MY FIRST PROFIT PLAN



What my business does: Expenditures are the costs to run your business. Use the chart below to record the materials you need and how much they cost. Then add up the prices to find your total expenditures.			
		Material Name	Price
Total Expenditur	res:		

Profit is the money you make from your business after you pay your expenditures. You can use your profit to buy more materials to keep your business going, save up, or buy something you want.

Now that you know your business expenditures, how much do you need to charge for your product or service if you want to make a profit? Let's look at how two kids, Maria and Louie, set prices for their businesses.

Learn How to Set Prices to Make a Profit



Example 1: Maria's Hat Business

Maria runs a business selling knitted hats. She can make two hats from one ball of yarn. She's bought five balls of yarn. Each ball of yarn costs \$5.

What does this tell us?

- 5 balls of yarn at \$5 each cost \$25 ($$5 \times 5$). These are Maria's total business expenditures for her current batch of hats.
- Maria has enough material to make 10 hats (2 hats per ball of yarn x 5 balls of yarn).

If we divide her expenditures (\$25) by the number of hats she makes (10), then we learn that it costs \$2.50 worth of materials to make each hat. Once we know what it costs to make each hat, we can set the price higher than that to create a profit.

Solution: Maria decides to charge \$20 per hat she makes, earning \$200 when she sells all 10 hats ($$20 \times 10$ hats = \$200). If you subtract her business expenses (\$25), you'll see she makes a profit of \$175 for those hats.

Maria decides to divide her profit three ways. She puts \$90 in her savings account, she keeps \$45 to spend, and she uses \$40 to buy more yarn to keep her business running.

Example 2: Louie's Lawn Service

Louie cuts the grass for his neighbors. He uses his dad's lawn mower for free, but he has to pay for gas to power it. It costs \$4 to fill the mower's gas tank, and Louie can cut 4 yards before he has to refill the mower. He currently has 8 customers.

What does this tell us?

- Louie has to fill up the lawn mower with gas twice to cut all 8 yards.
- It costs Louie \$4 each time he fills up.
- Louie's total business expenditures are \$8 (\$4 per tank of gas x 2 times he fills up).

If we divide his expenditures (\$8) by the number of yards he mows (8), we learn that it costs \$1 to cut each yard. Now that we know what it costs to mow each yard, we can set a price to create a profit.

Solution: Louie decides to charge each neighbor \$15 to cut their grass. He earns \$120 for cutting the grass for all his customers ($$15 \times 8$ yards). If we subtract his business expenses (\$8), we find he makes a profit of \$112.

Like Maria, Louis decided to save some money, spend some money, and reinvest some money in his business. He decides to use \$20 to buy gas next time so he can find new customers and mow even more yards. This will help him grow his business.