



LESSON 5: BUILDING A BUDGET

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OBJECTIVES

- > Students will understand how a profit is calculated and the difference between net profit and profit margin.
- > Students will review and begin to develop a budget for their Hot Chocolate business.
- > Students will differentiate between capital equipment and consumables and be able to explain why the difference matters when preparing a one day business.

KEY TERMS

- > **Budget:** a list of all planned expenses and revenues
- > **Business Plan:** a detailed plan of how a business is operated to reach its goals
- > **Capital Equipment:** supplies that can be used over and over again
- > **Consumables:** goods that once used are gone or no longer usable
- > **Employee:** a person working for another business or person for pay
- > **Partnership:** a business that is owned by two or more persons
- > **Profit:** the money gained from the sale or sales after expenses are paid
- > **Profit Margin:** a financial gain, especially the difference between the amount earned and the amount spent in buying, operating, or producing something.
- > **Revenue:** all money that comes into your business

ACTIVITY 1: DEFINING PROFIT

- * Prompt students to, by raising a hand and being called upon, answer the question, "What is profit?"
- * On a white board, write the formula: $\text{Revenue} - \text{Expense} = \text{Net Profit}$
- * Discuss the difference between revenue and expense.
- * Using handout on page 12
- * Prompt students to, by raising a hand and being called upon, answer the question, "What is profit?"
- * Discuss the difference between net profit and profit margin. Ask groups to provide examples aloud of ways they would maximize profit margin.
 - > Increase revenue
 - > Decrease expense
- * Prompt students to, individually, complete the sentence at the bottom of the worksheet.

ACTIVITY 2: PLANNING YOUR BUDGET

- * Prompt students to follow along in the workbook to complete the BUDGET TEMPLATE SAMPLE.
- * Begin by helping them think through revenue projections.
- * Help students estimate the number of cups they will sell and have them enter their projected numbers into the BUDGET TEMPLATE SAMPLE. Remind students that they will be “open for business” for approximately 4 hours. Ask them to think through how many customers they will serve per hour and how many people they anticipate being on the square during the event. Provide teams with 5-10 minutes to work in their teams to record projections.
- * Prompt students to think about their pricing model. Remind them that while trying to achieve maximum profit per cup is ideal, they will have stiff competition during this event. Encourage them to think about what people will be willing to pay for a cup of hot chocolate and also quality of ingredients, size of the cup and other factors that affect pricing structure. Provide teams with 5-10 minutes to work in their teams to record pricing on the BUDGET TEMPLATE SAMPLE.
- * **Expense:** Prompt students to work in teams to complete the expense portion of the BUDGET TEMPLATE SAMPLE utilizing the sample recipe and product pricing sheet provided in the workbook. Remind students that these worksheets are examples only and not actual prices.
- * Walk students through computing cost per cup and profit per cup and the breakeven number of cups they need to sell to reach breakeven and have them record into the BUDGET TEMPLATE SAMPLE. After seeing the total expenses, they may need to take a few minutes to adjust the original estimations/projections.
- * Ask the groups to share the net profit they figured in the sample budget. Discuss ways to increase net profit. Recommend the use of local resources such as donations, sponsorships, etc.
- * Remind students to properly source products before filling out the BUDGET TEMPLATE to present to the loan officers. This worksheet is for training purposes only.

ACTIVITY 3: CAPITAL EQUIPMENT & CONSUMABLES

- * Prompt students to follow along in their workbook.
- * Explain the difference between capital equipment and consumables and ask students to name various capital equipment items versus consumable items in the classroom.

CLOSURE

- > Remind students how important it is to plan practically and not to overestimate sales or underestimate expenses. Encourage students to adhere to their budget when at all possible, but to remain flexible if unexpected events occur. Prompt students to identify a time they can meet to source local products based on the recipe they choose, and then prepare the budget document in the BUDGET TEMPLATE they will send to Mrs. Robbins and ultimately present to the local loan officers.



ENTREPRENEUR'S NAME _____

KEY TERMS: WHAT IS PROFIT?

TERM	DEFINITION	CONTEXT
Profit Prof • it	The money gained from the sale or sales after expenses are paid	<p>1) After subtracting the expense from the revenue, I realized I had a net <u>profit</u> of \$200.00!</p> <p>2) For a company to succeed, it is important to measure and monitor net <u>profit</u> and <u>profit</u> margin.</p>

SHOW WHAT YOU KNOW

Having a net profit margin that is larger than expected means? _____

HANDOUT: HOT CHOCOLICIOUS LESSON 5: BUILDING A BUDGET

BUDGETING FOR SUPPLIES

Directions: Complete the sample budget below by multiplying the quantity times the cost per unit to arrive at the total cost for each item. Then add all the costs together to get a total for each supply category.

CONSUMABLES	QUANTITY	UNIT COST	TOTAL COST
Milk	1 Gallon	\$3.30	
Sugar	1 Bag	\$1.49	
Cocoa	1 Box	\$6.28	
Marshmallows	2 Bags	\$2.00	
Napkins	5 Packs	\$1.07	
Total Cost for Consumables (U) \$			_____

CAPITAL EQUIPMENT	QUANTITY	UNIT COST	TOTAL COST
3.5 Liter Thermos	1	\$35.00	
Tip Jar	1	\$1.07	
Table	1	Borrow from home	
Cash Box	1	\$5.50	
Napkins	5 Packs	\$1.07	
Total Cost for Capital Equipment (A) \$			_____
Total Supplies (U+A=S) \$			_____

WHAT SUPPLIES ARE MISSING FROM THE LIST ABOVE?



THE HOT CHOCOLICIOUS TIMES

EXAMPLE HOT CHOCOLATE RECIPE

- 4 cups milk
- 1/2 cup sugar
- 1/4 cup good quality cocoa
- 1 1/2 cups miniature marshmallows
- 1 teaspoon vanilla extract

 MILK	 SUGAR	 COCOA	 MARSHMALLOWS
1 GALLON / \$3.30	5 LB. / \$3	2 CUPS / \$6.28	1 BAG / \$1
 TIP JAR	 VANILLA EXTRACT	 CUPS	 NAPKINS
1 / \$5	2 OZ. / \$4	50 / \$3	200 / \$3
 PAPER TOWELS	 TRASH BAGS	 HAND SANITIZER	 GLOVES
6 ROLLS / \$10	1 BOX / \$6	50 / \$3	1 BOX / \$8
 STAND	 SIGN	 THERMOS	 MONEY BOX
1 / \$75	1 / \$20	3.5 LITER / \$35	1 BOX / \$12

2021 HOT CHOCOLICIOUS BUDGET

BUDGET

TERM	DEFINITION
Budget	A businesses' estimate of revenue and expenses

HOT CHOCOLICIOUS BUDGET

TEAM NAME:

REVENUE

ITEM SOLD	PRICE	QUANTITY	TOTAL (PRICE X QUANTITY)
TOTAL REVENUE			

EXPENSES

ITEM PURCHASED	PRICE	QUANTITY	TOTAL (PRICE X QUANTITY)
TOTAL EXPENSE			

TOTAL REVENUE	MINUS	TOTAL EXPENSE	EQUALS	PROFIT
\$	-	\$	=	\$

HANDOUT: HOT CHOCOLICIOUS LESSON 5: BUILDING A BUDGET

CAPITAL EQUIPMENT AND CONSUMABLES

There are two types of supplies you will need for your hot chocolate stand. Supplies that you can use over and over again are called Capital Equipment. Supplies that you use once, then you have to buy more are called Consumables.

Capital Equipment: Equipment you will use repeatedly.

Consumables: Supplies that you use, then must replace with additional supplies.

GROUP ACTIVITY

In your team, locate the box on your desk and separate the items inside into two different piles (Consumables vs. Capital Equipment).

What are 3 Consumable items you will need for your stand:

1) _____

2) _____

3) _____

List 3 Capital Expense items you will need for your stand:

1) _____

2) _____

3) _____

