

Project Title: Do Your Money Management Skills Add Up?**Materials Needed:**

Calculator / Internet Access / Pen or Pencil

Introduction – Background Information

If you own a business, you'll need to manage money. You'll either have the financial and accounting skills to do it, or you'll want to pay for those services. Most likely you'll combine the two strategies. Imagine the following scenario to check out your skills and understanding.

A Financial Process

You and your partner have decided to establish a "C" Corporation to sell software for electronic games. You know that you have aggressive competition from big-name companies. Your business plan, which includes the following details, is to both sell and provide technical support.

- Your start-up costs are \$132,000.
- You've been approved for a \$100,000, 5-year loan with a fixed interest rate of 8.5%. (You and your partner will each use \$16,000 from savings.)
- The current estimated value of your business is \$150,000.
- Your projected monthly expenses are:
 - Rent: \$8,212 (includes utilities, except for telephone)
 - Inventory: \$25,000
 - Wages: \$15,000 (includes payroll taxes and cost of benefits)
 - Loan Payment Principal: \$2,040
- You expect your average monthly income for the first year to be \$55,000.

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Work with a partner or in a group to answer the following questions developed to assess your financial and accounting skills and understanding:

1. What is your projected annual income?
2. What is your estimated annual expense total?
3. How much more income than expenses do you estimate for your first year in business?
4. Using your answer from number 3 and a corporate income tax table, calculate an estimate for business income tax. Consult a local resource, or use the information from the **Internal Revenue Service** to locate Form 1120A and instructions for completing the form, which include the tax rate.
5. After taxes, how much cash will you have for unexpected expenses and for growing your business?
6. What other expenses might your business need to cover? (Talk with a business owner before you complete a final answer.)

Discuss and compare results with another group. Share insights from the business owner. Brainstorm reasons that business employees, as well as owners, need financial information.