



Activity One - Will my Business Make Money?

How do we measure commercial success?

The REAL test

There are established and universal scorecards to measure commercial performance. These include the Profit and Loss Account and the Balance Sheet. To learn more complete the exercise below.

Exercise

What information would you like to know about someone to determine if they are “well off/rich” in financial terms?

Instructions: Write your questions in column 1 (Information) and then pick which REAL column they fall under.

Information	R Revenue	E Expenses	A Assets	L Liabilities
Example: Do they own a car?			X	

Interpretation of REAL

RE go to the Profit and Loss account to see if the business is making a profit:

$$\text{Revenue} - \text{Expenses} = \text{Profit}$$

AL go to the Balance Sheet to see if your assets exceed your liabilities so that you can see the Net Worth:

$$\text{Assets} - \text{Liabilities} = \text{Net Worth}$$

Examples

Revenue: Income

Expenses: Loan, Interest, Payroll, Materials

Assets: Cash, Inventory, Car, Personal belongings, House

Liabilities: Loans Payable

RE
Profit & Loss Account Balance Sheet
(Projected)

Total Sales	€ 30000
Opening Stocks	€ 0
Purchases	€ 13000
Used in Sales	€ 13000
Closing Stocks	€ 0
Cost of Sales	€ 13000
Gross Profit	€ 17000
Overheads	€ 4900
Trading Profit (Loss)	€ 12100
Depreciation	€ 400
Interest	€ 200
Profit/Loss on disposal	€ 0
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Net Profit/Loss	€ 11500

Cash Flow

Opening Balance	€ 0
Cash-in	€ 32000
Cash-out	€ 22100
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Closing balance	€ 9900

AL
Balance Sheet
(Projected)

Fixed Assets

Fixed Assets	€ 2000
Less Depreciation	€ 400
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Net Fixed Assets	€ 1600

Current Assets

Stocks	€ 0
Debtors	€ 0
Prepayments	€ 0
Cash@Bank	€ 9900
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Total Current Assets	€ 9900

Current Liabilities

Creditors	€ 0
Accrued Expenses	€ 0
Overdraft	€ 0
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Tot. Current Liabilities	€ 0

Net Current Assets € 9900

Long Term Creditors € 0

Net Assets € 11500

Represented By

Share Capital	€ 0
Reserves	€ 11500
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Shareholders Funds	€ 11500

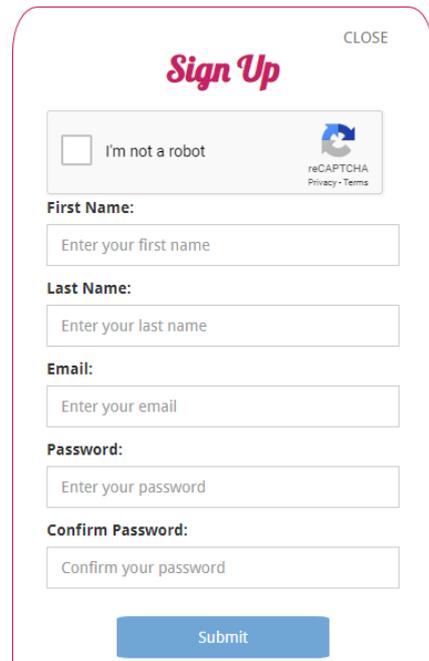
The Profit & Loss Account and Balance Sheet show us all the information we need to judge the financial position of a business – its assets, its liabilities, the profit or loss it generates and the cash it has to meet its immediate payments and its Net Worth.

Net Worth: (Equity) is the Share Capital the owners invested plus (minus) accumulated profits (losses) to the date of the balance sheet. That's why the "Balance Sheet" always balances – the "Reserves" go up and down to make the Owners' Funds equal to the Net Assets.

Activity Two - Using Fablinker to test a business idea

- Go to www.dolearnfinance.com

- Click on **Register** and fill out the required information



The screenshot shows a 'Sign Up' form with a 'CLOSE' button in the top right corner. The form includes a reCAPTCHA widget with the text 'I'm not a robot' and a 'reCAPTCHA Privacy - Terms' link. Below the reCAPTCHA are input fields for 'First Name', 'Last Name', 'Email', 'Password', and 'Confirm Password'. A blue 'Submit' button is located at the bottom of the form.

- Find and open the **Fablinker** application



- Enter the metrics from the table labelled 'Sam's Business Model' on the next page

- Save the correct file before moving to Activity Three

Sam's Business Model

My name is Sam. While I was mowing my aunt's lawn, three neighbours came by to ask how much I would charge to mow their lawns. After that, I posted an advertisement on an online bulletin board. Now, new customers are calling every day so I need to look on this more as a business opportunity and do some research.

The Assumptions from Sam's research

The Metrics for Fablinker

Customers will pay €15 for each mowing

Selling price €15

Sam finds that five reliable schoolmates would be prepared to mow lawns in their area for €10 per hour and can mow a lawn in 30 minutes so the labour cost per mowing is €5

Grass is mulched so no disposal cost

The lawn mowers use three euros worth of petrol per hour (€1.50 per mowing)

Purchase price €6.50

He can sign-up 200 houses on annual contract in clusters which allow the workers to easily walk between customers' lawns

The average lawn will require 10 cuttings per year so the number of jobs is 2000

Opening stock (Units)	0
Buy on credit (Units)	0
Buy with cash (Units)	2000
Sell on Credit Units	0
Sell for cash Units	2000

Sam's customers pay on the day for each cutting so he has no debtors

Sam pays the workers and for the petrol immediately, so Sam has no creditors

Opening debtors €	0
Opening creditors €	0
Debtor days	0
Creditor days	0

Research completed shows Sam will have (and pay in full) the following overheads per year:

Phone	€500
Insurance	€2000
Travel Costs	€500

Maintenance & repairs to mowers	€400
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Sam includes a variable overhead of 5% of sales to cover unexpected costs

Fixed overheads (€)	3400
Variable overheads (%)	5
Overheads paid (%)	100

An older sister has offered to lend Sam €2,000 if Sam can show her that the business could repay the loan plus interest of €200 within a year

Opening share capital €	0
New share capital €	0
Opening Loans O/S €	0
New loans in €	2000
Loan principal repaid €	2000
Loan interest paid €	200
Opening bank balance €	0

Sam needs that €2,000 to buy four new mowing machines at €500 each

The mowing machines will last for five years and are assumed to be scrapped at the end of the fifth year

Opening net book value €	0
Acquire new assets €	2000
Sell assets P/L on disposal €	0
Depreciation rate %	20

Activity Three – Sam’s Business Model - What-if?

Use the REAL concept to explore the “What-ifs?” facing Sam’s business model.

Write your answers in the table below as we test them on Fablinker and think about the limitations.

What-if?...	Outcomes & Observations
Customers would only pay €10	
Sam’s sister provides €2,000 through share capital rather than loan	
Sam had to pay €15 per hour in wages	
Insurance was €7,000 instead of €2,000	
All Four Occurred	



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