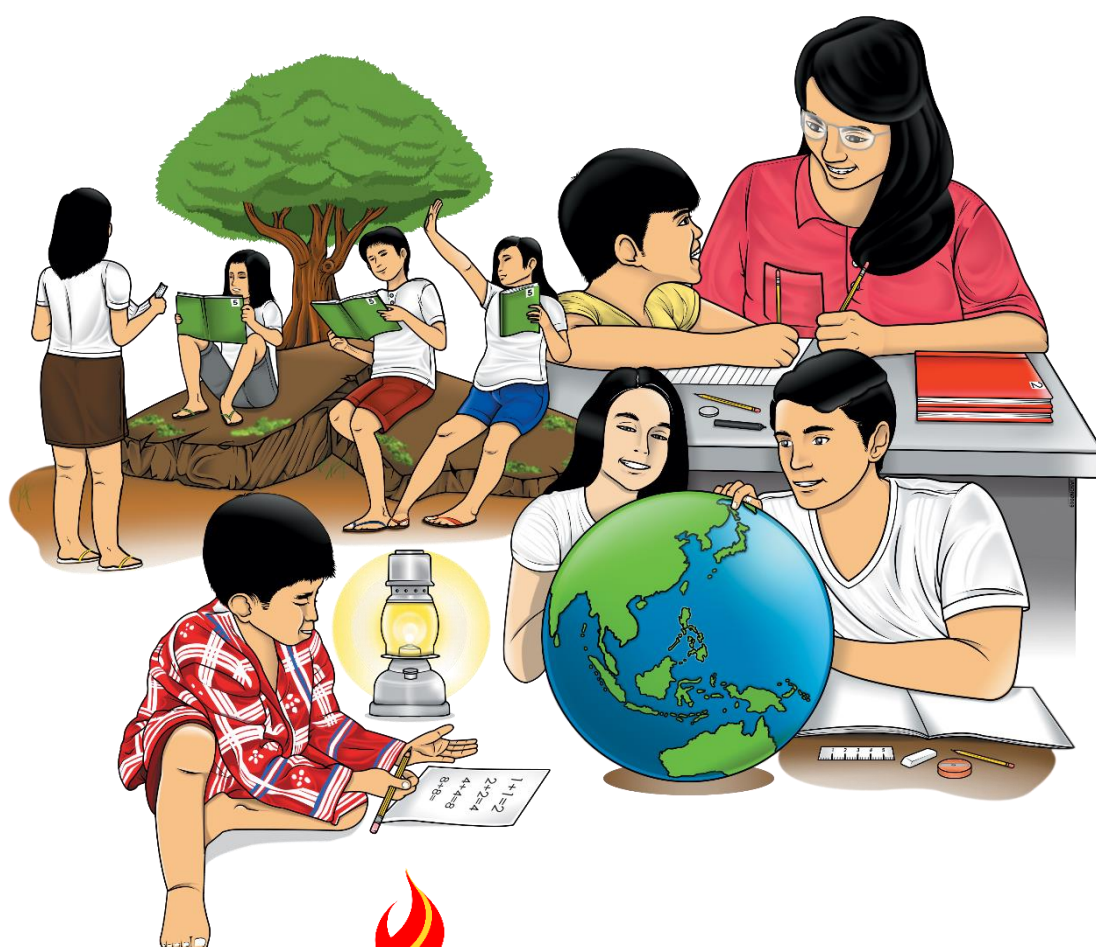


Senior High School

Entrepreneurship

Quarter 2 — Module 7

Forecasting Revenues and Costs Department



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Introductory Message

For the Learner

Have you ever dreamed of becoming the next multi-millionaire? If you're thinking that winning the lottery is the only way to become one, well, think again. It is not chance that gives you millions, instead being a millionaire is a result of hard work and determination. Starting your own business is a good beginning towards fulfilling your dreams. Entrepreneurship is the way!

You may often hear the word entrepreneur and entrepreneurship. But what do these terms mean? You may refer to an entrepreneur as the person managing the business and entrepreneurship as the business venture. Some may say there is no difference.

So, what does this module provide you towards reaching your dreams?

1. It outlines the concepts and basic principles, and processes of developing a business plan.
2. It helps you understand the environment and market in your locality as a factor in developing a business concept.
3. It allows you to experience starting and operating your own business.

Substantial knowledge of entrepreneurial principles and processes is important as this increases the chances of making your business successful.

In this module, you are guided with a set of learning parts that will help you understand the underlying principles of entrepreneurship.

1. What I Need to Do – the part used to introduce the learning objectives in this module.
2. What I Know – this is an assessment as to your level of knowledge to the subject matter at hand, meant specifically to gauge previous knowledge.
3. What's In – the part used to connect your previous learning with the new lesson.
4. What's New – the part used to introduce new lesson through a story, an activity, a poem, song, situation or activity.
5. What is It – the part that will help you discover and understand entrepreneurial concepts.
6. What's More – the part that will help enrich your learnings of entrepreneurial concepts.
7. What I Have Learned – the part that will help you process what you have learned in the lesson.
8. What I Can Do – the part that allows you to apply what you have learned into real life situations.
9. Assessment – the part that evaluates your level of mastery in achieving the learning objectives.
10. Additional Activities – the part that enhances your learning and improves your mastery of the lesson.



What I Need to Know

Now that you have identified what business to undertake and are familiar with the tools and materials needed in the operation of your business, let us apply what you have learned in the previous module by forecasting the revenues and costs incurred in your business. You might probably be wondering how profits are computed. This module will help guide you realize the revenues and profits of your chosen business.

Revenue is a result when sales exceed the cost to produce goods or render the services. Cost on the other hand simply refers to the amount of money used to produce or manufacture goods/merchandise as well as costs incurred in selling the goods/merchandise. How much revenues and costs incurred in the operation of the business, how are these projected, and how are these used to compute profit/loss of the business shall be learned in this module.

This module is divided into two lessons:

Lesson 1 – Forecasting the revenues of the business

Lesson 2 – Forecasting the costs to be incurred

To be able to successfully complete this module, previous knowledge in multiplying numbers will best help.

Why forecast? We often watch news as Kuya Kim reports the direction of the typhoon in the next 2 days, what Kuya Kim is doing is giving us information taken by satellites and gives us the direction of the typhoon. In weather forecasting, the reporter is giving us advance information that could help us prepare and be ready for upcoming typhoon. This way, risks such as accidents, devastation of properties and loss of life may be prevented.

Forecasting is a tool used in planning that aims to support management or a business owner in its desire to adjust and cope with uncertainties of the future. Forecasting depends on data from the past and present and to make meaningful estimates on revenues and costs. Forecasting revenues and costs is the same as weather forecasting, though forecasting revenues and costs is in the context of business. Entrepreneurs use forecasting techniques to determine events that

might affect the operation of the business such as sales expectations, costs incurred in the business as well as the profit that the business is earning. Making informed estimates reduces risks that might be experienced by the entrepreneur in the future.

In this module, you will be making informed estimates about revenues and calculate estimates involving costs incurred by the business. Factors affecting forecasting will be discussed to better help you in making projections.

After carefully studying the contents of this module, you should be able to:

- identify essential factors in forecasting revenues and costs;
- calculate mark-up and selling price of a product or merchandise;
- compute projected revenues;
- compute projected costs; and
- create a table showing projected revenue and costs.
- appreciate the significance of forecasting revenues and costs to a business



What I Know

Before starting with this module, let us see what you already know about forecasting revenues and costs. Answer the questions below.

Encircle the letter that bests correspond to your answer.

1. This refers to the amount added to the cost of a product to determine the selling price.
a. Revenue b. Cost c. Mark Up d. Mark Down
2. Aling Marta sells bibingka in her neighbourhood, every day she can sell 45 pieces of bibingka at 20 pesos each. How much is her daily revenue?
a. 900.00 b. 450.00 c. 800.00 d. 1000.00
3. It is a planning tool that helps the entrepreneur copes with uncertainties in the future operation of the business.
a. Revenue b. Selling c. Benchmarking d. Forecasting

4. The selling price of an item or merchandise is computed by adding cost per unit and _____?
 - a. revenue b. mark up c. discount d. number of Items
5. Mang Berting is a fruit vendor selling at the local public market. He gets his mangoes from a supplier at 25 pesos per kilo and sells it at 45 pesos per kilo to his customers. How much mark-up is Mang Berting adding to his selling price?
 - a. 25.00 b. 30.00 c. 15.00 d. 20.00
6. Aling Elvie sells t-shirt at 175.00 pesos each. If each t-shirt costs 135.00 pesos, how much is the mark-up?
 - a. 30.00 b. 45.00 c. 40.00 d. 50.00
7. It is the result when sales exceed the cost to produce goods or render services.
 - a. Forecasting b. Selling c. Revenue d. Benchmarking
8. It is a tool that allows managers to make educated estimates on revenue and costs of the business in order to cope with uncertainties of the future.
 - a. Estimating b. Guessing c. Forecasting d. Benchmarking
9. This refers to goods and merchandise at the beginning of operation of business or accounting period.
 - a. Merchandise Inventory, end c. Expenses
 - b. Merchandise Inventory, beginning d. Freight-in
10. Mang Lito sold 5 pairs of slippers. Suppose Mang Lito purchased the 5 pairs of slippers at P 30.00 each and pays P120.00 freight. Calculate how much is the cost of goods sold?
 - a. 220.00 b. 420.00 c. 270.00 d. 200.00
11. This refers to amount paid to transport goods or merchandise purchased from the supplier to the buyer.
 - a. Merchandise Inventory, end c. Expenses
 - b. Merchandise Inventory, beginning d. Freight-in
12. This refers to costs incurred through payment of utilities such as electricity and water.
 - a. Revenue c. Mark-up
 - b. Operating expenses d. Free
13. Merchandise or goods purchased are referred to as –
 - a. Purchases c. Costs

b. Operating Expenses

d. Loss

14. It is the result when cost to produce goods or render services is greater than the sales.

a. Selling

b. Revenue

c. Benchmarking

d. Loss

15. Jean purchased 5 baskets for P 30.00 each. According to her calculation, P 10.00 shall be added to the cost as mark-up. How much is the selling price of each basket?

a. 35.00

b. 40.00

c. 50.00

d. 60.00

How was the pre-test? If your answers are all correct, well very good! This only shows that you already know about the topic. Please continue to study to know more about the topic.

If your score are low, this means that this module is for you. Studying this module will help you understand the concept of forecasting and how this lesson applies to your daily life. Continue studying this module to know the answers to all the questions and a lot more.

You may now start learning!

Lesson

1

Forecasting The Revenues Of The Business



What's In

You have learned in the previous lesson the 4Ms of operations; you now have the idea on what product/s to manufacture and sell. Now, you also have a business model. One of the most challenging parts in developing a business plan is the financial plan. This part allows the entrepreneur to make decisions based on financial assumptions without even having started the business. Therefore, these financial projections should be given the most attention by the entrepreneur.

Let us now examine how the sale of products generates revenues. In this lesson, we will identify the mark-up and selling price of the product. We will also project the revenues that the business will make from the sale of products



What's New

Have you tried estimating the time that it takes you to travel from home to school? Try to fill in the necessary information in the table below. Write your estimate in Estimated Time column, after arriving to school fill in the Actual Time in the blank provided.

Estimated Time	Actual Time
1. _____	_____
2. _____	_____
3. _____	_____

How close were your estimates compared to the actual time? Did your estimate fall **short** compared to the actual time? What do you think were the

factors that might have contributed in getting you early to school? List the reasons in the blank.

On the other hand, does your actual time **exceed** your estimates? What do you think were the factors that might have contributed in arriving later than your estimated time? List the reasons in the blank.



What is It

Making informed estimates requires careful considerations on several factors that might affect the outcome of your travel such as, distance from home to school, the means of transportation you will be taking, the number of passengers and etc. Traveling from home to school on a regular basis had helped you arrive with an estimate that was very close to the actual time of arrival.

Considering these factors is essential in making informed estimates by the entrepreneur. Since the business he/she is venturing hasn't started yet, it is important that these factors affecting forecasting will be determined to better help him/her in making the best decisions for the business.

For the entrepreneur, after realizing the potential for profit of his/her business concept, the next step is to estimate how much the revenue is on a daily, monthly and annual basis. Before going to forecasting and projecting the revenues of the business, let us determine first what revenue is.

Revenue is a result when sales exceed the cost to produce goods or render the services. Revenue is recognized when earned, whether paid in cash or charged to the account of the customer. Other terms related to revenue include **Sales** and **Service Income**. *Sales* is used especially when the nature of business is merchandising or retailing, while *Service Income* is used to record revenues earned by rendering services.

Now that you know about revenue, Let us determine the factors to consider in forecasting revenues.

You have just learned about what revenue is. This time, let us study the various factors to consider in forecasting revenues.

The entrepreneur would want his/her forecasting for his/her small business as credible and as accurate as possible to avoid complications in the future. In estimating potential revenue for the business, factors such as external and internal factors that can affect the business must be considered. These factors should serve as basis in forecasting revenues of the business. These factors are:

1. *The economic condition of the country.* When the economy grows, its growth is experienced by the consumers. Consumers are more likely to buy products and services. The entrepreneur must be able to identify the overall health of the economy in order to make informed estimates. A healthy economy makes good business.
2. *The competing businesses or competitors.* Observe how your competitors are doing business. Since you share the same market with them, information about the number of products sold daily or the number of items they are carrying will give you idea as to how much your competitors are selling. This will give you a benchmark on how much products you need to stock your business in order to cope with the customer demand. This will also give you a better estimate as to how much market share is available for you to exploit.
3. *Changes happening in the community.* Changes happening in the environment such as customer demographic, lifestyle and buying behavior give the entrepreneur a better perspective about the market. The entrepreneur should always be keen in adapting to these changes in order to sustain the business. For example, teens usually follow popular celebrities especially in their fashion trend. Being able to anticipate these changes allows the entrepreneur to maximize sales potential.
4. *The internal aspect of the business.* Another factor that affects forecasting revenues in the business itself. Plant capacity often plays a very important role in forecasting. For example, a “Puto” maker can only make 250 pieces of puto every day; therefore, he can only sell as much as 250 pieces of puto every day. The

number of products manufactured and made depends on the capacity of the plant, availability of raw materials and labour and also the number of salespersons determine the amount of revenues earned by an entrepreneur.

Now that all factors affecting forecasting revenues are identified, you can now calculate and project potential revenues of your chosen business. The table below shows an example of revenues forecasted in a Ready to Wear Online Selling Business.

Example: Ms. Fashion Nista recently opened her dream business and named it Fit Mo'to Ready to Wear Online Selling Business, an online selling business which specializes in ready to wear clothes for teens and young adults. Based on her initial interview among several online selling businesses, the average number of t-shirts sold every day is 10 and the average pair of fashion jeans sold every day is 6. From the information gathered, Ms. Nista projected the revenue of her Fit Mo'to Ready to Wear Online Selling Business.

She gets her supplies at a local RTW dealer in the city. The cost per piece of t-shirt is 90 pesos, while a pair of fashion jeans costs 230 pesos per piece. She then adds a 50 percent mark up to every piece of RTW sold.

Mark up refers to the amount added to the cost to come up with the selling price. The formula for getting the mark up price is as follows:

$$\text{Mark Up Price} = (\text{Cost} \times \text{Desired Mark Up Percentage})$$

$$\text{Mark Up for T-shirt} = (90.00 \times .50)$$

$$\text{Mark Up for T-shirt} = 45.00$$

In calculating for the selling price, the formula is as follows:

$$\text{Selling Price} = \text{Cost} + \text{Mark Up}$$

$$\text{Selling Price} = 90.00 + 45.00$$

$$\text{Selling Price for T-shirt} = 135.00$$

Table 1 shows the projected daily revenue of Ms. Nista's online selling business. Computations regarding the projected revenue is presented in letters in upper case A, B, C, D, and E.

Table 1
Projected Daily Revenue
Fit Mo'to Ready to Wear Online Selling Business

Type of RTW's	Cost per Unit (A)	Mark-up 50% (B)	Selling Price (C)	Projected Volume (D)	Projected Revenue (E)
				Average No. of Items Sold (Daily)	(Daily)
	(A)	(B)= (A x .50)	(C)= (A+B)	(D)	(E) =(C x D)
T-Shirts	90.00	45.00	135.00	10	1,350.00
Jeans	230.00	115.00	345.00	6	2,070.00
Total	320.00	160.00	480.00	16	3,420.00

Table 2 shows the projected monthly and yearly revenue of Ms. Nista's online selling business. Computations about the monthly revenue is calculated by multiplying daily revenues by 30 days (1 month).

For example, in Table 1 the daily revenue is 3,420.00. To get the monthly projected revenue it is multiplied by 30 days. Therefore,

Projected Monthly Revenue = Projected Daily Revenue x 30 days

Projected Monthly Revenue = 3,420.00 x 30

Projected Monthly Revenue = 102,600.00

On the other hand, the projected yearly revenue is computed by multiplying the monthly revenue by 12 months. The calculation for projected yearly revenue is as follows.

Projected Yearly Revenue = Projected Daily Revenue x 365 days

Projected Yearly Revenue = 3,420.00 x 365

Projected Yearly Revenue = 1,248,300.00

Table 2
Projected Monthly and Yearly Revenue
Fit Mo'to Ready to Wear Online Selling Business

Type of RTW's	Selling Price	Projected Volume	Projected Revenue	Projected Volume	Projected Revenue
		Average No. of Items Sold (Monthly)		Average No. of Items Sold (Yearly)	
	(C)= (A+B)	F= (D x 30 days)	G= (C x F)	H= (D x 365 days)	I= (C x H)
T-Shirts	135.00	300	40,500.00	3,650	492,750.00
Jeans	345.00	180	62,100.00	2,190	755,550.00
Total	480.00	480	102,600.00	5,840	1,248,300.00

Table 3 shows the projected monthly revenues covering one year of operation. The table shows an average increase of revenue every month by 5 percent except June, July to October and December. While the month of June has twice the increase from the previous month by 10 percent, let us consider that months covering July to October are considered to be Off-Peak months, therefore sales from July to October are expected to decrease. It is assumed that there is no increase in revenue from July to August, while from August to October the decrease in revenues is 5 percent from previous month. Since revenues from sales of RTW's are considered to be seasonal, it assumed that there is a 10 percent increase in revenue from November to December.

Computation for assumed increase of revenue on specific months is as follows:

Projected Monthly Revenue (Increase) = Revenue (January) x 5 % Increase

Projected Monthly Revenue (Increase) = 102,600.00 x .05

Projected Monthly Revenue (Increase) = 5,130.00

Projected Revenue for February = Revenue (January) + Amount of Increase

Projected Revenue for February = 102,600.00 + 5,130.00

Projected Revenue for February = 107,730.00

On the other hand, decrease in revenue is computed as follows:

Projected Monthly Revenue (Decrease) = Revenue (August) x 5 %
Increase

Projected Monthly Revenue (Increase) = 144,041.14 x .05

Projected Monthly Revenue (Increase) = 7,202.06

Projected Revenue for September = Revenue (August) - Amount of
Decrease

Projected Revenue for September = 144,041.14 – 7,202.06

Projected Revenue for September = 136,839.08

Table 3
Projected Monthly Revenue
Fit Mo'to Ready to Wear Online Selling Business

Month	January	February	March	April	May	June
Revenue	102,600.00	107,730.00	113,116.50	118,772.33	124,710.94	137,182.04

Month	July	August	September	October	November	December
Revenue	144,041.14	144,041.14	136,839.08	129,997.13	136,496.98	150,146.68

Important Assumptions:

February to May	Increase of 5% from previous revenue
June	Increase of 10% from previous revenue
July to August	The same Revenue
September to October	Loss of 5% from previous revenue
November	Increase of 5% from previous revenue
December	Increase of 10% from previous revenue

The numbers in the last table are very attractive, having revenues that are increasing in numbers is a good sign that a business is growing. However, an entrepreneur should not be overwhelmed by these revenues, as these are just gross revenue, this is not the final amount of profit or income an entrepreneur will get at the end of every period. Take note that the amount of net revenue is still subjected to the expenses incurred in the operation of business.



What's More

After learning the calculations presented, you can now compute the projected revenue by day, month and year based on your business concept.

Aling Minda is operating a buy and sell business, she sells broomsticks (walis tingting) in her stall at a local market. She gets her broomsticks from a local supplier for 25 pesos each. She then adds 50 percent mark-up on each broomstick. Every day, aling Minda can sell 30 broomsticks.

Use the template below and fill in the necessary figures based on the scenario. Remember to use the factors to consider in projecting revenues and refer to Tables 1, 2 and 3 as your guide.

Table 1
Projected Daily Revenue
Name of Business _____

Merchandise/ Products	Cost per Unit (A)	Mark-up _____% (B)	Selling Price (C)	Projected Volume (D)	Projected Revenue (E)
				Average No. of Items Sold (Daily)	(Daily)
	(A)	(B)= (A x .50)	(C)= (A+B)	(D)	(E) =(C x D)
Total					

Use the calculations you have made in Table 1 to successfully complete the information in Table 2 and calculate the projected monthly and yearly revenue of Aling Minda's business. For Table 3, use the following assumed increases in sales every month. From January to May, 5 per cent increase from previous sales. For the month of June, 10 per cent increase from previous sales. For the months July to December, record the same sales every month.

Table 2
Projected Monthly and Yearly Revenue

Name of Business _____

Merchandise/ Products	Selling Price	Projected Volume	Projecte d Revenue	Projected Volume	Projected Revenue
		Average No. of Items Sold (Monthly)		Average No. of Items Sold (Yearly)	
	(C)= (A+B)	F= (D x 30 days)	G= (C x F)	H= (D x 365 days)	I= (C x H)
Total					

Table 3
Projected Monthly Revenue

Name of Business _____

Month	January	February	March	April	May	June
Revenue						

Month	July	August	September	October	November	December
Revenue						



What I Have Learned

Entrepreneurs use _____ techniques to determine events that might affect the operation of the business. Factors such as _____ and _____ must be considered to avoid possible complications in the future. To forecast revenues, it is best that the entrepreneur must be acquainted with the _____, and _____ to determine the selling price of a product. This way, the selling price is then multiplied to the projected volume to arrive with the _____.

The entrepreneur should always present the assumptions to consider in projecting revenues, may it be seasonality, economic slow down or changes in costumer preferences and the like. This will help achieve the best educated estimate of your revenues



What I Can Do

It is understood that you now know how to calculate mark-up and selling price of an item or merchandise. Let us try the following situations to see if you have understood the concepts.

1. Kyle, a local entrepreneur is planning to sell 10 liter-bottled waters in his sari-sari store. A local water purifying business in the city sells their 10-liter bottled water for 20 pesos each. Kyle wants to add 25 per cent mark up from the original cost of 10 liters bottled water. Calculate how much mark-up Kyle should add. Determine how much should be the selling price for 10-liter bottled water.
2. Zoi sells fruits in a local fruit stand in the market. She gets her fruits from a local wholesaler in the city. Zoi charges 40 per cent mark up for every kilo of watermelon she gets. Suppose the cost per kilo of watermelon is 25, how much is the selling price for one kilo of watermelon?



Assessment

Directions: Write **True** if the statement is correct, while **False** if the statement is incorrect.

- _____ 1. When sales exceed the cost to produce goods its result is called forecasting.
- _____ 2. Mark-up refers to the amount added to the cost of a product to determine the selling price.
- _____ 3. Forecasting is a planning tool that helps the entrepreneur cope with uncertainties in his future operation.
- _____ 4. Costs incurred through payment of utilities such as water and electricity are called operating expenses.
- _____ 5. Mang Mario is a fruit vendor. Selling fruits is an example of a service concern business.
- _____ 6. The selling price of a product is calculated by adding its cost per unit and mark-up.
- _____ 7. Merchandise or goods purchased are called Purchases.
- _____ 8. Aling Becky sells suman in her neighbourhood, every day she can sell 75 pieces of suman for 5.00 pesos each. Her daily revenue is 325.00 pesos.
- _____ 9. Loss is a result when cost to produce goods is greater than the sales.



Additional Activities

- Now that you have learned how to forecast revenues of the business, investigate how these concepts are being applied by existing businesses in your community. Using the table below, fill in the necessary information based on your investigation.

Table 1
Projected Daily Revenue
Name of Business _____

Merchandise/ Products	Cost per Unit (A)	Mark-up _____% (B)	Selling Price (C)	Projecte d Volume (D)	Projected Revenue (E)
				Average No. of Items Sold (Daily)	(Daily)
	(A)	(B)= (A x _____%)	(C)= (A+B)	(D)	(E) =(C x D)
Example: 1. Notebook	13.00	(13.00 x 25%) 3.25	(13.00 + 3.25) 16.25	5	(16.25 x 5) 81.25
Total					

- Suppose you wanted to start a merchandising business in your community, list the product/s you want to sell and determine its mark-up and selling price. Use the same formula for calculation found on the above table.

Merchandise/ Product	Cost per Unit	Mark Up	Selling Price
1.			
2.			

Lesson 2

Forecasting The Cost To Be Incurred



What's In

You have learned in Lesson 1 that the revenue generated by selling RTW's has a corresponding amount of costs incurred. This cost is the amount of RTW before adding its mark-up price. Each piece of t-shirt has a corresponding cost of 90.00 pesos, while each pair of jeans has a corresponding cost of 230.00 pesos. These costs are incurred each time revenues are generated. On the other hand, the business also incurs costs in its operation, these costs are called Operating Expenses. Operating expenses such as payment on Internet connection, Utilities expense (Electricity), Salaries and Wages and Miscellaneous are essential in the operation of the business; this allows the business to continue to operate in a given period of time.

Now that you have learned what cost is, let us identify the costs and expenses incurred by the business in generating revenues.



What's New

Have you tried recording the amount of money you spend from your daily allowance? You might be experiencing difficulties in making your allowance meet your daily needs as a student. Try to fill in the information below to come up with a breakdown of your daily allowance.

Breakdown on Daily Allowance

Name: _____

Daily Allowance: ₱ _____

Less: Daily Expenses

Food ₱ _____

Fare _____

School Supplies _____

Recreation _____

Others _____

Total ₱ _____

Were you able to get a positive total? You may have spent your daily allowance wisely and saved some of your daily allowance. Did you spend all your allowance and ended up with a zero total? You may have spent your allowance on expenses essential to your needs as a student.

Considering your expenses as a student, a business also has expenses necessary for its upkeep. It would be best for any business to arrive with a positive total; this would mean profit for the business. Careful consideration and projection of these factors could mean success for the business.



What is It

You have just learned about what cost is. This time let us identify costs and expenses incurred by the business.

Cost of Goods Sold / Cost of Sales refer to the amount of merchandise or goods sold by the business for a given period of time. This is computed by adding the beginning inventory to the Net Amount of Purchases to arrive with Cost of Goods available for sale from which the Merchandise Inventory, end is subtracted.

Merchandise Inventory, beginning refers to goods and merchandise at the beginning of operation of business or accounting period.

Purchases refer to the merchandise or goods purchased. Example: Cost to buy each pair of Jeans or t-shirt from a supplier.

Merchandise Inventory, end refers to goods and merchandise left at the end of operation or accounting period.

Freight-in refers to amount paid to transport goods or merchandise purchased from the supplier to the buyer. In this case, it is the buyer who shoulders these cost.

In a merchandising business such as Fit Mo'to Ready to Wear Online Selling Business, the formula to compute for costs of goods sold is as follows:

Merchandise Inventory, beginning	P XX.XX
Add: Net Cost of Purchases	XX.XX
Freight-in	<u>XX.XX</u>
Cost of Goods Available for Sale	P XX.XX
Less: Merchandise Inventory, end	<u>XX.XX</u>
Cost of Goods Sold	P XX.XX

Let us calculate the cost of goods sold by Ms. Fashion Nista's online selling business for the month of January.

Table 4 shows the costs incurred during the first month of operation of Fit Mo'to Ready to Wear Online Selling Business. Since Ms. Nista gets her stocks from an online supplier, there is no need to order ahead and stock more items. Therefore, there is no Merchandise Inventory, beginning as well as Merchandise Inventory, end. Ready to wear items purchased online from the supplier are then sold as soon as they arrived.

Cost of goods is calculated by simply multiplying the number of items sold every month (300 t-shirts and 180 pairs of jeans) to its corresponding cost per unit (90.00 pesos for every t-shirt and 230.00 pesos for every pair of jeans). A cost in transporting the goods from the supplier to the seller (Ms. Nista) or Freight-in is then added to Net Cost of Purchases.

Table 4
Projected Cost of Goods Sold (Monthly)
Fit Mo'to Ready to Wear Online Selling Business

Type of RTW's	Cost per Unit	Projected Volume	Projected Costs of Purchases (Monthly)
		Average No. of Items Sold (Monthly)	
	(A)	$F = (D \times 30 \text{ days})$	$K = (A \times F)$
T-Shirts	90.00	300	27,000.00
Jeans	230.00	180	41,400.00
Total	320.00	480	68,400.00

Table 5 shows how freight-in is calculated.

It is assumed that at an average, Ms. Nista pays at least 250.00 pesos for every 12 items delivered successfully by her supplier through a courier service. Since her average order is 480 pieces every month, she pays:

$$480 \text{ pcs.} / 12 \text{ pcs.} \times 250.00$$

$$40 \times 250.00 = 10,000.00$$

Table 5
Freight-in Paid by Ms. Nista Every Month

Type of RTW's	No. of Items Sold (Daily)	Projected Volume	Freight In (January Only)
		Average No. of Items Purchased (Monthly)	
	(A)	$F = (D \times 30 \text{ days})$	$J = (F/12) \times 250$
T-Shirts	10	300	6,250.00
Jeans	6	180	3,750.00
Total	16	480	10,000.00

Let us now substitute the values from Table 4 and Table 5. Since there is no Merchandise Inventory, beginning and end, let us add Cost of Purchases and Freight-in to get the Cost of Goods Sold.

Merchandise Inventory, beginning	P 00.00
Add: Net Cost of Purchases	68,400.00
Freight-in	<u>10,000.00</u>
Cost of Goods Available for Sale	P 78,400.00
Less: Merchandise Inventory, end	<u>00.00</u>
Cost of Goods Sold	P <u>78,400.00</u>

Now that the cost of goods sold is now calculated, let us now identify expenses that the business incurs in its operation. **Operating expenses** such as Internet connection, and **Utilities** like electricity and miscellaneous expense are important to keep the business running. These expenses are part of the total costs incurred by the business in its day-to-day operation and are paid every end of the month. The operating expenses and assumed amounts are presented below:

Operating Expenses	
Add: Internet Connection	P 1,299.00
Utilities (Electricity)	800.00
Miscellaneous expense	P <u>300.00</u>
Total Operating Expense	P <u>2,399.00</u>

To calculate the total costs incurred by the business, cost of goods sold and total operating expenses are then added. The calculation for the costs incurred for the month of January is presented below:

Cost of Goods Sold	P 78,400.00
Total Operating Expense	P <u>2,399.00</u>
Cost	P <u>80,799.00</u>

Table 6
Projected Monthly Costs (Year 1)
Fit Mo'to Ready to Wear Online Selling Business

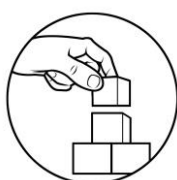
Month	January	February	March	April	May	June
Cost of Goods Sold	78,400.00	82,320.00	86,436.00	90,757.80	95,295.69	104,825.26
Expenses	2,399.00	2,446.98	2,495.92	2,545.84	2,596.75	2,648.69
Total Cost & Expenses	80,799.00	84,766.98	88,931.92	93,303.64	97,892.44	107,473.95

Month	July	August	September	October	November	December
Cost of Goods Sold	110,066.52	110,066.52	104,563.20	99,335.04	104,301.79	114,731.97
Expenses	2,701.66	2,755.70	2,810.81	2,867.03	2,924.37	2,982.85
Total Cost & Expenses	112,768.19	112,822.22	107,374.01	102,202.06	107,226.16	117,714.82

Important Assumptions

February-May	Increase 5% from Previous Costs	Peak Months
June	Increase 10% from Previous Costs	
July-August	Same Costs	Non-peak Months
September	Loss 5% of Previous Costs	
October	Loss 5% of Previous Costs	
November	Increase 5% from Previous Costs	Peak Months
December	Increase 10% from Previous Costs	

The projected monthly costs covering the first of operation of Ms. Nista's Fit Mo'to RTW Online Selling Business is presented in Table 6.



What's More

After learning the calculations presented, you can now compute the projected costs by month on your business concept. Use the template below and fill in the necessary figures based on the scenario.

Mang Eduard operates a buy and sell business. He sells umbrellas in his shop near the city mall. He gets his umbrellas from a local dealer. Each

umbrella costs 90.00 pesos each. Expecting rainy season to come, Mang Eduard purchased 4 dozens of umbrellas every week. The supplier then charges 200.00 pesos per dozen for freight. Mang Eduard can sell 12 umbrellas every day.

Remember to use the factors to consider in projecting revenues and refer to Tables 4, 5 and 6 as your guide. Suppose Mang Eduard purchases and sales are the same every month, fill in the necessary information in Table 6.

Table 4
Projected Cost of Goods Sold (Monthly)

Merchandise/ Products	Cost per Unit	Projected Volume	Projected Costs of Purchases (Monthly)
		Average No. of Items Sold (Monthly)	
	(A)	$F = (D \times 30 \text{ days})$	$K = (A \times F)$
Total			

Table 5
Freight-in Paid

Merchandise/ Products	No. of Items Sold (Daily)	Projected Volume	Freight In (1 Month Only)
		Average No. of Items Purchased (Monthly)	
		$F = (D \times 30 \text{ days})$	$J = (F/12) \times \text{*P}200.00$
Total			

Table 6
Projected Monthly Costs (Year 1)

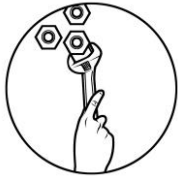
Month	January	February	March	April	May	June
Cost of Goods Sold						
Expenses						
Total Cost & Expenses						

Month	July	August	September	October	November	December
Cost of Goods Sold						
Expenses						
Total Cost & Expenses						



What I Have Learned

The entrepreneur should always present the assumptions to consider in projecting costs, may it be cost of goods sold or operating expenses. This will help achieve the best educated estimates of your costs. The entrepreneur must clearly identify costs incurred in the business operation. _____ is the amount of goods or merchandise sold during a period of time which incurs a large portion of the total cost of a _____ business. The cost of goods sold can be calculated by simply multiplying _____ to its corresponding _____. A cost in transporting the goods from the supplier to the seller or _____ is then added to Net Cost of Purchases.



What I Can Do

Now that you know how to calculate the projected costs of a business, look around and interview any business existing in your community such as sari-sari stores or buy and sell business. Using the table for Projected Costs of Goods Sold (Daily) below. Fill in the necessary figures from the business you have selected.

Projected Cost of Goods Sold (Daily)

Business Name: _____

Goods/ Merchandise	Cost per Unit	Projected Volume	Projected Costs of Purchases (Daily)
		Average No. of Items Sold (Daily)	
Total			



Assessment

Now, that you have finished the module, let us check what you have learned. Answer the questions given below by encircling the letter of the correct answer.

- Profit or Loss is computed by subtracting cost / expenses from –
 - income/revenue
 - sales discount
 - sales
 - operating expenses
- Sales is an account title used to describe goods or merchandise sold by a business. What nature of business uses *Sales*?
 - Servicing
 - Barber Shop
 - Merchandising
 - Both Servicing and Merchandising
- Irene sells fashion bags online. She gets each bag for P 150.00 from a local supplier. She then adds P 100.00 as mark-up for each bag. How much is the selling price of each bag?
 - P 200.00
 - P 250.00
 - P 300.00
 - P 350.00
- A merchandising business earns through –
 - rendering services
 - lending money
 - donating products
 - buys and sells goods

5. It is a tool that allows managers to make educated estimates on revenue and costs of the business in order to cope up with uncertainties of the future –
 - a. estimating b. guessing c. forecasting d. benchmarking
6. Which of the following businesses use Service Income in recording revenues?
 - a. Beauty Salon b. Sari-sari store c. Movie House d. Hardware
7. It refers to the amount of merchandise or goods sold by the business for a given period of time.
 - a. Operating Expense c. Deductions
 - b. Cost of Goods Sold d. Sales
8. Aling Coring sold 5 pieces of rugs. She bought the rugs for 20 pesos and sold it for 35 pesos. How much is the total cost of goods sold?
 - a. P 80.00 b. P 90.00 c. P 100.00 d. P 110.00
9. Freight-in refers to the amount paid to transfer goods or merchandise purchased from the _____.
 - a. buyer to the supplier c. buyer to buyer
 - b. supplier to the buyer d. supplier to supplier
10. The costs incurred through payment of utilities such as water, electricity, internet connection is considered as –
 - a. costs c. operating expenses
 - b. purchases d. personal expense of the owner
11. Nathaniel sells bottled water in a nearby city bus terminal. Every day he can sell 30 pieces of bottled water at 20 pesos each. How much is Nathaniel's daily sales?
 - a. P 900.00 b. P 800.00 c. P 700.00 d. P 600.00
12. The amount added to the cost of a product to determine the selling price is called?
 - a. mark-up b. discount c. mark-down d. sale
13. Lina sold all ten t-shirts for 1,500.00 pesos. Suppose she added 50.00 pesos as mark-up price for every t-shirt. How much was the cost for every t-shirt sold?
 - a. P 80.00 b. P 90.00 c. P 100.00 d. P 110.00
14. It refers to goods and merchandise left at the end of operation or accounting period.
 - a. Merchandise inventory, beginning c. Freight-in
 - b. Merchandise inventory, end d. Freight-out
15. The Total Cost and Expenses is calculated by –
 - a. adding cost and expenses c. adding revenue and expense
 - b. subtracting expenses from costs d. subtracting expense from revenue



Additional Activities

Now that you have learned how to forecast revenues and cost of the business, investigate how these concepts are being applied by existing businesses in your community. Using the table below, fill in the necessary information based on your investigation.

Daily Revenue and Cost

Name of Business: _____

Merchandise/ Products	Cost per Unit (A)	Mark-up _____% (B)	Selling Price (C)	Projected Volume (D)	Projected Revenue (E)	Projected Costs of Purchases (Daily)
				Average No. of Items Sold (Daily)	(Daily)	
	A	$(B) = (A \times .50)$	$C = A + B$	D	$E = C \times D$	$K = (A \times D)$
Ex. Bag	150.00	75.00	225.00	10	2250	1500

- Conduct an interview with two local entrepreneurs in your community. Using the table below as guide, ask how these entrepreneurs use forecasting revenues and costs in making decisions for the good of their businesses.

Name of Entrepreneur	Nature of Business	Decisions made while referring to Forecasted Revenue and Costs.
1. Mr. Dela Cruz	Fruit Vendor	Help me determine how many should I purchase for next month.
2.		
3.		



Answer Key

Lesson 1																																							
What I Know																																							
1. C	6. C	11. D	12. B	13. A	14. D	15. B																																	
2. A	7. C	12. A	13. C	14. B	15. A																																		
3. D	8. C	13. C																																					
4. B	9. B	14. B																																					
5. D	10. C	11. D																																					
What's More																																							
Table 1																																							
Merchandise: Broomstick																																							
A. 25	B. 12.50	C. 37.50	D. 30	E. 1,125																																			
Table 2																																							
Merchandise: Broomstick																																							
C. 37.50	F. 900	G. 33,750	H. 10,950	I. 410,625																																			
Table 3																																							
January:	33,750	Feb.	36,437.50	Mar.	37,209.38	Apr.	39,069.89	May	41,023.34	Jun.	45,125.67																												
Sep.	45,125.67	Oct.	45,125.67	Nov.	45,125.67	Dec.	45,125.67																																
What I have Learned																																							
1. Forecasting																																							
2. External																																							
3. Internal																																							
4. Cost																																							
5. Mark-up																																							
6. Projected Revenue																																							
What I Can Do																																							
1. Mark Up Price = (Cost x desired mark up percentage)																																							
Mark Up for Bottled Water = (20.00 x .25)																																							
Mark Up for Bottled Water = 5.00																																							
In calculating for the selling price, the formula is as follows:																																							
Selling Price = Cost + Mark Up																																							
Selling Price = 20.00 + 5.00																																							
Selling Price for Bottled Water = 25.00																																							
Mark Up Price = (Cost x desired mark up percentage)																																							
Mark Up for Watermelon = (25.00 x .40)																																							
Mark Up for Watermelon = 10.00																																							
In calculating for the selling price, the formula is as follows:																																							
Selling Price = Cost + Mark Up																																							
Selling Price = 25.00 + 10.00																																							
Selling Price for Watermelon = 35.00																																							
Assessment																																							
1. False	2. True	3. True	4. True	5. False																																			
6. True	7. True	8. False	9. True																																				
Lesson 2																																							
What's More																																							
Table 4																																							
Merchandise: Umbrella																																							
A. 90	F. 360	K. 32,400																																					
Table 5																																							
Merchandise: Umbrella																																							
No. of Items Sold Daily	= 12	F.	192	J.	3,200																																		
Table 6																																							
January:	35,600	Feb.	35,600	Jun.	35,600	Oct.	35,600	Nov.	35,600	Dec.	35,600																												
May	35,600	Jun.	35,600	Jul.	35,600	Aug.	35,600	Sep.	35,600	Oct.	35,600																												
What I have Learned																																							
1. Cost of Goods Sold																																							
2. Merchandising																																							
3. Number of items sold every month																																							
4. Cost per unit																																							
5. Freight-in																																							
Assessment																																							
1. A	6. A	11. D	12. A	13. C	14. B	15. A																																	
2. C	7. B	12. A	13. C	14. B	15. A																																		
3. B	8. C	13. C																																					
4. D	9. B	14. B																																					
5. C	10. C	11. D																																					



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