _____.

Owner's Equity is the owner's share of the business. It is computed as:

$$\text{Owner's Equity} = \text{Owner's Capital} + \text{Net Profit}$$

If the **Owner's Capital** is ₱20,000 and Net Profit ₱1,000, compute the **Total Owner's Equity**. Input the given data and your answer below.

Owner's Capital	_____	
Add: Net Profit	_____	
Total Owner's Equity		_____

Compare your work with the one in the *Answer Key* on page _____.

Lastly, the **Total Liabilities** must be added to the **Owner's Equity**.

Put in your previous answers on the space below.

Total Owner's Equity _____
Total Liabilities _____

Total Liabilities & Owner's Equity _____

What do you notice about the value of the **Total Liabilities** and **Owner's Equity**? If you answered that it is equal to the Total Assets, you are correct. This is so because the assets (worth) of a business are equal to the amount the owner has put in the business so far minus the liabilities. You must always check for this when you make a balance sheet.

You now know what each term in the **balance sheet** is. When you have your own business, you can compute the value of each item and put it in the proper place in your balance sheet.

When making computations for business or preparing a balance sheet, is it important to be accurate? Why or why not?

It is important that your computations in the balance sheet are accurate(correct) and properly placed. The balance sheet provides the owner of a business an immediate feedback or information on the state of its finances.

Below is a blank balance sheet. Make believe that you have a business. Put in values or numbers on the blank spaces provided and compute as needed. Make believe that your business is doing well. The balance sheet should show it.

My Own Business

_____ - **Proprietor**

Balance Sheet

Date: _____

Current Assets

Cash _____
Accounts Receivable _____
Merchandise Inventory _____
Total Current Assets _____

Fixed Assets

Store Equipment	_____	
Office Equipment	_____	
Total Fixed Assets		_____

Total Assets _____

Current Liabilities

Accounts Payable	_____	
Notes Payable	_____	
Total Liabilities		_____

Owner's Equity

Owner's Capital	_____	
Add: Net Profit	_____	
Total Capital	_____	
Total Liabilities		_____

Owner's Equity _____

Compare your work with that found in the *Answer Key* on page _____.



Stop. Rest for a while before proceeding. Relax for about 20 minutes before you move on to the next part of this lesson.



Let's Read

Preparing Income Statements

An **income statement** is a report or document which shows how much a business earned or lost during a given period of time. An income statement is also known as a **profit and loss statement**. In contrast to a balance sheet that records the daily status of a business, an income statement is usually done weekly or monthly.

This income statement report is very important. It shows the amount of sales, cost of goods or services sold, the expenses incurred in the running or operation of a business and the profits earned for a given period. To prepare an income statement, one must learn how to compute profit and loss. You learned this in Lesson 1.

An income statement must be interpreted and assessed. Like the balance sheet, it also answers questions about the business. The owner can use the income statement or report to answer the following questions:

1. **Are the goals set at the start of the business being met?**
2. **Is the business making a profit?**
3. **Are the sales increasing or decreasing?**
4. **Is the business making more money through sales? Or is it losing money through operation and other expenses?**

Study an example of an income statement below.

Maharlika Sari-Sari Store	
Income Statement	
For the month of March, 2001	
Sales	P25,000
Less: Cost of Sales	<u>P10,500</u>
Net sales	P14,500
Beginning Inventory	P10,400
Purchases	<u>P 5,200</u>
Goods available for sale	P15,600
Less: Ending Inventory	<u>P 9,800</u>
Cost of goods sold:	<u>P5,800</u>
Gross Profit on Sales	P8,700
Less: Selling and Administrative Expenses	<u>P4,500</u>
Net Profit	P4,200

To be able to prepare an income or financial statement, study the meaning of the terms below.

1. **Sales** – the amount of money a business makes by selling goods or services.

For example, Pacing sells halo-halo. If in a month, she sold P7,600 worth of halo-halo, how much are her sales for the month? If you answered P7,600, you are correct!

2. **Net Sales** – is computed as:

$$\text{Net Sales} = \text{Sales} - \text{Returns and Allowances}$$

Returns and allowances are the value of goods returned by a customer or discounts given to customers.

If Pacings Return and allowance amount to ₱1,500, what is her net sales for the month?

$$\text{Net Sales} = \text{Sales} - \text{Returns and Allowances}$$

$$= \text{₱7,600} - \text{₱1,500} = \text{₱6,100}$$

3. **Inventory** – the process of counting available goods for selling and/or determining the price or value of left over goods.
4. **Beginning Inventory** – the amount of goods at the start of the inventory period. An inventory is usually made weekly or monthly.

Do you know what is needed to prepare halo-halo? Write them down below:

- a. _____
- b. _____
- c. _____
- d. _____

To prepare halo-halo, you need to have ice and ingredients such as ube, sago, leche-flan and nata de coco. The cost of these would be the **beginning inventory**.

For that month, Pacing began by listing the cost of all the needed ingredients to make halo-halo. She estimated that they cost **₱4500**, what would be the beginning inventory? That would be ₱4,500, too.

5. **Purchases** – the goods bought for additional supply.

In the middle of the month, Pacing ran out of sugar. She bought 20kilos of sugar at ₱30.00 per kilo. How much would be the purchases she made for that day that added to her inventory?

If you answered **₱600**, you are correct!

6. **Goods available for sale** – also called the **merchandise inventory**, this refers to the value of the goods available on hand at any time.

This is computed as

$$\text{Goods Available for Sale} = \text{Beginning Inventory} + \text{Purchases}$$

How much is Pacing's goods available for sale if:

Beginning Inventory : ₱4,500
Purchases: ₱ 600

$$\text{Goods Available for Sale} = \text{P}4,500 + \text{P}600 = \text{P}5,100$$

7. **Ending Inventory** – amount of goods left over during the inventory period.

At the end of the month, Pacing also did an inventory. She estimated the cost of available halo-halo ingredients. She computed it at P2,000. The ending inventory is P2,000.

8. **Cost of goods sold** – is computed as:

$$\text{Cost of Goods Sold} = \text{Beginning Inventory} + \text{Purchases} - \text{Ending Inventory}$$

Compute for Pacing's cost of goods sold, if

$$\text{Beginning Inventory} = \text{P}4,500$$

$$\text{Purchases} = \text{P } 600$$

$$\text{Ending Inventory} = \text{P}2,000$$

If your answer is **P3,100**, you got it right!

9. **Gross Profit on Sales** – computed as:

$$\text{Gross Profit} = \text{Net Sales} - \text{Cost of Goods Sold}$$

If Net sales = P6,100 and Cost of Goods Sold = P3,100, compute for the **Gross Profit on Sales**.

If you answered P3,000, you are correct!

10. **Selling and Administrative Expenses** – expenses for business operations such as salaries, office supplies and other expenses

Why should this be deducted (subtracted) from the Gross Profit on Sales?

The Gross Profit on Sales only considers the actual cost of the goods sold. Aside from that, the owner has to consider other expenses such as salary or payment for the workers and cost of other materials such as paper and pen used for the business.

Anita, Pacing's sister, helps her to sell halo-halo. Pacing agreed to pay her P1,000 a month. She also bought pens, notebooks and other needs to record her sales. She spent P500.00 for that. If she has no other expenses, what would Pacing's **Selling and Administrative Expenses**?

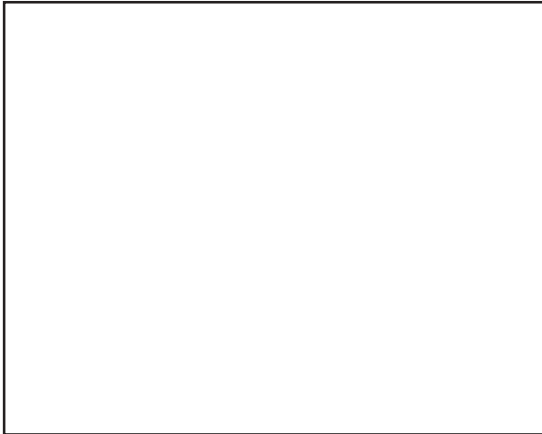
If you answered P1,500 you are correct.

11. **Net Profit** – this is also known as **net income**. The net profit tells the owner how much he/she is making from the business. It is computed as

$$\text{Gross Profit on Sales} - \text{Selling and Administrative Expenses}$$

Compute for Pacing's Net Profit for that month.

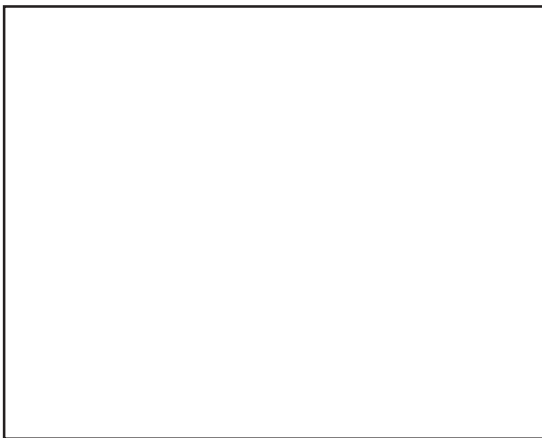
If you came up with P 1,500.00 , you are correct!



After a month of selling halo-halo, Pacing had a net profit of P1,500. Is she earning well? Is her profit high enough? If not, what do you suggest Pacing does?

For most businesses, a net profit of only P1,500 a month is not a good sign that the business is doing well. There is even a possibility that the business would start having losses. I would suggest that Pacing think of ways to increase her profits. Can you think of ways for her to achieve this?

She could increase the selling price of her halo-halo. She could also lessen the cost of goods sold by purchasing cheaper ingredients. Aside from these, she can also advertise.



But all of these have considerations. Pacing cannot just increase her prices. What would the effect of this be if she does?

This is where Pacing sells halo-halo. Study this drawing.



If she increases her prices, she might lose some of her customers. This is especially true if she has competition. As shown in the drawing above, two of her neighbors are also selling halo-halo at a cheaper price. If she increases her prices, Pacing's customers might buy from her neighbors instead of her!



Let's Try This

On the next page is a blank Income Statement. Use the same values found in Pacing's business to fill it out and compute accurately. If you forgot what the values are, below is a summary for a month:

Sales	₱ 7,600
Return and allowance	₱ 1,500
Net Sales	₱ 6,100
Beginning Inventory	₱ 4,500
Purchases:	₱ 600
Goods Available for Sale	₱ 5,100
Ending Inventory	₱ 2,000
Cost of Goods Sold	₱ 3,100
Gross Profit on Sales	₱ 3,000
Selling and Administrative Expenses	₱ 1,500
Net Profit	₱ 1,500

Pacing's Halo-Halo Stand

Income Statement

For the month of _____

Sales	_____
Less: Returns and Allowances	_____
Net Sales	_____
Beginning Inventory	_____
Goods available for sale	_____
Less: Ending Inventory	_____
Cost of goods sold	_____
Gross Profit on Sales	_____
Less: Selling and Administrative Expenses	_____
Net Profit	_____

What can you say about Pacing's business based on her income statement?

Compare your version of Pacing's Income statement with mine on page _____. Are they similar? If not, make the needed corrections before proceeding.



Let's Try This

A. What three questions about a business can a balance sheet answer?

- B. Prepare a balance sheet based on the following information. Compute for the values left blank. Follow the format of a balance sheet on page .

Business: Apple's Sari-Sari Store

Owner: Ms. Apple Cruz

Date: April 30,2001

Cash	₱10,000
Accounts Receivable	₱ 500
Merchandise Inventory	₱ 5,000
Total Current Assets	_____
Store Equipment	₱ 6,000
Office Equipment	₱ 3,000
Total Fixed Assets	_____
Total Assets	_____
Accounts Payable	₱ 800
Notes Payable	₱ 500
Total Liabilities	_____
Owner's Capital	₱20,000
Net Profit	₱ 5,400
Total Owner's Equity	_____
Total Liabilities	_____
Total Liabilities	_____
& Owner's Equity	_____

- C. Is the business doing well based on the balance sheet that you prepared? Why?

- D. What are the four questions that an income statement can answer?

- E. Prepare an income statement based on the information below. Compute for the values left blank. Follow the format of an income statement on page.

Sales	₱ 4,500
Return and allowance	₱ 1,000
Net Sales	_____
Beginning Inventory	₱ 6,500
Purchases:	₱ 800
Goods Available for Sale	_____
Ending Inventory	₱ 1,500
Cost of Goods Sold	_____
Gross Profit on Sales	_____
Selling and Administrative Expenses	₱ 1,800
Net Profit	_____

- F. Is the business doing well based on the balance sheet that you prepared? Why?

Compare your work with the one found on the *Answer Key* on page____. Were you able to prepare a similar balance sheet and income statement? If not, make the needed corrections before proceeding to the next lesson.



Let's Remember

- ◆ A **balance sheet** gives the owner of a business the financial **status or position of the business on a specific date**. A balance sheet can answer the following questions:

As of today (date),....

- How much does my business own?
- How much does my business owe?
- What is the value of my financial interest in the business?

- ◆ An **asset** is anything of value that a business owns. **Liabilities** and debts are the amounts that the business owes to people or other business. The **owner's equity** is the owner's share of the business
- ◆ **Current assets** are known as **liquid assets**. This composed of cash, accounts receivable and merchandise inventory.
- ◆ **Fixed assets** are the property of the business that cannot be readily converted to cash like store equipment and office equipment.
- ◆ **Current assets + fixed assets = total assets**
- ◆ **Total liabilities = accounts payable + notes payable**
- ◆ **Owner's equity = Owner's capital + net profit**
- ◆ An **income statement** is a report which shows how much a business earned or lost from it's operations during a given period of time.
- ◆ An **income statement** is also known as a **profit and loss statement**. It is usually done weekly or monthly.
- ◆ An **income statement** can answer the following questions:
 - a. Are the goals set at the start of the business being met?
 - b. Is the business making a profit?
 - c. Are the sales increasing or decreasing?
 - d. Is the business making more money through sales? Or is it losing money through operation and other expenses?
- ◆ **Net sales = sales – returns and allowances**
- ◆ An **inventory** is the process of counting available goods for sale and determining the price or value of leftover goods.
- ◆ **Goods available for sale = beginning inventory + purchases**
- ◆ **Cost of goods sold = Beginning Inventory + purchases – ending inventory**
- ◆ **Gross profit on sales = net sales - cost of goods sold**
- ◆ **Gross profit on sales – selling and administrative expenses**

You may take a short break before proceeding to Lesson 3. Walk around or just sit down and relax.

Preparing Budgets and Estimating Future Growth

In Lesson 1 you learned how to compute profit and loss. A business is doing well if it is making profits. The status of a business can immediately be assessed through a balance sheet or an income statement, which you studied in *Lesson 2*. Skills in business math have to be developed by every businessman or entrepreneur in order to be successful. Another important skill he/she must learn is how to prepare and monitor budgets and estimate the future growth of a business.

At the end of this lesson, you are expected to be able to:

- ◆ prepare and monitor budgets; and
- ◆ estimate the future growth of a business.



Let's Read

Preparing and Monitoring Budgets

A budget is a fixed amount of money that one puts into a business for a given period. In Pacing's case, she has to control the money she spends for the business each day. To do this, she has to compute for the cost of each glass of halo-halo sold. She made this computation:

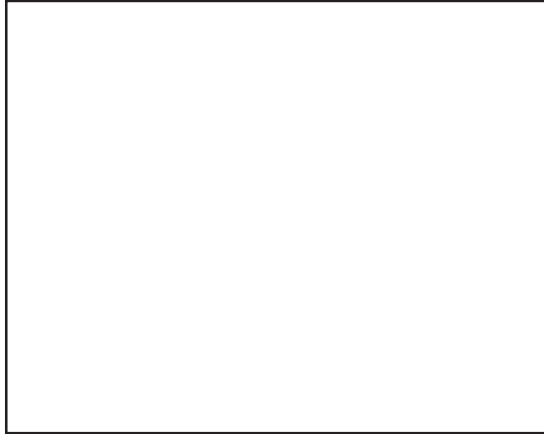
Cost of Each Halo halo

Ice	₱ 0.50
Ube	₱ 1.00
Sago	₱ 0.50
Sweet beans	₱ 1.00
Leche Flan	₱ 1.50
Sweetened banana	₱ 1.00
Sweetened langka	₱ 1.50
Gelatin	₱ 0.50
Milk	<u>₱ 1.50</u>
Total	P 9.00

If she plans to sell it at ₱10.00 per glass, how much profit does she expect from each?

Selling Price -Cost of sale of each glass = Profit

$$₱10.00 - ₱9.00 = ₱1.00$$



Pacing will earn only ₱1.00 for each glass sold. If you were she, would this profit be enough? If ₱1.00 is not enough, what selling price would you suggest?

If she sells halo-halo at a higher price, she would have more profit. If she sells halo halo at ₱13.00 each, how much would she earn?

Selling Price -Cost of sale of each glass = Profit

$$₱13.00 - ₱9.00 = ₱4.00$$

Would earning ₱4.00 for each glass of halo halo sold be better than earning ₱1.00 for each? Of course! But again, Pacing must consider a lot of things. In the drawing on page _____, her neighbor also sells halo-halo at ₱12.00 each. What selling price would you then suggest?

I suggest she sell halo halo at the same price. Earning ₱3.00 profit for each glass sold is better than losing customers to another business who sells the same goods at a lower price!

Pacing decided to sell at ₱12.00 per glass. If she plans to sell a hundred glasses a day, how much does she have to spend for the goods to be sold each day?

Cost of goods X 100 = Budget for cost of goods

$$₱ 9.00 \times ₱100 = ₱900.00$$

This means that she has to buy ₱900.00 worth of halo-halo ingredients each day. If she is able to sell a hundred glasses of halo-halo, how much profit could she make?

Profit per glass X 100 = Gross profit

$$₱3.00 \times ₱100 = ₱300$$

Pacing expects to make a profit of ₱300 each day.

Preparing a budget requires that you consider many things. Pacing's daily budget is P900. This is enough to cover the cost of goods sold. But note that in the income statement, administrative and other expenses must also be considered. This must be added to the cost of goods sold, too.

Study the budget that Pacing made for this date and compare it with the profits she made.

Daily Budget March 13,2001

Cost of goods sold	P 900.00
Administrative and other expenses	<u>P 100.00</u>
Total:	P1000.00
Compare this with:	
Actual sales (P12.00 X 56 glasses sold)	P672.00
Less: Actual cost of goods for 56 glasses (P9.00 X 56)	P504.00
Administrative and other expense (P1.00X56)	<u>P 56.00</u>
Profit	P112.00

Pacing was not able to sell a hundred glasses as she expected. She earned something, all right. But remember that halo-halo ingredients spoil after some time. Did she over-budget?

Yes. Pacing allotted more expenses in her budget than what she can actually sell. What do you suggest she does?

I suggest that she monitor her budget. To monitor a budget means to compare the cost of goods sold with the sales and find out the profits. This is done daily to make the necessary changes in the budget.

If after a week, Pacing has established that she can only sell an average of 50 glasses of halo-halo a day, what should her daily budget be?

Daily Budget March 21,2001

Cost of goods sold	P450.00
Administrative and other expenses	<u>P 50.00</u>
Total:	P500.00

This is considering:

Average daily sales (P12.00 X 50 glasses sold)	P600.00
Less: Actual cost of goods for 50 glasses (P9.00 X 50)	P450.00
Administrative and other expense (P1.00X50)	<u>P 50.00</u>
Profit	P100.00

Pacing can make P100 a day based on her new budget. Adjusting the expenses for cost sold helps her avoid overspending for ingredients and limits spoiling. Based on what you have studied in making and monitoring budgets, can you think of some guidelines to follow? Write them down below.

Compare your work with mine. Read the guidelines for preparing a budget.

Guidelines for preparing a budget

1. A budget should be made for a specific time frame. You could make a daily, weekly or monthly budget.
2. A budget carefully considers the cost of goods sold and the profits made on these sales.
3. All factors that affect the business must be considered such as prices of the competition, spoiling of goods yet to be sold and other considerations. All, of these must be reflected in the budget.
4. A budget is made to make sure that the business will not lose money. Money that is poured into the business must earn. If this is not achieved, changes in the budget should be made based on the present situation.

Basically, a budget is made to prevent over-spending. It is constantly monitored using computations for profit and loss. The balance sheet and income statement for a given period must be assessed to make the necessary changes in the budget.



Let's Think About This

Have you seen your mother or any older member of your family prepare a budget for your household expenses? What are the reasons why a household budget is made? Can these reasons also be the same for business?



Let's Read

Estimating The Future Growth of a Business

A good entrepreneur makes plans for his/her business. He/she can foresee (tell ahead or predict) what the future holds for his/her business. To do this, he/she should learn how to prepare and analyze budgets, income statements and balance sheets.

Remember Pacing in the previous lesson? If she earns ₱25.00 a day from selling halo-halo, how much does she expect to earn in a month if she sells halo-halo from Monday to Saturday?

Daily Profit X Number of Selling Days in a Month = Monthly Profit

₱25 x 6 days (Monday to Saturday) X 4 weeks (in a month)= ₱600

Pacing expects to earn ₱600 a month from selling halo-halo.

Do you think she is earning enough? Would you expect her business to show good growth?

₱600 a month may not be enough for her business to grow.

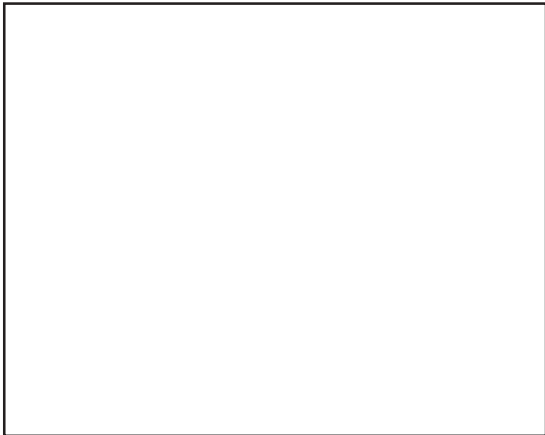
If Pacing adds ₱200 to her **beginning inventory** of ₱800, how much would her beginning inventory be? If you answered ₱1,000, that's correct. Why should Pacing add some of her profits to her beginning inventory? If she increases her beginning inventory, she would have more halo-halo to sell! This would make her business grow.

But she also knows that she can sell an average of 50 glasses of halo-halo a day at ₱12.00 each. That would give her total daily sales of ₱ 600. If we deduct the cost of sales of ₱450 (₱9.00 for each halo-halo X 50), Pacing would only have ₱200 in profits a day at most. Would adding ₱200 to her beginning inventory be a good idea?

It would not be good idea because she could only have more losses because of extra supplies (halo-halo ingredients) that can get spoiled.

Estimating the future growth of a business depends on the type of business and the profits earned. To make a business grow, some of the profits are “returned to the business” as capital or beginning inventory. This is in the hope of increasing sales in the future. But this does not always happen.

To estimate the future growth of a business, one must prepare and analyze budgets, income statements and balance sheets. Special attention must be given to profits made.



If a business has good profits, would you expect that business to have growth in the future? Of course! And the bigger the profit is, the bigger the business is expected to grow. Lesser profits or losses are not indications of good growth in business. The entrepreneur must be able to assess his profits and losses to predict what will happen in the future.



Let's Try This

- 1. Josefa has profits of P100 a day selling bananacue outside at a school. How much can she earn in a month if she sells bananacue 5 x a week? What can she do to make her business grow?

- 2. Pedring studied his balance sheet. It shows that he has losses of P145.00 a day from selling bread. Is this a sign of business growth? Why?

- 3. Mang Tibo is a barber. He earns P200 a day in his barbershop. How much can he earn in a month if works every day? What can he do to make his business grow?

Compare your answers with those found in the Answer Key on page _____. Did you get your answers correct? Find out why some of your answers are wrong and make the necessary corrections before proceeding.



Let's Remember

- ◆ A budget is a business' plan for spending in a given period.
- ◆ A budget is made to prevent over-spending. It is constantly monitored using computations for profits and losses. The balance sheet and income statement for a given period must be assessed to make needed changes in the budget.
- ◆ To monitor a budget means to compare the costs of goods sold with the sales to find if a profit is made.
- ◆ To **estimate the future growth of a business**, a business owner should learn how to prepare and analyze budgets, income statements and balance sheets.
- ◆ Estimating the future growth of a business depends on the type of business and the profits earned. To make a business grow, some of the profits are "returned to the business" as capital or beginning inventory.
- ◆ Generally, the bigger the profit is, the bigger the business is expected to grow. Lesser profits or losses are indications of poor growth in business.



What Have You Learned?

Congratulations! You are now finished studying this module. By this time, you already have the needed knowledge and skills in business. You can solve number problems in business and prepare business-related reports like balance sheets and income statements. Test what you have learned by answering the following. You may use a separate sheet of paper for your computations.

A. Use these values to answer the questions that follow

Merchandise Inventory	₱ 5,500
Accounts Payable	₱ 3,400
Store Equipment	₱12,000
Cash	₱ 6,000
Accounts Receivable	₱ 2,500
Owner's Capital	₱15,000
Net Profit	₱ 6,000
Notes Payable	₱ 2,000

1. Compute for Total Current Assets, Total Fixed Assets, Total Assets, Total Liabilities, and Owner's Equity.
2. Using a separate sheet of paper, prepare a **balance sheet** following the format given on page 30.

Compare your work with that found in the *Answer Key* on page _____. Is your balance sheet similar? If it is, that's good! If not, make the needed corrections in your balance sheet before proceeding.

B. Match Column A with Column B by connecting the words with a line

Column A	Column B
Assets	money in bills or coins.
Liabilities	an example is equipment
Entrepreneur	what the business owns
Current Assets	also known as liquid assets
Cash	one who runs his/her own business
Merchandise inventory	value of unsold goods or products
Fixed assets	what the business owes

Check if you got your answers correct. Compare them with those in the *Answer Key* on page _____.

C.

Last month, **Petals Flower Shop** sold ₱20,000 worth of flowers. The cost of goods sold was ₱13,000. The operating and administrative expenses were: salaries ₱2,500, supplies ₱500 and miscellaneous expenses ₱600.

1. Find the gross profit and net profit for the month. Net income is computed as **Net Income = Gross Profit – Operating Expenses**
2. Prepare an income statement based on the given information.

D.

Using a separate sheet of paper, prepare an income statement based on the values given on the next page. Follow the format of an income statement on page _____. In this case, the information needed for the value of the beginning inventory is not given. You need not put it in your income statement.

Sales	₱5000
Cost of Sales	₱2500
Selling and Administrative Expenses	₱ 600

Compare your work with that found in the *Answer Key* on page _____. Is your income statement similar? That's good! If not, make the needed corrections in your income statement.

E. Use these values to answer the questions that follow

Merchandise Inventory	₱ 6,000
Accounts Payable	₱ 3,400
Store Equipment	₱10,000
Cash	₱ 5,000
Accounts Receivable	₱ 7,500
Owner's Capital	₱11,000
Net Profit	₱ 4,000
Notes Payable	₱ 1,000

1. Compute for Total Current Assets, Total Fixed Assets, Total Assets, Total Liabilities, and Owner's Equity
2. Using a separate sheet of paper, prepare a **balance sheet** following the format given on page 30.

F.

For the month of August, **Carla's Sari-Sari Store** sold ₱16,000 worth of groceries. The cost of goods sold was ₱12,000. The operating and administrative expenses were: salaries ₱1,500, supplies ₱200 and miscellaneous expenses ₱300.

1. Find the store's gross profit and net income for the month of August. Net income is computed as **Net Income = Gross Profit – Operating Expenses**
2. Prepare an income statement based on the given information, using a separate sheet of paper.

G. Carlos has daily losses of ₱90.00 in his video rental business. Do you suggest he continue his business? If not, why? If yes, what can he do to make his business grow? Why?

Compare your work with that found in the *Answer Key* on page _____. Are your balance sheet and income statement similar? That's good! If not, make the needed corrections before proceeding.

Compare your answers with those found in the *Answer Key* on page _____. Are your answers correct? That's very good.

I hope you learned a lot from this module. If you did, congratulations for a job well done! If you already got your answers correct, study the module summary below.



Let's Sum Up

In this module on business math, you learned how to solve business related math problems and how to prepare balance sheets and income statements.

In Lesson 1, you learned how to compute for profit and loss.

In Lesson 2, you learned how to analyze and prepare balance sheets and income statements.

In Lesson 3, you learned how to prepare and monitor a budget and predict the future growth of a business.



Answer Key

A. Let's See What You Already Know (page)

1. Gross Profit = ₱ 800

Net Profit = Gross Profit - Expenses

$$= ₱800 - (₱400 + 100 + 150) = ₱800 - ₱650 = ₱150$$

The repair shop is earning ₱150 a day in net profit. That's a sign that the business is doing well.

2. Sales: ₱ 2,000

Less: Actual Cost of products sold ₱ 1,400

Less: Expenses ₱ 750

Selling Cost ₱250

Salaries ₱500

Net Profit = -₱150

The business is losing at the rate of ₱150 per day. It is not doing well.

3. A **balance sheet** gives the owner of a business the **financial status** or **position of the business on a specific date**. It is prepared daily. A balance sheet can answer the following questions:

As of today (date),....

- How much does my business own?
- How much does my business owe?
- What is the value of my financial interest in the business?

Net Profit = Gross Profit - Expenses

$$= ₱800 - (₱400 + 100 + 150) = ₱800 - ₱650 = ₱150$$

- E. What is an income statement?

An **income statement** is a report that helps the owner of a business to assess his/her business' performance. It answers the following questions:

- Are the goals set at the start of the business being met? Is the business making a profit?
- Are the sales increasing or decreasing?
- Is the business making more money through sales? Or is it losing money through operation and other expenses?

F.

Sarangola Store
Income Statement

Date: _____

Sales		P10,000
Less: Cost of goods sold		P 7,000
Gross Profit on Sales		P 3,000
Less: Operating and Administrative Expenses		P 1,800
Salaries	P1,000	
Supplies	P 200	
Miscellaneous Expenses	P 600	
Net Profit		P 1,200

Let's Try This (page__)

1. **Gross Profit** = # of bags of puto sold X P11.50
= 60 X P11.50 = **P690.00**

Actual cost of goods sold = 60 X P8.00 = P480

Net profit = Gross profit – Cost of goods sold
= P690- P480 = **P210**

2. **Gross Profit** = # of buco pies sold X P50
= 10 X P50 = **P500**

Profit from each pie = Selling price – actual cost of each pie
= P50 – P40 = **P10**

Actual cost of goods sold = 60 X P.80 = P48

Net profit = Gross profit -- Cost of goods sold
= P90- P48 = **P42**

Let's Try This (page__)

1. Gross Profit	P2,500
Less:	
Actual cost of goods sold	P2,200
Selling expenses	P 100

Net profit = Gross profit – (Cost of goods sold + expenses)
= P2,500- (P2,200 + P100) = P2,500 – P2,300 = **P200**

2. Gross Profit	P500
Less: Expenses	
Salaries	P200
Rent	P150
Light and water	<u>P 50</u>
Net profit	P 40

Let's Try This (page __)

1. Gross Profit (Sales)	P5,000
Less:	
Actual cost of goods sold	P4,200
Operating and Selling expenses	P 800

$$\begin{aligned} \text{Net profit} &= \text{Gross profit} - (\text{Cost of goods sold} + \text{expenses}) \\ &= \text{P}5,000 - (\text{P}4,200 + \text{P}800) = \text{P}5,000 - \text{P}5,000 = \text{P}0 \end{aligned}$$

The drugstore is just breaking even. It is not doing well.

2. Gross Profit	P 700
Less: Expenses	
Salaries (P200 X 2)	P 400
Rent	P 200
Water	P 50
Electricity	<u>P 75</u>
Net profit	P 25

$$\begin{aligned} \text{Net profit} &= \text{Gross profit} - \text{expenses} \\ &= \text{P}700 - (\text{P}400 + \text{P}200 + \text{P}50 + \text{P}75) = \text{P}700 - \text{P}750 = - \text{P}25 \end{aligned}$$

The repair shop is losing money. It is not doing well.

3. Gross Profit	P1,200
Less: Expenses	
Actual cost of goods sold	P 900
Salaries (P150 X 2)	P 300
Rent	P 200
Sellign cost	<u>P 50</u>
Net profit	- P 250

$$\begin{aligned} \text{Net profit} &= \text{Gross profit} - \text{expenses} \\ &= \text{P}1,200 - (\text{P}900 + \text{P}300 + \text{P}200 + \text{P}50) = \text{P}1,200 - \text{P}1,450 \\ &= \text{Net profit} = - \text{P}250 \end{aligned}$$

The flower shop is losing P250 a day. It is not doing well.

Let's Try This (page __)

Pacing's Halo-Halo Stand

Income Statement

Date: _____

Sales		₱ 7,600
Less: Return and Allowances		₱ 1,500
Net Sales		₱ 6,100
Less:		
Beginning Inventory	₱4,500	
+ Purchases	₱ 600	
Goods available for sale	₱5,100	
Ending Inventory	₱ 2,000	
Cost of goods sold		₱ 3,100
Gross Profit on Sales		₱ 3,000
Less: Selling and Administrative Expenses		<u>₱ 1,500</u>
Net Profit		₱ 1,500

Let's Try This (page __)

A. A **balance sheet** gives the owner of a business the **financial status** or **position of the business on a specific date**. A balance sheet can answer the following questions:

As of today (date),....

- a. How much does my business own?
- b. How much does my business owe?
- c. What is the value of my financial interest in the business?

B.

Apple's Sari-Sari Store
Ms. Apple Cruz
Balance Sheet
April 30,2001

Current Assets

Cash	₱10,000	
Accounts Receivable	₱ 500	
Merchandise Inventory	₱ 5,000	
Total Current Assets		₱15,500

Fixed Assets

Store Equipment	₱ 6,000	
Office Equipment	₱ 3,000	
Total Fixed Assets		₱ 8,000

Total Assets ₱ 26,500

Current Liabilities

Accounts Payable	₱ 800	
Notes Payable	₱ 500	
Total Liabilities		₱ 1,100

Owner's Equity

Owner's Capital	₱20,000	
Net Profit	₱ 5,400	
Total Owner's Equity	₱ 25,400	
Total Liabilities	₱ 1,100	
Total Liabilities & Owner's Equity	₱ 26,500	

C. Is the business doing well based on the balance sheet that you prepared? Why? Yes, it is has a good net profit. The assets are big and the liabilities are small.

D. What are the four questions that an income statement can answer?

An income statement can answer the following questions:

- a. Are the goals set at the start of the business being met?
- b. Is the business making a profit?
- c. Are the sales increasing or decreasing?
- d. Is the business making more money through sales than losing money through operation and other expenses?

E. Income Statement.

**X Store
Income Statement
For the Month of....**

Sales		₱4,500
Less: Return and allowance		₱1,000
Net Sales		₱ 3,500
Cost of Goods Sold:		
Beginning Inventory	₱6,500	
Purchases:	₱ 800	
Goods Available for Sale	₱7,300	
Ending Inventory	₱1,500	
Cost of Goods Sold		₱5,800
Gross Profit on Sales		₱9,300
Selling and Administrative Expenses		₱1,800
Net Profit		₱7,500

F. Yes, the business is doing well based on the income statement. It made a profit of ₱7,500 in a month.

Answer This (page)

1. Monthly earnings:

$$₱100 \times 5 \text{ (days a week)} \times 4 \text{ (weeks in a month)} = \mathbf{₱2,000}$$

To make her business grow, Josefa can add more capital to increase the number of banana cue she sells every day. She can also increase her prices or lessen the cost of goods sold.

2.

No. Losses is not a good sign of business. It means that the business is not growing. In fact, it means that the business has problems. The bigger the amount lost, the more the business is in trouble.

3. Monthly earnings:

$$₱200 \times 7 \text{ (days a week)} \times 4 \text{ (weeks in a month)} = \mathbf{₱5,600}$$

To make his business grow, Mang Tibo can add more capital to increase the size of his barbershop, add more barber chairs or employ additional barbers. He can also increase the cost of the services he provides.

What Have You Learned (page)

- A. The total current assets, total fixed assets, total assets, total liabilities and owner's equity have already been computed.

XYZ Company
 _____ - **Proprietor**
Balance Sheet
Date: _____

Current Assets

Cash	P6,000	
Accounts Receivable	P2,500	
Merchandise Inventory	P5,500	
Total Current Assets		P14,000

Fixed Assets

Store Equipment	P12,000	
Total Fixed Assets		P12,000

Total Assets **P26,000**

Current Liabilities

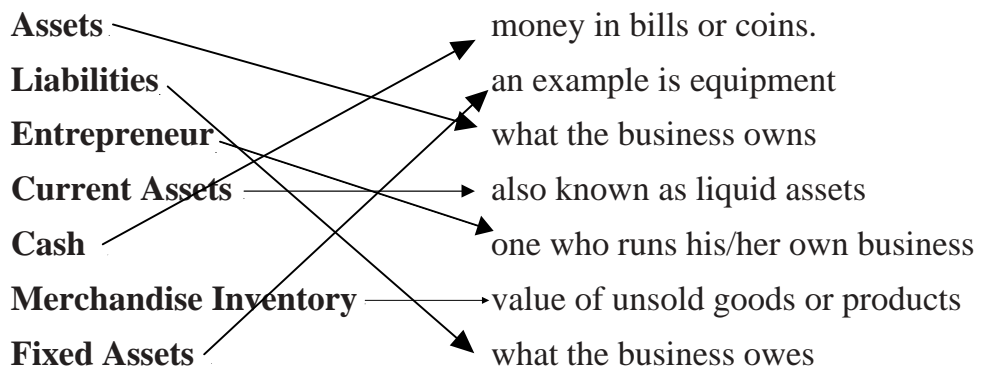
Accounts Payable	P3,400	
Notes Payable	P2,000	
Total Liabilities		P5,400

Owner's Equity

Owner's Capital	P15,000	
Add: Net Profit	P 6,000	
Total Capital		P21,000
Total Liabilities		P5,400

Owner's Equity **P15,600**

- B.



Petal's Flower Shop

Income Statement

Date: _____

Sales		P 20,000
Less: Cost of goods sold		P13,000
Gross Profit on Sales		P 7,000
Less: Selling and Administrative Expenses		P 3,600
Salaries	P 2,500	
Supplies	P 500	
Miscellaneous Expenses	P 600	
Net Profit		P 3,400

C. ABC Business

Income Statement

Date: _____

Sales		P5,000
Less: Cost of sales		P2,500
Gross Profit on Sales		P2,500
Less: Selling and Administrative Expenses		P 600
Net Profit		P1,900

D. The total current assets, total fixed assets, total assets, total liabilities and owner's equity have already been computed.

_____ Company
_____ - Proprietor

Balance Sheet

Date: _____

Current Assets

Cash	P5,000	
Accounts Receivable	P7,500	
Merchandise Inventory	P6,000	
Total Current Assets		P18,500

Fixed Assets

Store Equipment	P10,000	
Total Fixed Assets		P10,000

Total Assets P28,500

Current Liabilities

Accounts Payable	P 3,400
Notes Payable	P 1,000
Total Liabilities	P 4,400

Owner's Equity

Owner's Capital	P11,000
Add: Net Profit	P 4,000
Total Capital	P15,000
Total Liabilities	P 4,400

Owner's Equity P10,600

E.

**Carla's Sari-Sari Store
Income Statement**

Date: _____

Sales	P16,000
Less: Cost of goods sold	P12,000
Gross Profit on Sales	P 4,000
Less: Selling and Administrative Expenses	P 2,000
Salaries	P1,500
Supplies	P 200
Miscellaneous Expenses	P 300
Net Profit	P 2,000

F. Carlos should think very hard about his business situation. Although P90.00 is a relatively small loss, he should find out why his business is losing money. I suggest he continue to do business for a while until such time that he cannot recover his losses anymore.



References

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