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ABSTRACT

This handbook is intended for teachers in Alaska who are developing and/or operating home-based business programs. The curriculum included in the guide can be used to set up a school-based business to provide students with actual experience in the business. The curriculum also serves as a basic course of study for small business and entrepreneurship programs. The handbook includes instructional materials and information to be used to teach selected competencies and focuses primarily on those competencies for which materials are not readily available to teachers. It also includes resources for ordering additional materials. The handbook is divided into 13 program goals addressing the following topics: personal traits and self-assessment, potential kinds of home businesses, business structures, regulations governing home-based businesses, obtaining funds, business records, insurance, purchasing, marketing, financial management and planning including space planning, computer programs for recordkeeping for home-based businesses, and keeping current. Each of these areas contains a list of competencies to be attained by students, information sheets, learning activities, and reprints. (KC)

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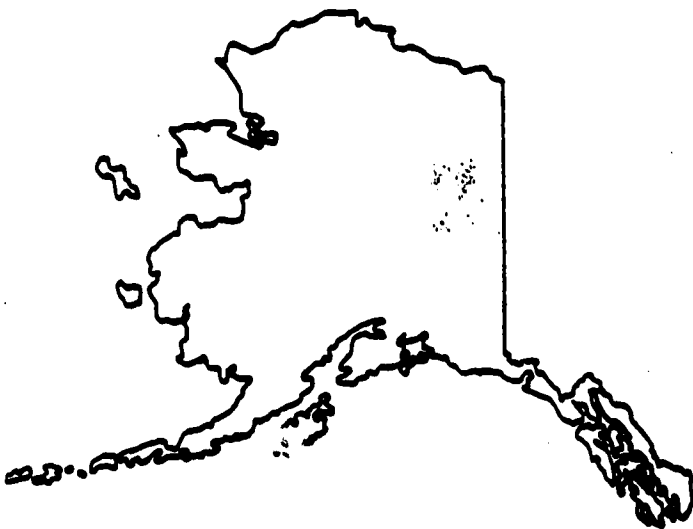
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**ALASKA DEPARTMENT OF EDUCATION
Adult and Vocational Education**

Marshall Lind, Commissioner

**Gerald D. Hiley, Director for
Vocational Education**

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FOREWORD

This handbook is intended for use by those developing and/or operating home-based business programs. The curriculum included here can be used to set up a school-based business to provide students with actual experience in a business. The curriculum also serves as a very basic course of study for small business and entrepreneurship programs.

The handbook is divided into two parts. It consists of instructional materials and information to be used to teach selected competencies. Developers of this handbook focused primarily on those competencies for which materials are not readily available to teachers. It also includes resources for ordering additional materials.

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The Home-Based Business Program Handbook was developed by a task force of Alaskan educators. The following teachers provided invaluable guidance and expertise in writing the handbook:

John Currie
Instructor
Nome-Beltz High School

Joan Knight
Instructor
Kodiak Aleutian Regional High School

Appreciation must also be expressed to Susan Sloan Doherty of The Northern Institute, who coordinated the curriculum development project and to Danelle Corrick of The Northern Institute who developed the final copy.

The task force used a variety of materials in developing this handbook. These included a variety of pamphlets from the Small Business Administration; Operating a Home-Based Business in Washington State, a joint publication of the U.S. Small Business Administration, the Small Business Development Center and the Office of Small Business; and Home Entrepreneurship: Instructional Materials in the Operation of a Small Business from the Home from Pennsylvania State University. The source is cited wherever these materials are included.

Burdell Jackson
Curriculum Specialist
for Vocational Education

INTRODUCTION

A home-based business is a small business that is generally operated in the home by one or more family members. Frequently the home-based business is the result of converting a hobby or other skill into a profit-making business. The home-based business owner does all the work, record keeping, management and decision-making required to make the business function.

In rural Alaska, employment is often unavailable; the employment which is available is frequently seasonal. This situation provides the opportunity for self employment by using an existing skill or attaining a new one. Some people begin a new business with a "warm-up" period to try it out on a small scale and to test its reception in the community. The trial period can be combined with other part time work to provide some income while the business is being tested.

Advantages of Home-Based Businesses

They may create jobs where no jobs were previously available.

There may be low start-up costs because worksite, materials and equipment may already be available.

There may be low operating costs because a separate building, child care, etc. are not necessary.

There is little commuting time or expense because work is done in the home.

There are tax benefits because many of the expenses of operating the home can be charged off to the business.

They provide life style flexibility because people can set their own work schedule.

They can provide high job satisfaction.

Disadvantages of Home-Based Businesses

There may be a loss of income because of inability to manage time and resources.

There may be problems with friends who expect a special deal and are quick to express dissatisfaction.

Workers may feel isolated from the traditional world of work.

There may be problems in complying with zoning laws.

Space may be cramped or inappropriate.

Family privacy and lifestyle patterns may be disrupted or set aside because people ignore office hours.

There may be unstable income.

There may be problems with friends who don't visit because they are afraid of a sales pitch.

There may be problems with friends who expect free advice.

Many schools in Alaska start and operate school-based businesses. These programs provide students with an understanding of how the free enterprise system works as well as practical knowledge and skills needed to operate a home-based business. This manual is designed to provide an overview of the school or home-based business. It includes instructional materials to use in teaching competencies students should gain through the program. Developers of this guide tried to focus on areas in which they felt there was not much readily available to Alaskan teachers. It also includes resources for additional information. Special attention is given to Small Business Administration publications, but other textbooks and books are also listed.

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Small, faint, diagonal text, possibly a stamp or watermark, partially legible as "Small Business" or similar.

**Goal 1.0 To understand personal traits necessary
for self employment**

Competencies:

- 1.1 Conduct a self assessment of personal traits**
- 1.2 Present a professional image**
- 1.3 Set personal goals**
- 1.4 Use decision-making skills**
- 1.5 Use problem-solving skills**
- 1.6 Manage time and resources**
- 1.7 Work effectively with other people**
- 1.8 Separate professional duties from home responsibilities**

Self-Analysis: Are You A Salesperson?

How to Grade

Grade each point on the basis of 0 to 10. If you believe that you are what you should be, give yourself 10 points; if only medium, 5 points; and if entirely disqualified, give yourself a 0; give any intervening points for other values.

Apply your own knowledge. Consider what a discriminating person in full possession of the facts would give you.

When you have graded each of the 100 points, add the figures and place the sum in the proper place at the end of the column. Divide by 10 for your percentage of efficiency.

**GRADE
YOURSELF
HERE**

A. APPEARANCE

1. Is your expression pleasant? _____
2. Clothes spotless and pressed, shoes shined? _____
3. Are your clothes selected with taste—style, fit, color, harmony? _____
4. Do you look like you are master of yourself? _____
5. Are your manners pleasant and friendly? _____
6. Do you correct all appearance liabilities? _____

B. HEALTH

7. Is your health a 100% business asset? _____
8. Is your health as important as money? _____
9. Do you observe the simple health rules regarding eating, drinking, breathing, and exercising? _____
10. Is your power of endurance above average? _____
11. Lost any workdays this year due to illness? _____

C. FEARLESSNESS

- 12. Are you at ease before strangers or superiors? _____
- 13. Are you conscious of the new courage that results from acquired power? _____
- 14. Do you follow your own convictions? _____
- 15. Have you eliminated all fear of the future? _____
- 16. Do you meet problems squarely without evasion? _____
- 17. Do you use knowledge to banish fear? _____

D. SELF-CONFIDENCE

- 18. Are you sure of yourself at all times? _____
- 19. Do you use and apply your knowledge? _____
- 20. Do you start things with confidence rather than doubt and cold feet? _____
- 21. Are you confident about your own judgment? _____
- 22. Is action the result of your self-confidence? _____
- 23. Are you able to inspire confidence in others? _____

E. AMBITION

- 24. Is your life's aim big enough for your ability? _____
- 25. Do you back your ambition with decisive action? _____
- 26. Do you plan each day to advance a step? _____
- 27. Do you study the best ways for personal advancement? _____
- 28. Do you take full advantage of opportunities? _____
- 29. Are you eager to end well in life? _____
- 30. Would fulfillment of your ambitions make this world a better place? _____

**GRADE
YOURSELF
HERE**

F. WILL POWER

- 31. Is your will power trained for decisive action? _____
- 32. Can you shoulder responsibility without worry? _____
- 33. Do you control your temper and words? _____
- 34. Can you shed nonessential details? _____
- 35. Do you make enough time for self-development? _____
- 36. Is your will like "high-tempered steel"? _____
- 37. Is daily practice of your will power a habit? _____

G. CONCENTRATION

- 38. Do you train yourself to concentrate at will? _____
- 39. Are surroundings picked to favor concentration? _____
- 40. Does business study get undivided attention? _____
- 41. Can you concentrate for a long period? _____
- 42. Are you developing a clear, accurate, hard-thinking business mind? _____
- 43. Do you really "think" rather than kid yourself to believe you think? _____

H. SUGGESTION

- 44. Do you seek the value of positive ideas? _____
- 45. Do you avoid negative suggestions? _____
- 46. Is indifference allowed to hinder progress? _____
- 47. Do your manners serve as positive suggestions? _____
- 48. Do you use the power of self-suggestion? _____

I. TACT

- 49. Do you get along well with most people? _____
- 50. Do you try to "lead" rather than "boss"? _____

**GRADE
YOURSELF
HERE**

- 51. Do you avoid loss of temper and sarcasm? _____
- 52. Do you avoid hasty remarks that hurt others? _____
- 53. Do you always practice the highest courtesy? _____
- 54. Do you always express appreciation when due? _____

J. INTEREST

- 55. Are you deeply interested in your own work? _____
- 56. Do you make careful daily observation of your work to improve it? _____
- 57. Are you interested in the human problem of business management? _____
- 58. Do you observe people's features and study their characters? _____
- 59. Do you endeavor to read people's thoughts to anticipate their needs? _____
- 60. Have you a scientific interest in problems of modern business? _____
- 61. Are you yourself your greatest object of constructive study? _____

K. SINCERITY

- 62. Is your word as good as a bond? _____
- 63. Do you have high ideals of life and service? _____
- 64. Is your work interesting rather than routine? _____
- 65. Do you stand loyally by your deserving friends? _____
- 66. Are you sincere even though it sometimes results in apparent disadvantages? _____
- 67. Are you honest for other reasons than because "it pays"? _____
- 68. Do you practice what you demand from others? _____

L. ALERTNESS

- 69. Can you understand viewpoints of others? _____
- 70. Are you quick to understand instructions? _____
- 71. Are you known as a wide-awake person? _____

**GRADE
YOURSELF
HERE**

M. MEMORY

- 72. Is your memory excellent? _____
- 73. Do you train your memory for improvement? _____
- 74. Do you remember names as easily as faces? _____
- 75. Can you forget nonessential facts? _____
- 76. Do you depend on trained memory power rather than short-cut methods? _____
- 77. Do you consciously combat every tendency to absentmindedness? _____

N. EFFECTIVE SPEECH

- 78. Do you talk without hesitation? _____
- 79. Are your ideas clearly and logically organized? _____
- 80. Are you master of yourself? _____
- 81. If eating with superiors, are you at ease? _____
- 82. Do you convince people? _____
- 83. Do you secure the desired action from people? _____

O. INITIATIVE

- 84. Do you seek opportunities to better yourself? _____
- 85. Do you make plans to realize your goal? _____
- 86. Do you have to be "told" less than the average? _____
- 87. Do you make constructive suggestions freely? _____
- 88. Are you systematically developing your power of constructive imagination? _____
- 89. Are you right now thinking of how to profit by use of this chart? _____
- 90. Are you able to meet new situations with dispatch and confidence? _____
- 91. Does experience prove your ideas practical? _____

**GRADE
YOURSELF
HERE**

P. RELIABILITY

92. Are you known as a person who "gets things done"?
93. Are you trustworthy in little things?
94. Is your credit good at all times?
95. Do you keep your promises and appointments?
96. Are you reliable in all of your work?
97. Is your judgment so sound and reliable that it is sought by others?
98. Do you establish your "reliability" as thoroughly as your "ability"?
99. Do you deliver dependable results without supervision?
100. Are you absolutely loyal to your organization?

TOTAL POINTS

YOUR PERCENTAGE OF EFFICIENCY
(Divide above sum by 10)

SOURCE: Weirauch, B. "Self-Analysis for Salesmen." *Sales Management Guide*. Chicago: Dartnell Corp., 1973.

From Program for Acquiring Competence in Entrepreneurship (PACE), Instructor's Guide, Level 1, The National Center for Research in Vocational Education, The Ohio State University, 1960 Kenny Road, Columbus, OH 43210, 1983.

Guidelines For Goal-Setting

"If you don't know what you want, you probably will never get it."

Goals are important for giving direction to your energy. They can give your life purpose, direction, and provide something to look forward to. You may feel that goals are limiting, on the contrary, however, once you have set a plan or goal, then you can examine the options and change your plan if necessary. Without a goal, you may remain free-floating with no end in sight, probably blind to opportunities as they pass you by. Setting a goal can activate momentum towards a long-range outcome you may desire. It gets things moving.

Any goal must be:

- 1) Relevant and meaningful - It must contain qualities that are essential to you -- your values, interests, strengths, and weaknesses. It must reinforce your ideas of success and what you must have to make you happy.

Consider: "What do I want?" "What are the resources to work with?" and "How can I put them together to get what I want?"

- 2) Realistic - If a goal is unattainable, it can be self-defeating and frustrating. If the goal is real, then you can make the everyday choices that will lead towards achieving your goal.
- 3) Specific - It would be too vague to say "I want to be happy." By being more specific -- "I want to be good at decorating; that would make me happy." -- you can break your goal down into small steps.
- 4) Manageable - Working with a manageable goal allows flexibility. If one step doesn't work, it is easy enough to try another alternative. You can begin to determine how you want to spend your time, and what short term objectives are necessary to reach your long-range goal.

Goal-setting offers a disciplined, creative approach to life. It can create tension, but this tension can bring out our finest resources and can quicken your mind in response.

To help you determine meaningful goals for yourself, complete the following:

What you'd like to happen in five years.

List here things you would like to learn to do, satisfying activities you'd like to be involved in, and things you want to strive toward during the next five years. Keeping your values in mind, think in terms of occupation, leisure time, family, education, etc.

What you'd like to happen in one year.

List here things you would like to learn to do, activities you'd like to be involved in, and things you want to strive toward during the next year. Some of these may be duplications of your first list.

You can now take this information and convert it into a statement of a goal or goals that you'd like to accomplish.

Decision-Making

There are four steps to any decision:

1. State the goal to be achieved or the problem to be solved.
2. List alternatives.
3. Evaluate the alternatives.
4. Consider the odds or chances of each outcome occurring.

The four steps appear simple, yet you undoubtedly know from your own experiences that making a decision is often difficult. Decisions are difficult because each of us is a complex individual with unique needs, values and his/her own personality. This is why we need to learn how to gather and evaluate information.

It's time to practice making a real-life decision for yourself. In the space below, use the four-step process to make a decision about a goal you want to reach or a problem you need to solve within the next three months.

1. Goal to be achieved or problem to be solved: _____

Alternative	Advantages	Disadvantages	Probable Outcome
1.			
2.			
3.			
4.			

PROBLEM SOLVING PROCESS

There are distinct steps involved in the problem-solving process:

ACCEPT

Decide that the problem is your challenge and your responsibility.

DEFINE

Be clear about exactly what should be improved or changed.

ANALYZE

Look at all aspects of the problem. Look at your value system and how it relates to the problem. Decide on criteria to use in weighing solutions to the problem. Decide if there is additional information you need to solve the problem.

LIST

Brainstorm possible solutions to the problem. Be as creative as possible.

SELECT

Evaluate the possible solutions against your criteria. Select the best solution.

IMPLEMENT

Assign responsibilities and timelines to assure that the solution is implemented.

EVALUATE

Determine how effective the solution was in solving the problem.

Managing Your Time and Your Life

Effectively managing your time takes a great deal of thought about what it is you want to do and sound planning as to the best way to accomplish it. There are five basic steps in time management:

- 1) Set your goals.
- 2) List activities to achieve your goals.
- 3) Prioritize activities.
- 4) Make a To Do List.
- 5) Consider the best use of your time.

SET YOUR GOALS

In order to effectively manage your time, you must first know exactly what it is you're trying to accomplish. As Lewis Carroll put it, "If you don't know where you're going, you'll end up somewhere else." The first step in time management, then, is setting goals. Decide what it is you want to do, to possess, to share, to contribute, to be. You should list both short term (for the day or week) and long term (for the month, year, decade) goals in all areas of your life: social, professional, financial, cultural, educational, physical, spiritual, personal, family, etc. Make sure your goals are actually achievable and that you can succeed in doing what you set out to do. Success breeds success.

It is important to write out your goals, for they become more real and more important to you then. Writing your goals helps you to make a commitment to achieving them. It's also important to prioritize your goals so you'll know where to spend the most energy.

LIST ACTIVITIES TO ACHIEVE YOUR GOALS

Goals are broad statements of what you want to achieve, and it's necessary to specify activities you need to do in order to achieve your goals. For example, you might have a goal "to get in shape." In order to actually get in shape, you'll need to do certain activities. Perhaps you'll do callisthenics for twenty minutes a day, or perhaps you'll run a mile every day. Activities are steps to achieving a goal.

To determine the right activities for achieving your goals, you must 1) list the possible activities for each goal and 2) set priorities to allow you to select the most effective activity to do now.

PRIORITIZE ACTIVITIES

If you were conscientious in listing lots of possible activities, you will probably have too many activities to possibly complete with the time you have. Now is the time to set priorities and switch from being unrestricted to being realistic and practical. Start by spotting and eliminating low priority items (those on which you're not willing to spend time each week).

Once you have prioritized the important activities on your list, establish times/dates to start each activity as well as deadlines for completion of it. Commit yourself to get things done by the deadline.

Hopefully, this process of prioritizing activities will help you to examine your priorities in terms of your own value system. For some people, family needs and demands are extremely important, so activities connected with family will be top priority. Other people may view professional goals as more important, and will place activities for accomplishing professional goals at the top of their list. The important thing is to think about your own values and consider them when prioritizing activities.

MAKE A TO DO LIST

It's important to take time to plan. Spend only ten minutes at the beginning or end of the day planning, and it will repay you. Many people also use Friday afternoon for reviewing the week and planning the next week in a general way. You may want to use Monday morning for refining your plan and starting your activities for the week.

We must all function day by day, so it's important to look at the question "What do I have to do today?" Practically everyone has heard about making a "To Do List". Successful people usually use it every single day and make effective use of it. A To Do List should include those items you want to do. Add other items as they occur to you, and cross off items as you complete them. Rewrite the list at the end of the day or when it becomes hard to read. Keep only one list and don't use many scraps of paper as they seem to disappear or aren't available when needed.

Another technique many people find helpful is to write out a weekly schedule. Start by filling in essentials: eating, sleeping, working. Then examine your prioritized list of activities and fill in those which are top priorities. By setting goals and prioritizing activities, you have identified those things which are important to you and which you really want to accomplish. You'll want to include these activities in your schedule.

Identify your most creative/productive time of day and use it. Plan also for the unexpected. Don't schedule every minute and you will then have some time to deal with the many unknowns which affect us all each day.

CONSIDER THE BEST USE OF YOUR TIME

Even though making goal statements, setting priorities for activities, making a schedule and a "to do list" give you better control over the way you spend your time, they need to be constantly coupled with the above question to handle your daily work. Focus on your high priority activities and don't get bogged down on low value tasks. Ask yourself the question "How terrible would it be if I didn't do this?" If your answer is "not too terrible", then eliminate it.

Learn to delegate to family/friends/colleagues, and be sure to give recognition to them when they carry out those tasks. Do one thing at a time; don't get sidetracked by distractions and interruptions.

DO IT NOW!

All of the above steps are meaningless if you don't put them to use. The best plans remain only plans until you bring them to life by implementation. Adopt a "do it now" attitude rather than a "do it later" attitude. Procrastination is one of the major stumbling blocks everyone faces in trying to achieve goals and make the most of their time. When you've identified a high priority activity but find you can't bring yourself to do it, take another look at your choice. It may be of lower priority than you originally thought. If you do feel it's of high priority and you're still not doing it, you may just be doing a most human thing, procrastinating. We put off doing things because they seem too complex or because it may result in an unpleasant situation, or because we're afraid we won't do it well enough. The best way

What Is Your Attitude?

Your attitude is the stance you take toward life based on your values. It is your lifestyle pattern - it shows up in the way you relate to people, places, things and the way you divide your time among them. Your attitude is a state of mind that will cause you to respond in a certain way to a given situation.

The following chart shows you the behavior characteristics of those who have healthy, desirable attitudes compared with those who have negative or poor attitudes. If your behavior is similar to that described on the negative side, you should know that such behavior causes others to react to you negatively. If you can work on just one or two areas so that your behavior shows a desirable, positive attitude, the behavior of others toward you will change. People will like you better, and you will like them better. Study the chart to see where you fit in:

POSITIVE ATTITUDE

1. Smiles easily
2. Willing to change ideas, dress
3. Able to see the other persons point of view
4. Almost never complains
5. Accepts responsibility for mistakes
6. Seldom criticizes others
7. Considers what is good for or helpful to others
8. When talking with other people, looks them in the eye but does not try to stare them down
9. Respects the ideas and opinions of others
10. Never makes excuses
11. Has a variety of interests

NEGATIVE ATTITUDE

1. Rarely smiles
2. Unwilling to change behavior when appropriate
3. Unable to see the other persons point of view
4. Complains about nearly everything
5. Blames others for own mistakes or shortcomings
6. Very critical of others
7. Thinks only of self, "What's in it for me?"
8. Unwilling or unable to look the other person in the eye
9. Tries to force ideas and opinions on others
10. Often makes excuses
11. Few interests, is often bored

Meeting Responsibilities

We all have duties and responsibilities in our personal and professional lives. The home-based business person must pay special attention to the time needed to meet these responsibilities. Let's look at how you use a typical day.

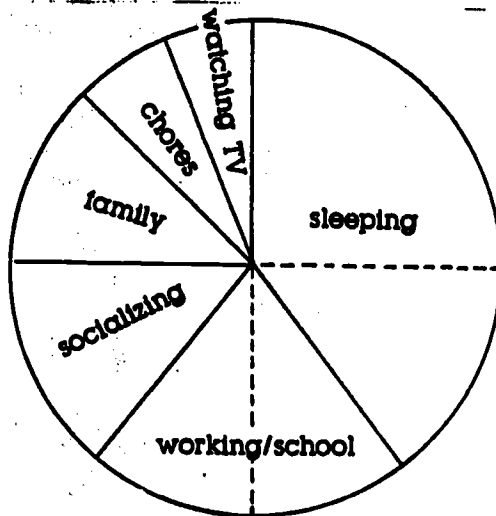
Draw a circle to represent a day in your life. Divide the circle into four quarters using dotted lines. Each quarter represents six hours. Now, estimate how many hours or parts of hours you spend on a typical day in each of the following areas:

Activity

Hours

Sleeping
In training or at school
Working
Socializing, playing sports
Reading, watching TV
Doing chores
Spending time with family
Miscellaneous

Now make a pie graph in the circle to indicate the time spent in each area. Your graph may look something like this:



Look at your pie graph. Do you devote enough time to each area to do it effectively? Which areas need more time? As a home-based business person, you must pay particular attention to how you will balance work-related demands with home- and family-related demands.

Goal 2.0 To understand the potential kinds of home businesses

Competencies:

- 2.1 Explain what is involved in starting and operating a small business**
- 2.2 Identify raw materials in the community which could be converted into products**
- 2.3 Identify services which are not being provided in the community or services which could be improved**
- 2.4 Identify kinds of home-based industries which could be successful in the local community**

Thinking About Going Into Business?

U.S. Small Business Administration
Number 2.025

Summary

To start and run a small business you must know and be many things. As one small business owner attending a conference put it: "When I came here, my business lost the services of its chief executive, sales manager, controller, advertising department, personnel director, head bookkeeper, and janitor."

This Aid, based on questions asked by people in small business or contemplating starting, suggests the many facets of running a small concern that each owner-manager must become familiar with. While the answers to the questions are hardly exhaustive of any of the subjects, they provide the background for questions you may need to ask before going into business, as well as suggesting sources of answers to those questions.

Introduction

Almost everyone considering it has dozens of questions about starting a small business. The only foolish questions, of course, are the questions that aren't asked. Yet, many times we don't have enough information to ask the right questions.

The questions in this Aid are drawn from participants in satellite telecasts to thirteen states in Appalachia from New York to Mississippi. Most of the questioners didn't own, operate, or manage small businesses. Their questions are typical of what's on the minds of potential business owners. You may have pondered similar questions, as you thought about becoming your own boss.

The questions fell generally into areas such as the steps in setting up a business, business regulations and taxes, marketing, and financing a new concern. In this Aid the questions have been grouped by subject.

Answers to the questions came from experts in the various areas. These experts include a lawyer, an accountant, a bank loan officer, several small business owners, and market researchers.

These answers, it is hoped, will help you as you approach deciding on becoming a small business owner. The questions may suggest questions that you should find answers to before you invest your money, time, and effort in a small business.

Starting Out

1. If you have money but no particular business in mind, how can you get enough information on the best business to go into?

The best way of choosing your business venture is to look at your experience and educational background. A thorough review will provide leads on the business field you should enter—do what you know best. Even more important, you must like the business field you are going to enter to bring the enthusiasm and self-confidence you need to make the business go.

2. What are the basic survival skills you need to run a business?

The basic survival skills include a working knowledge of basic recordkeeping; financial management; personnel management; market analysis; breakeven analysis; product or service knowledge; federal, state and local tax knowledge; legal structures; and communication skills.

3. What special obstacles do women entering business face, and how can these obstacles be overcome?

Women are at last making inroads into business, not only as executives but as owners. There are many obstacles, chief among them the doubts that lenders, suppliers, and in some fields, customers have about women's ability to run businesses. These can be overcome with self-confidence and a strong belief in your ideas. You should not be discouraged by being rebuffed by people who simply don't understand. As more and more women enter business and succeed, the process will become easier and easier.

4. What are the most important factors that cause small business failure?

There are, of course, many reasons for the failure of new small businesses. One way of looking at the causes is to remember that a new business is starting at zero momentum; newly entering a market, having to establish supplier relations, finding proper financing, and training employees. To coordinate all these facets and start them simultaneously is a tremendous job. If you don't have experience and management capability, success won't be very likely. You'll also find that undercapitalized businesses, those without enough cash to carry them through the first six months or so before the business starts making money, don't have good survival prospects. In such cases, even businesses with good management can founder.

5. If you're trying to buy a going service business, how can you figure a reasonable price for the business that takes into account goodwill and business contacts in addition to the value of equipment and inventory?

There are many methods, but basically what you're trying to do is set a value on the assets and earnings record of the firm. The simplest way is to determine the "payback period," usually two or three years. That is, the net profit for two years would equal the goodwill value. A more complicated and accurate method called the "net present value" method, is based on the cost of capital and a risk factor. For that method an accountant's help would be valuable.

6. What kind of a market study should you do before deciding to buy a radio station?

Determining the price of any business is difficult. For a radio station specifically, you can get the figures on the total revenue of all stations in the area (that is, advertising revenue) from the Federal Trade Commission. You should also get the percentage of the total market that the station you're considering has. You must also determine the potential market for the area in advertising dollars. Finding out the total number of businesses by line and size in the area covered by the station, and their advertising expenditures would give you some insight. Really, you'd study the market like this for buying any business.

Regulations and Licenses

7. How do you find out what the federal, state, and local regulations are for the type of business you're going into?

The regulations for businesses may vary for different lines of business and certainly will from state to state. You can find out by contacting the various levels of government like the Internal Revenue Service for federal tax regulations, but your best bet is to go to your local SBA office. They can give you specific information for all levels of government. Local chambers of commerce can also often help you in this area.

8. What kind of registration and licenses are generally required?

Obviously, as we just discussed, there are specific requirements in each state and locality, but it is possible to list the kinds of basic licenses and registrations a new business will need:

Local—A business license from city, town, or county, depending on your location, will be necessary. In addition, you'll have to meet zoning laws, building codes, and similar regulations.

State—In most states, if your business isn't a corporation and your full name isn't in the name of the business, you'll have to register under what's called the fictitious name law. You should also file for a sales and use tax number. In some lines of business (like liquor stores, barber shops, real estate offices) specific licenses are needed.

Federal—You'll need to contact the IRS for an employer's identification number and a "Going Into Business Tax Kit."

9. What's this OSHA you hear about?

OSHA is the U.S. Labor Department's Occupational Safety and Health Administration. It is responsible for helping make work premises safe and healthy for employees. Since change in this area is frequent, it's best to contact OSHA itself. They have a number of publications aimed at small business.

10. What are some specific legal requirements for mail order businesses which might not apply to other businesses? The business under consideration would not use direct mail advertising, rather it would advertise in magazines and newspapers.

You should contact the Federal Trade Commission and get the FTC's list of publications; you can order those that pertain to your particular business. If you're selling food, you must get in touch with the Food and Drug Administration.

11. How do you go about finding suppliers and manufacturers?

Most suppliers are interested in adding new accounts. A prime source for finding suppliers is the **Thomas Register**. It lists manufacturers by categories and geographical area. Most libraries have state's directory of manufacturers. If you know the product line and manufacturers, a letter or phone call to the companies will get you the local distributor-wholesaler. In some lines, trade shows are good sources of getting suppliers and looking over competing products.

12. Should a sole proprietor with no employees have disability benefits?

If you can afford it, it's a good idea. It makes sense to protect the income of a small sole proprietorship with income maintenance insurance. Ask your insurance agent about various plans.

13. How often should a small grocery store take an inventory?

A physical (can by can) inventory should be taken at least once a quarter. If your fiscal year ended December 31, you'd take one then and subsequently on March 31, June 30, September 30, and so on. If you have an automated ordering system, you can take a physical inventory less frequently.

14. How long does it take a new business to establish a good public image?

A good public image takes a long time to establish (and only minutes to lose). There is no set formula, but a good image depends on:

The service, products, and customer treatment you provide;

The market you're in;

How you stack up against your competitors:

The quality of your public relations and advertising programs. If you're new to a market—and if you do what you say you're going to—you may establish an excellent reputation in 18 to 24 months.

15. How do you find a good lawyer?

As with most personal services, you must have rapport with your attorney. The best way to determine this is to talk to lawyers by phone or visit them before you make a selection. Get recommendations from friends, your banker, or lastly a "lawyers reference service." You're looking for someone you can trust and who will take an interest in you and your business.

16. Do you need a lawyer to start a business?

No, but it's wise to get the best advice possible when you're starting out. An attorney is one source of the expertise you'll need to draw on. In some states you need an attorney to form a corporation. Check your state law.

Form of Business

17. What form of business do you recommend for a new business?

Each legal form, sole proprietorship, partnership, or corporation, has its advantages and disadvantages. The one you should pick depends on your circumstances, including:

Your financial condition.

The line of business you're entering.

The number of employees.

The risk involved.

Your tax situation.

Don't assume, if you plan a one-person business, that sole proprietorship is the way to go. See your lawyer.

18. I've heard that the Subchapter S corporation and "1244" stock offerings are designed for small business. Could you explain them?

Essentially, a Subchapter S corporation treats profits or losses by the corporation as ordinary income or loss to the individual stockholder. A full discussion of the Subchapter S corporation can be found in Internal Revenue Service Publication Number 589.

Internal Revenue Code Section 1244 allows an individual to treat losses on the stock of a "small business corporation" as deductions against ordinary income. IRS Publications Number 542, 544, and 550 have sections discussing this regulation.

The rules for taking advantage of these devices are quite specific and a little involved. You should get the IRS publications. You can get copies by getting in touch with your local IRS office. It's listed in your local directory under "U.S. Government." It would be a good idea to discuss these topics with your accountant, lawyer, or other business advisor.

19. Is it a good idea to incorporate your business in a state other than the one in which you plan to do business?

No. For small businesses it's normally best to incorporate where you are going to do business. If you incor-

porate out of state, you'd have to register as a "foreign" corporation.

Taxes

20. Is a sales person, paid on a commission basis, treated like an hourly wage sales clerk with respect to tax withholding?

Yes, unless the sales person is a manufacturer's rep or is in business as an independent contractor.

21. Concerning a sales representative on straight commission, is it mandatory to take out FICA taxes (social security) and withholding taxes?

Yes, if the rep is an employee of the company. The deciding factor is whether or not the rep is an independent contractor in business for herself or himself.

22. What about casual labor and taxes?

If an individual is your employee, you must withhold taxes. The only exception is if the labor is on an independent contract basis. Then the independent contractor withholds taxes and files all appropriate forms.

23. Say you have a partnership between two people and the spouse of one of the partners keeps the book, is the spouse an employee, even if he or she isn't paid?

If he or she weren't paid, such a bookkeeper could be classified as a nonemployee. Thus, since there are no wages, there are no withholdings for income tax, FICA, and the like. If you paid him or her, it would be like any other employee for tax purposes.

24. If I live in one state but go to other states to sell goods, how do I handle taxes?

As a business in another state, you'd have to collect and remit taxes to the state where the goods are sold. Most states have forms to remit these collected taxes. These sales should be kept separate from sales in your home state, since you would not pay home state sales tax on them.

25. How is a corporation taxed if all stockholders work as salaried employees and all profits are applied to the liquidation of the original purchase debt?

Stockholding employees are taxed on salaries like any other employee. The purchase price of a corporation is not a debt to the corporation, but an investment by the

stockholders who bought the business. Thus, profits can't be used to liquidate this price. Profits may be used to retire corporate debts and, thus increase net worth, but all principal payments are taxable profits and taxed according to the corporate tax structure. If your net earnings before taxes approach \$100,000, check with the IRS. It may be necessary to pay dividends, since non-payment could be considered a technique for avoiding dividend taxation.

The Market

26. How can you get the census data you need to estimate the market for your store or service in a given locality?

You can get census information from the **Bureau of the Census in the U. S. Department of Commerce**, as well as through chambers of commerce and various state and local agencies that deal with business. You can find this information in your local public library and get it from nearby colleges and universities, too.

27. How can you find out what the prevailing costs are for a service business in your market area?

One way is simply to call competitors and ask their prices. Their prices will give you a lead. You could ask competitors' customers for the same information if you didn't want to go directly to the competition.

28. How do you go about determining the market for a mail order business?

The principles of determining market share and market potential are the same no matter how large the geographical area. You must first determine a customer profile, the size of the market, and the number of competitors. You could also use a readership survey given to you by a magazine in which you intend to advertise.

Pricing

29. How do you figure markup and markdown?

Markup (markon) is the original amount that the merchandise is marked up. Markup as a percentage (also called gross margin rate) is figured as a percentage of sales. For example, say the cost of merchandise is \$10 and you want a 20 percent markup; what is the selling price(SP)? By definition we know that markup as a percentage is given as a percentage of sales. Thus, our cost must be 80 percent of the selling price (100 percent selling price - 20 percent desired markup).

The formula is:

$$\begin{aligned}
 \text{SP} &= \frac{\text{Cost}}{\text{Cost as \% of SP}} \\
 \text{SP} &= \frac{\$10.00}{.80} \\
 \text{SP} &= \$12.50
 \end{aligned}$$

So, our selling price is \$12.50., cost \$10.00, and markup \$2.50 or 20 percent of the selling price.

Markdown (discount) is a reduction of selling price below the original sale price. Assume the item is marked down to \$11.25. The markdown is \$1.25 or a 10 percent markdown (\$1.25 markdown divided by \$12.50 original selling price).

30. How would you go about establishing price guidelines for a business renting items to customers?

Pricing is based normally on a combination of cost and market competition. Trade associations are a prime source of such information. Check your library for the **Encyclopedia of Associations** with which you'll be able to find the association dealing with your business.

Finances

31. What is the average expected net profit for small business?

Average net profits vary with the type of business—retail, wholesale, service, manufacturing, construction. They also vary for the type of business structure—proprietorship or corporation. Dun & Bradstreet and Robert Morris Associates publish ratios which give you these figures, as well as lots of very useful cost information.

32. Would you explain the meaning of "rate of return on investment"? How is it different from net profit? Is it different from return on assets employed?

Net profit (before taxes) is basically total sales for a specific period less cost of goods and operating expenses during that period. (For a retail business, cost of goods would be your cost of merchandise sold.) Net profit is a function of both rate of return on investment (ROI) and return on total assets. ROI is net profit divided by capital invested by the owners of the company.

ROI is used to measure the effectiveness of management in attaining the owners' desired return on their investment. Generally, the larger the ROI, the more attractive a company is to potential investors.

Return on total assets is the net profit divided by total assets. This measures the net profitability of the use of all resources of the business. It is another tool for measuring management effectiveness in the use of all resources borrowed and equity.

33. Does a bank require absolute top credit references from loan applicants?

The better the credit references the greater the possibility of loan approval.

34. If I estimate my start-up cost at \$50,000 and can't put up anywhere near the \$25,000 that I've been told is what I should have for my share, am I wasting my time even filling out a loan application?

In all probability you would be, although there are some exceptions. For example, it might be possible to get a loan under your circumstances if you were buying a business that's already operating well enough to provide sufficient profits to cover its obligations and the loan. Furthermore, if the applicant is the present manager who has made this business go, the chances of getting such a loan are much better.

Help!

35. Getting money is difficult; keeping it may be even more difficult. Where can I get assistance in managing my business?

Your accountant and bank can provide financial counseling which can be very helpful in starting and managing your business. They can also give you invaluable information on the local area and your market that can be critical in making decisions in your business.

The U.S. Small Business Administration has many management assistance programs. It provides counseling in the areas just mentioned. Most importantly, SBA can provide the kind of long term management assistance you need to make your business a success.

Copies of this Aid are available free from SBA, P.O. Box 15434, Fort Worth, TX 76119. Aids may be condensed or reproduced. They may not be altered to imply approval by SBA of any private organization, product or service. If material is reused, credit to SBA will be appreciated.



Identify Raw Materials

Raw materials available for use in Alaska are:

ivory

furs

other animal parts

plants

wood

seafood

clay

ash

coal

rocks

driftwood

scenery

Identify Kinds of Home-Based Businesses

Some of the more common products sold in or from a home include:

Crafts
Detergents
Firewood
Fresh Fruit
and Vegetables
Housewares
Insurance

Jewelry
Make-up
Real Estate
Toys
Vacuum Cleaners

Some of the more common products made in homes include:

Artwork
Baked Goods
Clothing
Crafts

Pottery
Publications
Woodwork

Some of the more common in-home service businesses include:

Accounting, Financial,
Legal Consulting
Architectural
Art Work --
Commercial, Graphics
Beautician
Catering, Baking
Chimney Cleaning
Chiropractors
Contracting -- General
or Speciality
Day Care
Engineering
Interior Decorating
Janitorial
Landscaping,
Gardening
Locksmith
Music, Art,
Dance Lessons

Painting
Photography
Repair Work --
Auto, Equipment,
Home, Vehicles
Surveying
Tailoring,
Dressmaking
Telephone
Answering
Tutoring
Typing
Washing and
Ironing
Welding
Wood Working

From Operating a Home Business in
Washington State, Washington State Office
of Small Business, 101 General
Administration Building, Olympia, WA 98504,
May, 1985.

Handcrafts

U.S. Small Business Administration
Number 1

This Small Business Bibliography No. 1, *Handcrafts*, is a major, new revision of the July 1977 edition. Its purpose is to present to those interested in crafts, both as an art and as a business, the best currently available information on the subject in one brief publication. Listed are books specifically related to the business aspects of handcrafting, how-to books dealing with its creative elements, periodicals covering current trends in handcraft design and marketing, and a roster of the publishers of these books. It should be noted that many of these publishers offer free catalogs of their own handcraft publications.

This Bibliography is not exhaustive, so not all worthwhile publications are included. No slight is intended toward authors and publishers of materials not listed. However, a thorough survey of the literature was conducted by the author in developing this Bibliography. Publishers and others may submit to the SBA any relevant information for possible inclusion when this Bibliography is again revised. Prices, availability, and publishers' addresses are subject to change without notice. It is recommended that before ordering a book, you ask your local bookstores or check with the reference librarian at your library for current ordering information.

The author, Barbara Brabec, is Publisher, Book Division, Barrington Press, Barrington, Illinois.

Millions of Americans now have a serious leisuretime interest in handcrafts, and in recent years a surprising number of men, women, and even children, have turned their craft hobbies into lucrative part or full-time businesses. However, while many hobbyists are producing beautiful and useful objects that have value in today's marketplace, it takes experience and know how to go from hobbyist to profitable professional, as emphasized in my book *Creative Cash*. So if you have thought of trying to make money from your talents, you will be glad to know that you will not have to learn everything the hard way. There are several excellent craft business manuals and directories available (see *Handcraft Business*, p. 3), as well as management oriented magazines (see *Periodicals*, p. 10) that will keep you informed and up-to-date in today's ever changing crafts marketplace.

The Art of Handcraft

What does it take to turn a hobby into a business? To begin with, you must be highly skilled and have a thorough knowledge of your craft as an art. Such skill

and knowledge partially can be gained through the how to books listed in this Bibliography. Here you will find more than 300 of the finest books currently available from leading publishers. Some are newly written works others are revised editions of the classics. All are sure to stimulate your craft buds if you are seeking new information and ideas about the art of handcraft.

The Business of Handcraft

To succeed as a craft seller you will need more than just a quality product or line of products. What you sell must be properly priced. You are also a small business owner, and as such, you must understand production and marketing techniques, as well as have a little common sense and a lot of imagination, enthusiasm, discipline, determination, organization and patience. To all this you must add one more important ingredient—enough money to get started, enough to pay for a beginning inventory of supplies and materials, plus business essentials including calling cards, stationery, brochures, price lists, publicity photos, and craft fair displays.

As most beginning craft sellers soon discover, there is a big difference between making things and selling them. Unfortunately, amateurs often produce what they want to make, rather than what prospective buyers wish to purchase. Learning what buyers are interested in is called market research and this will be an ongoing job once you begin to sell. That is why it is so helpful to read craft marketing journals and other business publications that will keep you aware of current trends in consumer demand.

Obviously, there is a lot more to crafts marketing these days than merely setting up a card table at a local street fair. Competition from professional craftsmen is substantial, yet there always seems to be room for one more professional—and your goal as a beginning crafts seller is always to be professional.

Anyone with well designed, carefully crafted products can find a market for them somewhere, even in these days of tight money. But it may take time to find your particular niche in the marketplace and to find that niche, you will have to develop a certain degree of business expertise. So although there are gloomy economic predictions for some industries at this time, craft authorities agree that the future of the handcraft industry looks promising. As public appreciation for fine crafts continues to grow, there will be an increasing number of buyers of high quality craft merchandise. And as money for high-priced, commercially made items becomes more scarce, buyers will be looking for

more affordable handcrafted merchandise to satisfy their demand for luxury, individually, and prestige.

The Bibliography

U.S. Small Business Administration
Washington, D.C. 20416

SBA issues a wide range of management and technical publications designed to help owner-managers and prospective owners of small business. (For general information about SBA, its policies and assistance programs, ask for *Your Business and the SBA*, free on request from the nearest SBA office.)

Listings of currently available publications (free and for-sale) may be requested from SBA, P.O. Box 15434, Ft. Worth, Tx 76119, or any of SBA's field offices. Ask for: SBA 115A—Free Management Assistance Publications and SBA 115B—For-Sale Booklets. The lists are free and may be used for ordering the particular series listed, either the free series from SBA, or the for-sale series from the Superintendent of Documents (GPO).

Small Business Bibliography (6 to 12-page pamphlets). Each title in this series deals with a specific kind of business or business function, giving reference sources. It consists of an introduction that gives a description of the operation and a listing of references applicable to the subject covered. Free. Listed on 115A. Examples include:

Home Businesses (SBB 2)
Selling by Mail Order (SBB 3)
National Directories for Use in Marketing (SBB 13)
Recordkeeping Systems (SBB 15)

Management Aids (4 to 12-page pamphlets). Nearly 100 titles discussing many different aspects of small business management. Free. Listed on 115A.

Publishers' addresses are listed in the last section of this Bibliography.

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Pattern Making Design—Sleeved & Tailored Garments. Littman, Connie. 1977. \$4.40 paper. (Delmar)

Sew for Snow. Schulz, Renee C. 1980. \$6.95 paper. (Stackpole)

Sewing Hints for Men. Abrams, Jay A. and Albert, Sondra R. 1980. \$9.95 cloth. (Van Nostrand Reinhold)

The Sewing Machine Craft Book. Hall, Carolyn. 1980. \$16.95 cloth. (Van Nostrand Reinhold)

Sewing Machine Embroidery and Stitchery. Newman, Thelma, Lee and Jay. 1980. \$9.95 paper. (Crown)

Sewing Short Cuts from A to Z. Musheno, Elizabeth J. 1978. \$13.95 cloth. (Van Nostrand Reinhold)

Weaving

The Art of Weaving. Regensteiner, Else. 1976. \$15.95 cloth; \$8.95 paper. (Van Nostrand Reinhold)

Backstop Weaving. Taber and Anderson. 1975. \$13.95 cloth. (Watson-Guptill)

Caring for Textiles. Beecroft. 1976. \$12.95 cloth. (Watson-Guptill)

Elements of Weaving. Thorpe, Azalea Stuart and Larsen, Jack Lenor. \$10.95 cloth. (Doubleday)

Finishing Touches for the Handweaver. West, Virginia. 1979. \$6.95 paper. (C. Branford)

Frame Loom Weaving. Redman, Jane. 1976. \$14.50 cloth. (Van Nostrand Reinhold)

Key to Weaving. Black, Mary. 1980. \$19.95 cloth. (Macmillan)

Manual of Swedish Handweaving. Cyrus-Zetterstroem, Ulla. 1977. \$15.75 cloth. (C. Branford)

Professional Handweaving on the Fly-Shuttle Loom. Brostoff, Laya. 1978. \$17.50 cloth. (Van Nostrand Reinhold)

Technique of Woven Tapestry. Beutlich, 1967. \$14.95 cloth. (Watson-Guptill)

The Weaver's Book. Tidball, Harriet. 1976. \$3.95 paper. (Macmillan)

Weaving: Design & Expression. Belfer, Nancy. 1975. \$13.95 cloth. (Davis)

Weaving Off Loom. Mellach, Dona Z. 1978. \$6.95 paper. (Contemporary)

Weaving Without a Loom. Rainey, Sarita. 1966. \$11.95 cloth. (Davis)

Woodworking and Woodcarving

Building Colonial Furnishings, Miniatures and Folk Art. Daniele, Joseph. \$15.95 cloth. (Stackpole)

Building Your First Wooden Boat. Barnes, George W. 1979. \$9.95 cloth. (Van Nostrand Reinhold)

Building the Timber Frame House. Benson, Tedd. 1980. \$17.95 cloth. (Scribner's)

Cabinet Making for Beginners. Hayward, Charles H. \$5.95 cloth. (Sterling)

Carving Faces and Figures in Wood. Tangerman, E.J. \$5.95 paper. (Sterling)

Carving Wooden Animals. Tangerman, E.J. \$5.95 paper. (Sterling)

Classic Guitar Construction. Sloane, Irving. 1966. \$10.95 cloth. (Dutton)

The Fine Art of Cabinetmaking. Krenov, James. 1977. \$16.95 cloth. (Van Nostrand Reinhold)

500 Do-It-Yourself Wood Moulding Projects. 1980. \$7.95 cloth; \$4.95 paper. (Arco)

Guide to Carpentry. Editors of McGraw-Hill. 1980. \$3.95 paper. (McGraw-Hill)

How to Carve Folk Figures and a Cigar-Store Indian. Enlow, Harold L. 1978. \$2.00 paper. (Dover)

Making Musical Instruments. Sloane, Irving. 1978. \$17.95 cloth. (Dutton)

Modern Woodworking. Wagner, Willis. 1978. \$13.28 cloth. (Goodheart)

Old Houses: A Rebuilder's Manual. Nash, George. 1980. \$19.95 cloth; \$12.95 paper. (Prentice-Hall)

Pyrography. Havez, Bernard and Varlet, Jean-Claude. 1978. \$9.95 cloth. (Van Nostrand Reinhold)

Steelstring Guitar Construction. Sloane, Irving. 1975. \$11.95 cloth. (Dutton)

Step-By-Step Guide to Woodworking. DeCristoforo. 1977. \$6.95 paper. (Prentice-Hall)

Woodcarving. Sack. 1973. \$4.50 paper. (Van Nostrand Reinhold)

Woodcraft: Basic Concepts and Skills. Newman, Thelma R. \$8.95 paper. (Chilton)

Wood Turning. Hogbin, Stephen. 1980. \$14.95 cloth. (Van Nostrand Reinhold)

Periodicals

American Craft. Bimonthly. American Craft Council, P. O. Box 581, Martinsville, NJ 08836.

Ceramics Monthly. Monthly. P. O. Box 12448, Columbus, OH 43212.

The Crafts Report. Monthly. 700 Orange Street, Wilmington, DE 19801.

Fiberarts. Bimonthly. 50 College Street, Asheville, NC 28801.

Fineworking Magazine. Bimonthly. 52 Churchill Rd., Box 355, Newtown, CT 06470

Glass Workshop. Quarterly. Stained Glass Club, P. O. Box 244, Norwood, NJ 07648.

Goodfellow Review Of Crafts. P. O. Box 4520, Berkeley, CA 94704

Handwoven. Semi-annually. Interweave Press, 306 N. Washington, Loveland, CO 80537.

Interweave. Quarterly. 306 N. Washington, Loveland, CO 80537.

Nutshell News. Monthly. Clifton House, Clifton, VA 22024.

Quality Crafts Market. 10 times yearly. 15 West 44th Street, New York NY 10036.

Quilter's Newsletter. Monthly. Leman Publications, Inc., Box 394, Wheatridge, CO 80033.

The Rug Hooker News & Views. Bimonthly. Kennebunkport, ME 04048.

Shuttle, Spindle & Dye Pot. Quarterly. Handweaver's Guild of America, 65 LaSalle Rd., P. O. Box 7-374, West Hartford, CT 06107.

Spinoff. Annually. Interweave Press, 306 N. Washington, Loveland, CO 80537.

Publishers

Arco Publishing, Inc., 219 Park Avenue South, New York, N.Y. 10003. Free catalog of books.

Bank of America, Dept. #3120, P. O. Box 37000, San Francisco, CA 94137. Free catalog of marketing publications that are a part of their *Small Business Reporter* series.

R. E. Bowker Publishing Co., 1180 Avenue of the Americas, New York, NY 10036.

Charles T. Branford Co., 19 Calvin Road, Box 16, Watertown, MA 02172. Catalog, 25 cents.

Chilton Book Company, Chilton Way, Radnor, PA 19089. Free catalog of craft and hobby books.

Contemporary Books, Inc., 180 N. Michigan Avenue, Chicago, IL 60601. Free catalog.

Barrington Press, Inc., Book Division, 200 E. James Street, Barrington, IL 60010. Free brochures and catalog of craft/needlework books.

Crown Publishers, Inc., One Park Avenue, New York, NY 10016.

Davis Publications, Inc., 50 Portland St., Worcester, MA 01608.
Free catalog.

Delmar Publishers, Inc., Mountainview Avenue, 50 Wolf Road,
Albany, NY 12205. Free catalog of vocational, technical and industrial
education books.

Doubleday Company, Inc., 245 Park Avenue, New York, NY 10017.

Dever Publications, Inc., 180 Varick Street, New York, NY 10014.
Free hobbies and crafts catalog # 50044-6; free catalog of needlecraft
books #50117-5.

E. P. Dutton, Division of Elsevier-Dutton, 2 Park Avenue, New York,
NY 10016.

Goodheart-Willcox Company, 123 West Taft Drive, South Holland, IL
60473. Free catalog of useful books.

Harcourt, Brace, Jovanovitch, Inc., 757 Third Avenue, New York,
NY 10017.

Harper and Row Publishers, Inc., 10 E. 33rd Street, New York, NY
10022. Free book catalog.

McGraw-Hill Book Company, 1221 Avenue of the Americas, New
York NY 10020.

Macmillan, Inc., 866 Third Avenue, New York, NY 10022.

Osei Publications, P. O. Box 141, Fern Park, FL 32730.

Prentice-Hall, Englewood Cliffs, NJ 07632. Free catalog.

Charles Scribner's Sons, 597 Fifth Avenue, New York, NY 10017.
Free catalog.

Stackpole Books, Cameron and Keller Streets, Harrisburg, PA 17105.

Sterling Publishing Co., Inc., 2 Park Avenue, New York, NY 10016.
Free catalogs and brochures, many in specialty areas of interest.

Transatlantic Arts, Inc., North Village Green, Levittown, L. I., NY
11756. Free catalog.

Van Nostrand Reinhold Co., 135 W. 50 Street, New York, NY 10020.
Free catalog.

Watson-Guptill Publications, Division of Billboard Publications, Inc.,
1515 Broadway, New York, NY 10036. Free catalog.

Writer's Digest, 9933 Alliance Road, Cincinnati, OH 45242. Free
catalog.

**Goal 3.0 To understand the difference between
different business structures**

Competencies:

**3.1 Determine the structure which best fits the need of
the individual:**

**Sole Proprietorship
Partnerships
Limited Partnership
Corporation**

3.2 Differentiate among various types of franchises

Selecting the Legal Structure for Your Firm

U.S. Small Business Administration
Number 6.004

Summary

There are many reasons today for owner-managers of small businesses to look at the legal structure of their firms. The changing tax laws and fluctuating availability of capital are just two situations which require alert managers to review what legal structures best meets their needs.

Each form of business organization has its advantages and disadvantages. This Aid seeks to briefly identify them for the owner-manager who wants to know "what questions to ask" when seeking the proper professional advice.

If you were to make an analogy between starting a business and playing a card game, you might say, "The game is just for fun, but business is business." Well, you would be right. But let's consider some important similarities.

The game requires skill, strategy, planning, and, most important, a thorough knowledge of the rules. Going into business requires skill (the knowledge of your craft or trade), and it also requires strategy and planning. Most important, to be successful in business, you must understand the rules (or the laws) by which you must conduct your business. All planning and strategy must consider the multitude of local, state, and federal laws and business practices that govern the operation of the business.

Before you enter the complex arena of business and the myriad of laws which influence your freedom of choice and mobility of action, you must first choose the legal structure for your business that will best suit your needs and the needs of your particular business. In order to intelligently select the legal structure for your business, you must ask yourself, "What are my alternatives?" So, let's now look at the nature of various legal business structures.

There are three principal kinds of business structures: the proprietorship, the partnership, and the corporation. Each has certain general advantages and disadvantages, but they must all be weighted to reflect your specific circumstances, goals, and needs. The sole proprietorship is the first firm we'll consider.

The Sole Proprietorship

The sole proprietorship is usually defined as a business which is owned and operated by one person. To establish a sole proprietorship, you need only obtain whatever licenses you need and begin operations.

Hence, it is the most widespread form of small business organization.

Advantages of the Sole Proprietorship

Ease of formation. There is less formality and fewer legal restrictions associated with establishing a sole proprietorship. It needs little or no governmental approval and is usually less expensive than a partnership or corporation.

Sole ownership of profits. The proprietor is not required to share profits with anyone.

Control and decision making vested in one owner. There are no co-owners or partners to consult. (Except possibly your spouse.)

Flexibility. Management is able to respond quickly to business needs in the form of day to day management decisions as governed by various laws and good sense.

Relative freedom from government control and special taxation.

Disadvantages of the Sole Proprietor

Unlimited liability. The individual proprietor is responsible for the full amount of business debts which may exceed the proprietor's total investment. This liability extends to all the proprietor's assets, such as house and car. Additional problems of liability, such as physical loss or personal injury, may be lessened by obtaining proper insurance coverage.

Unstable business life. The enterprise may be crippled or terminated upon illness or death of the owner.

Less available capital, ordinarily, than in other types of business organizations.

Relative difficulty in obtaining long-term financing.

Relatively limited viewpoint and experience. This is more often the case with one owner than with several.

NOTE: A small business owner might very well select the sole proprietorship to begin with. Later, if the owner succeeds and feels the need, he or she can form a partnership or corporation.

The Partnership

The Uniform Partnership Act, adopted by many states, defines a partnership as "an association of two or more persons to carry on as co-owners of a business for profit." Though not specifically required by the Act, written Articles of Partnership are customarily executed. These articles outline the contribution by the partners into the business (whether financial, material or managerial) and generally delineate the roles of the partners in the business relationship. The following are example articles typically contained in a partnership agreement:

Name, Purpose, Domicile

Duration of Agreement

Character of Partners (general or limited, active or silent)

Contributions by Partners (at inception, at later date)

Business Expenses (how handled)

Authority (individual partner authority in conduct of business)

Separate Debts

Books, Records, and Method of Accounting

Division of Profits and Losses

Draws or Salaries

Rights of Continuing Partner

Death of a Partner (dissolution and winding up)

Employee Management

Release of Debts

Sale of Partnership Interest

Arbitration

Additions, Alterations, or Modifications of Partnership Agreement

Settlements of Disputes

Required and Prohibited Acts

Absence and Disability

Some of the characteristics that distinguish a partnership from other forms of business organization are the limited life of a partnership, unlimited liability of at least one partner, co-ownership of the assets, mutual agency, share of management, and share in partnership profits.

Kinds of Partners

Ostensible Partner. Active and known as a partner.

Active Partner. May or may not be ostensible as well.

Secret Partner. Active but not known or held out as a partner.

Dormant Partner. Inactive and not known or held out as a partner.

Silent Partner. Inactive (but may be known to be a partner).

Nominal Partner (Partner by Estoppel). Not a true partner in any sense, not being a party to the partnership agreement. However, a nominal partner holds him or herself out as a partner, or permits others to make such representation by the use of his/her name or otherwise. Therefore, a nominal partner is liable as if he or she were a partner to third persons who have given credit to the actual or supposed truth of such representation.

Subpartner. One who, not being a member of the partnership, contracts with one of the partners in reference to participation in the interest of such partner in the firm's business and profits.

Limited or Special Partner. Assuming compliance with the statutory formalities, the limited partner risks only his or her agreed investment in the business. As long as he or she does not participate in the management and control of the enterprise or in the conduct of its business, the limited partner is generally not subject to the same liabilities as a general partner.

Advantages of the Partnership

Ease of formation. Legal informalities and expenses are few compared with the requirements for creation of a corporation.

Direct rewards. Partners are motivated to apply their best abilities by direct sharing of the profits.

Growth and performance facilitated. In a partnership, it is often possible to obtain more capital and a better range of skills than in a sole proprietorship.

Flexibility. A partnership may be relatively more flexible in the decision making process than in a corporation. But, it may be less so than in a sole proprietorship.

Relative freedom from government control and special taxation.

Disadvantages of a Partnership

Unlimited liability of at least one partner. Insurance considerations such as those mentioned in the proprietorship section apply here also.

Unstable life. Elimination of any partner constitutes automatic dissolution of partnership. However, operation of the business can continue based on the right of survivorship and possible creation of a new partnership. Partnership insurance might be considered.

Relative difficulty in obtaining large sums of capital. This is particularly true of long term financing when compared to a corporation. However, by using individual partners' assets, opportunities are probably greater than in a proprietorship.

Firm bound by the acts of just one partner as agent.

Difficulty of disposing of partnership interest. The buying out of a partner may be difficult unless specifically arranged for in the written agreement.

The Corporation

The corporation is by far the most complex of the three business structures. For the purpose of this *Aid*, we shall discuss only the general characteristics of the corporation, not its intricacies.

As defined by Chief Justice Marshall's famous decision in 1819, a corporation "is an artificial being, invisible, intangible, and existing only in contemplation of the law." In other words, a corporation is a distinct legal entity, distinct from the individuals who own it.

Formation of the Corporation

A corporation usually is formed by the authority of a state government. Corporations which do business in

more than one state must comply with the Federal laws regarding interstate commerce and with the state laws, which may vary considerably.

The procedure ordinarily required to form a corporation is that, first, subscriptions for capital stock must be taken and a tentative organization created. Then, approval must be obtained from the Secretary of State in the state in which the corporation is to be formed. This approval is in the form of a charter for the corporation, stating the powers and limitations of the particular enterprise.

Advantages of the Corporation

Limitations of the stockholder's liability to a fixed amount of investment. However, do not confuse corporate liability with appropriate liability insurance considerations.

Ownership is readily transferable.

Separate legal existence.

Stability and relative permanence of existence. For example, in the case of illness, death, or other cause for loss of a principal (officer or owner), the corporation continues to exist and do business.

Relative ease of securing capital in large amounts and from many investors. Capital may be acquired through the issuance of various stocks and long term bonds. There is relative ease in securing long term financing from lending institutions by taking advantage of corporate assets and often personal assets of stockholders and principals of guarantors. (Personal guarantees are very often required by lenders.)

Delegated authority. Centralized control is secured when owners delegate authority to hired managers, although they are often one and the same.

The ability of the corporation to draw on the expertise and skills of more than one individual.

Disadvantages of the Corporation

Activities limited by the charter and by various laws. However, some states do allow very broad charters.

Manipulation. Minority stockholders are sometimes exploited.

Extensive government regulations and required local, state, and federal reports.

Less incentive if manager does not share in profits.

Expense of forming a corporation.

Double tax - income tax on corporate net income (profit) and on individual salary and dividends.*

*You should be aware, also, of the possibility of selecting subchapter S status (IRC 1371-1379). The purpose of subchapter S is to permit a "small business corporation" to have its income taxed to the shareholders as if the corporation were a partnership. One objective is to overcome the double tax feature of our system of taxing corporate income and stockholder dividends. Another purpose is to permit the shareholders to have the benefit of offsetting business losses incurred by the corporation against the income of the shareholders.

Among the conditions for the making and maintenance of subchapter S election are that the corporation have ten or fewer shareholders, all of whom are individuals or estates, that there be no nonresident alien shareholders, that there be only one class of outstanding stock, that all shareholders consent to the election, and that a specific portion of the corporation's receipts be derived from active business rather than enumerated passive investments. No limit is placed on the size of the corporation's income and assets.

In summary, review the following eight questions:

1. What is the size of the risk? That is, what is the amount of the investors' liability for debts and taxes?
2. What would the continuity (life) of the firm be if something happened to the principal or principals?
3. What legal structure would insure the greatest adaptability of administration for the firm?
4. What are the influence of applicable laws?
5. What are the possibilities of attracting additional capital?
6. What are the needs for and possibilities of attracting additional expertise?
7. What are the costs and procedures in starting?
8. What is the ultimate goal and purpose of the enterprise, and which legal structure can best serve its purposes?

The small businessowner is required to wear many hats, but none can be expected to be a lawyer, certified public accountant, marketing specialist, production engineer, environmental specialist, etc. Therefore, you should get the facts before making decisions. When necessary and if possible, you should also get professional counsel to help you avoid misunderstanding technical or legal issues and avoid making bad decisions and false starts that require backtracking and added expense. This is especially true when you are deciding what legal form to adopt. This *Aid* has presented an introduction to the options and guidelines for selecting the best legal structure for your business.

Franchising

A "franchise" is a business arrangement between a company and an individual, usually with some shared financial and contractual obligations for the mutual benefit of both parties.

There are three basic kinds of franchises:

Individually-owned and operated
Company-owned and manager operated
Distributorship or dealership

The individually-owned and operated franchise is the most common. An initial franchise fee covers the equipment, opening inventory, some advertising, training and location of the franchise. Some franchisors require a continuing fee based on a percentage of the gross profits. The owner operates the business like any other business except where contractual provisions (with the franchising organization) dictate certain accounting or purchasing controls.

The company-owned and manager operated franchise allows the franchisor more control over the business. The franchisee usually pays an initial fee in return for a percentage of the profits of the particular business.

In a distributorship or dealership, a business agrees to sell a certain product or service of a franchisor. The franchisor allows a company to handle a certain number of the franchisor's products without a direct investment. These agreements usually require the business to use the franchisor name and sell a quota of the products. A car dealership is an example of this type of franchise.

Things to Consider Before Buying a Franchise

- Do you really want to go into business for yourself?
- The financial consideration in most franchises is not small.
- Consider the percentage of failures.
- Do you have what it takes to be a successful business person?
- Get Information on:
 - Investment Required
 - Location and Lease Assistance
 - Training
 - Company Image, Brand Name, and Reputation
 - Marketing and Promotion Help
 - Company Advice, Area Supervision and Quality Control
 - Territory Protection
 - Low Risk
 - High Survival
 - Financing

Resource Publications on Franchising

Financial Security and Independence Through a Small Business Franchise by Daniel J. Scherer, Pilot Books, 103 Cooper Street, Babylon, New York 11702

Practical and useful guide to the establishment and operation of a profitable franchised business with limited investment and minimum risk.

The Franchise Handbook: A Complete Guide to Selecting, Buying and Operating by Jim Cameron, Crown Publishers, Inc., 419 Park Ave. E., New York, New York 10018

A guide for the potential franchisee. Helps businessperson evaluate talents, resources and goals in making franchising choice.

Franchising, Matthew Bender and Co., 235 E. 45 Street, New York, New York 10017

Two volume set of books. Guide to franchising which includes contracts, trademarks, taxation and equipment provisions.

Future Opportunities in Franchising by Nancy Sunny Church, Pilot Books, 103 Cooper Street, Babylon, New York 11702

An analysis of trends in franchising and a projection of opportunities for the prospective franchisee. It covers types of franchising, franchise systems and current laws affecting franchisees.

How to Franchise Your Business by Mack O. Lewis, Pilot Books, 103 Cooper Street, Babylon, New York 11702

Shows the procedures to follow to franchise a business.

Pilot's Question and Answer Guide to Successful Franchising, Pilot Books, 103 Cooper Street, Babylon, New York 11702

Provides person interested in franchising the right questions to ask and shows what the right answers would be.

A Woman's Guide to Her Own Franchised Business by Anne Small and Robert S. Levy, Pilot Books, 103 Cooper Street, Babylon, New York 11702

Written for women who want to go into their own business.

1988 Directory of Franchise Organizations, Pilot Books, 103 Cooper Street,, Babylon, New York 11702

Lists franchise opportunities with concise descriptions and required investment. Includes a franchise evaluation checklist.

**Goal 4.0 To understand the regulations governing
home-based businesses**

Competencies:

- 4.1 Obtain necessary state, local and federal license applications**
- 4.2 Complete application for state and, if necessary, local business licenses.**
- 4.3 Complete application(s) for special federal licenses relating to product or business as appropriate**
- 4.4 Obtain information on zoning and complete permit if required**
- 4.5 Complete the form to secure a social security number**

Obtain License Applications

Many businesses are subject to government regulation by licensing. A license is formal permission given by government authorities to carry on a business. There is usually a fee for purchasing a license. Be sure to consult local, borough and state regulations to see if you need licenses.

Some special licenses are required in the State of Alaska. A list of those businesses requiring special licenses is available from the Department of Revenue.

Sales Taxes

Some boroughs in Alaska have a sales tax. Local borough sales taxes are only paid once: at the retail level where products are sold directly to the consumer. The business then passes these taxes on to the borough (generally on a quarterly basis) on forms provided by the borough. A sales tax number is issued to businesses purchasing materials for resale.

Return with \$25.00 license fee to:

State of Alaska

DATE STAMP — OFFICE USE ONLY

Department of Revenue
Pouch SA
Juneau, Alaska 99811-0400

BUSINESS LICENSE APPLICATION

AS 43.70.020

RENEWAL DUE DATE — January 31.

Check the appropriate box:

Renewal — Last Year's Business License No: _____

New Business — Date started: _____

New Owner — Date of Purchase: _____

* A Business License is not transfereble or assignable. The Department of Revenue must be notified within ten (10) days when a change in business ownership takes place.

IF PREPRINTED, MAKE ANY NECESSARY CORRECTIONS

The license will be issued in the name of the person or corporation shown in section 5 below. If blank, enter name(s) of individuals with a financial interest in the business. Enter complete business name and mailing address.

1. Business License No. (Assigned by Revenue)	2. Calendar Year	3. S.I.C. Code (See list)

4. Federal Employer I.D. No. or Social Security No. (See other side for explanation)

5. Owner(s) Name(s)

Business Name

Mailing Address

City, State, Zip Code

6. Do you now have employees, or expect to hire employees during the license year?

YES NO

7. Business is: (check one)

Individual Partnership Corporation

8. Please list the major business services, activities and/or products you provide in general order of importance.

Products	and/or	Services/Activities
a.		
b.		
c.		
d.		
e.		
f.		
g.		
h.		

Daytime Phone No. of Owner or Contact: _____

Telex: _____

9. Physical Location of Business

NOTE: If you wish to register your business name, contact the Alaska Department of Commerce and Economic Development, Corporations Section, Pouch D, Juneau, Alaska 99811.

10. Business is: (check one)

Alaska Resident Nonresident (see note below)

NOTE: Special rules apply to nonresident businesses. Please see the other side for details.

11. State of Origin: _____

12. Corporation Registration Number: _____

13. Professional Board License Number: _____
(See instructions for list of professional boards/trades/commissions)

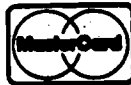
NOTE: The business license WILL NOT be issued if the appropriate board license is not attached. Failure to do so may result in the delay of issuance of up to eight (8) weeks.

14. I declare under penalty of perjury that this application is true and complete.

X _____
Signature Date



Card #: _____



Expiration Date: _____

Amount: _____

X _____
Signature

OFFICE USE ONLY



INSTRUCTIONS

FEE. The fee for each Business License is \$25.00 and must be paid with this application. New businesses and new owners must also pay the full \$25.00 fee. License fees will be refunded only if the licensee is prevented from using the license by court order, administrative decision, or other cause clearly beyond the licensee's control.

Line 3. S.I.C. Code. From the Standard Industrial Classification Code list accompanying this form, select the number that is most descriptive of your business.

Line 4. Social Security Number. You are not required to provide your Social Security Number. However, the Department of Revenue would use this number for identification purposes, so providing it may speed the processing of your application. Social Security numbers will be used for other departmental purposes as well, and may be given to the IRS.

Line 5. If your RENEWAL APPLICATION has been preprinted, please check the information for accuracy. Make corrections as necessary.

Line 10. Nonresident Businesses must file an affidavit with the Alaska Department of Revenue and comply with one of the tax liability security requirements of 15 AAC 10.020 on or before June 2 of each year. For further information contact the Licensing and Security Section, Public Services Division, Department of Revenue, 1111 W. 8th Street, Room 108, Juneau, Alaska 99801. Phone (907) 465-2329.

Line 11. Provide the state or origin of your business, i.e.:

Individuals - state of residence
Partnerships (individuals) - state of residence
Partnerships (corporations & companies) - state of domicile of the corporation or company.
Corporations - state of domicile.

Line 12. Corporation Registration Number. A corporation registration number is issued to all corporations registered with the Alaska Department of Commerce and Economic Development. For more information, contact the Department of Commerce and Economic Development, Corporations Section, Pouch D, Juneau, Alaska 99811. Phone (907) 465-2530 or 2531.

Line 13. If you are a **CONTRACTOR** or are **LICENSED BY A PROFESSIONAL BOARD, TRADE ASSOCIATION, OR COMMISSION**, you must attach a copy of your license. **CONTRACTORS WHO ARE EXEMPT** from this licensing requirement must attach a statement explaining their exempt status. If you are a **FISH BUYER**, you must attach a copy of your bonding certification issued by the Alaska Department of Labor. If you are a **MOTOR VEHICLE DEALER**, you must attach a copy of your registration issued by the Alaska Department of Public Safety. **IMPORTANT!** This license, certification or registration must be valid for the same year as the Business License for which you are now applying. Your Business License cannot be issued without this required information.

PROFESSIONAL BOARDS/TRADES/COMMISSIONS

Unless otherwise noted, the following are administered by the Alaska Department of Commerce and Economic Development.

- | | |
|---|--|
| 1. Alaska Bar Association' | 14. Medical |
| 2. Athletic Commission | 15. Morticians |
| 3. Architects, Engineers & Land Surveyors | 16. Nursing |
| 4. Barbers & Hairdressers | 17. Nursing Home Administrators |
| 5. Chiropractic Examiners | 18. Opticians, Dispensing |
| 6. Concert Promoters | 19. Optometry Examiners |
| 7. Contractors, General or Specialty | 20. Pharmacy |
| 8. Credit Reporting and Collection | 21. Physical Therapy |
| 9. Dental Examiners | 22. Psychologist & Psychological Associate Examiners |
| 10. Electrical Administrators | 23. Public Accountancy |
| 11. Geologists | 24. Real Estate Commission' |
| 12. Guide Licensing and Control | 25. Veterinary Examiners |
| 13. Marina Pilots | |

'Alaska Bar Association
P. O. Box 100279
Anchorage, Alaska 99510-0279
Phone (907) 272-7469

'Real Estate Commission
3801 C St., Suite 722
Anchorage, Alaska 99503
Phone (907) 563-2169

(For Fish Buyer Certification)
Department of Labor
Wage & Hour Division
P. O. Box 630
Juneau, Alaska 99802-0630
Phone (907) 465-4839

(For M/V Dealer Registration)
Department of Public Safety
P. O. Box 100960
Anchorage, Alaska 99510-0960
Phone (907) 299-5583

Department of Commerce and Economic Development
Division of Occupational Licensing
Pouch D, Juneau, Alaska 99811, Phone (907) 465-2546

Business Directories. Based on the information contained in this application, the state will produce a series of directories to publicize and assist Alaskan businesses. Each directory will be organized by location and industry type. A special Exporters Directory will be produced for those who check Yes to question 16 on the Business Assistance Survey. Each directory entry will include the name, address, telephone number, telex number, and product or service description of the business.

Standard Industrial Classification (S.I.C.) Code List

1. Select the "Division" from the list below.

DIVISION A - AGRICULTURE, FORESTRY & FISHING

DIVISION B - MINING

DIVISION C - CONSTRUCTION

DIVISION D - MANUFACTURING

**DIVISION E - TRANSPORTATION, COMMUNICATIONS,
ELECTRIC, GAS & SANITARY SVCS.**

DIVISION F - WHOLESALE TRADE

DIVISION G - RETAIL TRADE

DIVISION H - FINANCE, INSURANCE & REAL ESTATE

DIVISION I - SERVICES

DIVISION J - PUBLIC ADMINISTRATION

DIVISION K - NONCLASSIFIABLE ESTABLISHMENTS

2. Check the sub-heading as set out under each "division" on the list.

3. Select the title under the sub-heading which best describes your business activity.

4. Write the four-digit number that appears in front of your selection in the space provided on your application.

5. Numbers ending with 99 will indicate "nec," which means "not elsewhere classified."

6. If the S.I.C. Code that describes your business is printed in bold *italics*, you must meet additional regulatory requirements. Please see the instructions on the Alaska Business License Application.

DIVISION A. AGRICULTURE, FORESTRY, & FISHING

- 0100 Agricultural Production-Crops
 - 0134 Potatoes
 - 0180 Vegetables & Melons
 - 0170 Fruits & Tree Nuts
 - 0180 Horticultural Specialties
 - 0190 General Farms
- 0200 Agricultural Production-Livestock
 - 0211 Beef Cattle
 - 0213 Hogs
 - 0214 Sheep & Goats
 - 0219 General Livestock
 - 0240 Dairy Farms
 - 0250 Poultry & Eggs
 - 0270 Animal Specialties
 - 0271 Fur Animals & Rabbits
 - 0272 Horses & Other Equines
- 0700 Agricultural Services
 - 0710 Soil Preparation Services
 - 0729 Crop Services
 - 0722 Crop Harvesting
 - 0729 General Crop Services
 - 0749 Veterinary Services
 - 0741 Veterinary Svcs. Farm Livestock
 - 0752 Animal Specialty Services
 - 0780 Landscape & Horticultural Svcs.
 - 0781 Landscape Counseling & Planning
 - 0782 Lawn & Garden Services
- 0800 Forestry
 - 0820 Forest Nurseries
 - 0850 Forest Services
- 0900 Fishing, Hunting, & Trapping
 - 0910 Fish Buyer
 - 0911 Commercial Fishing
 - 0912 Finfish
 - 0913 Shellfish
 - 0919 Misc. Marine Products
 - 0920 Fish Hatcheries & Preserves
 - 0970 Hunt, Trap, Game Propagation

DIVISION B. MINING

- 1000 Metals Mining
 - 1010 Iron Ores
 - 1020 Copper Ores
 - 1030 Lead & Zinc Ores
 - 1040 Gold & Silver Ores
 - 1080 Metal Mining Services
 - 1099 Metal Ores, nec.
- 1100 Anthracite Mining
- 1200 Bituminous Coal & Lignite Mining
- 1300 Oil & Gas Extraction
 - 1310 Crude Petroleum & Natural Gas
 - 1320 Natural Gas Liquids
 - 1380 Oil & Gas Field Services
 - 1381 Drilling Oil & Gas Wells
 - 1382 Oil & Gas Exploration Services
 - 1399 Oil & Gas Field Services, nec.
- 1400 Nonmetallic Minerals, Except Fuels
 - 1410 Dimension Stone
 - 1420 Crushed & Broken Stone
 - 1440 Sand & Gravel
 - 1450 Clay & Related Minerals
 - 1470 Chemical & Fertilizer Minerals
 - 1490 Misc. Nonmetallic Minerals
 - 1499 Nonmetallic Minerals, nec.

DIVISION C. CONSTRUCTION

- 1800 General Building Contractors
 - 1829 Residential Bldg. Construction
 - 1832 Residential Construction, nec.
 - 1839 Operative Builders
 - 1849 Nonresidential Bldg. Construction
 - 1842 Nonresidential Construction, nec.
- 1890 Heavy Construction Contractors
 - 1819 Highway & Street Construction
 - 1829 Heavy Construction, Except Highway
 - 1832 Bridge, Tunnel, & Elevated Highway
 - 1833 Water, Sewer, & Utility Lines
 - 1839 Heavy Construction, nec.

- 1700 Special Trade Contractors
 - 1719 Plumbing, Heating, Air Conditioning
 - 1729 Painting, Paper Hanging, Decorating
 - 1739 Electrical Work
 - 1749 Masonry, Stonework, & Plastering
 - 1759 Carpentry & Flooring
 - 1761 Carpentry
 - 1762 Floor Laying & Floor Work, nec.
 - 1769 Roofing & Sheet Metal Work
 - 1779 Concrete Work
 - 1789 Water Well Drilling
 - 1799 Misc. Special Trade Contractors
 - 1799 Special Trade Contractors, nec.

DIVISION D. MANUFACTURING

- 2000 Food & Kindred Products
 - 2010 Meat Products
 - 2020 Dairy Products
 - 2030 Preserved Fruits & Vegetables
 - 2040 Grain Mill Products
 - 2050 Bakery Products
 - 2060 Sugar & Confectionary Products
 - 2070 Fats & Oils
 - 2080 Beverages
 - 2082 Malt Beverages
 - 2084 Wines, Brandy & Spirits
 - 2085 Distilled Liquor, Except Brandy
 - 2086 Bottled and Canned Soft Drinks
 - 2087 Flavoring Extracts & Syrups, nec.
 - 2090 Misc. Foods & Kindred Products
 - 2091 Canned & Cured Seafoods
 - 2092 Fresh or Frozen Packaged Fish
 - 2097 Manufactured Ice
 - 2099 Food Preparations, nec.
- 2100 Tobacco Manufacturers
- 2200 Textile Mill Products
 - 2270 Floor Covering Mills
 - 2280 Yarn & Thread Mills
 - 2290 Misc. Textile Goods
 - 2299 Textile Goods, nec.
- 2300 Apparel & Other Textile Products
 - 2380 Misc. Apparel & Accessories
 - 2390 Misc. Fabricated Textile Products
- 2400 Lumber & Wood Products
 - 2410 Logging Camps & Contractors
 - 2420 Sawmills & Planing Mills
 - 2430 Millwork, Plywood, Structural
 - 2440 Wood Containers
 - 2450 Wood Buildings & Mobile Homes
 - 2451 Mobile Homes
 - 2452 Prefabricated Wood Buildings
 - 2480 Misc. Wood Products
 - 2499 Wood Products, nec.
- 2500 Furniture & Fixtures
 - 2510 Household Furniture
 - 2520 Office Furniture
 - 2540 Partitions & Fixtures
 - 2580 Misc. Furniture & Fixtures
 - 2599 Furniture & Fixtures, nec.
- 2600 Paper & Allied Products
 - 2610 Pulp Mills
 - 2620 Paper Mills, Except Bldg. Paper
 - 2630 Paperboard Mills
 - 2640 Misc. Converted Paper Products
 - 2650 Paperboard Containers & Boxes
 - 2660 Building Paper & Board Mills
- 2700 Printing & Publishing
 - 2710 Newspapers
 - 2720 Periodicals
 - 2731 Book Publishing
 - 2732 Book Printing
 - 2740 Miscellaneous Publishing
 - 2760 Commercial Printing
 - 2780 Manifold Business Forms
 - 2790 Printing Trade Services
- 2800 Chemicals and Like Products
 - 2810 Industrial Inorganic Chemicals
 - 2820 Plastics and Synthetics
 - 2830 Drugs
 - 2840 Soap, Cleaners, & Toilet Goods
 - 2850 Industrial Organic Chemicals
 - 2870 Agricultural Chemicals
 - 2890 Misc. Chemicals Products

- 2900 Petroleum and Coal Products
 - 2910 Petroleum Refining
 - 2950 Paving & Roofing Material
 - 2990 Misc. Petroleum & Coal Products
- 3000 Rubber & Misc. Plastics Products
 - 3070 Misc. Plastics Products
- 3100 Leather and Leather Products
 - 3110 Leather Tanning and Finishing
 - 3130 Boot & Shoe Cut Stock & Findings
 - 3140 Footwear, Except Rubber
 - 3150 Leather Gloves & Mittens
 - 3170 Handbags & Personal Leather Goods
 - 3199 Leather Goods, nec.
- 3200 Stone, Clay, and Glass Products
 - 3280 Pottery and Related Products
 - 3270 Concrete Gypsum & Plaster Products
 - 3280 Cut Stone & Stone Products
 - 3299 Nonmetallic Mineral Products, nec.
- 3300 Primary Metal Industries
- 3400 Fabricated Metal Products
- 3500 Machinery, Except Electrical
- 3600 Electric and Electronic Equipment
- 3700 Transportation Equipment
 - 3710 Motor Vehicles & Equipment
 - 3720 Aircraft & Parts
 - 3730 Ship & Boat Building & Repairing
 - 3750 Motorcycles, Bicycles, & Parts
 - 3790 Misc. Transportation Equipment
 - 3792 Travel Trailers & Campers
- 3800 Instruments and Related Products
- 3900 Miscellaneous Manufacturing Industries
 - 3910 Jewelry, Silverware, & Plated Ware
 - 3911 Jewelry, Precious Metal
 - 3915 Jewelers' Materials & Lapidary Work
 - 3930 Musical Instruments
 - 3940 Toys & Sporting Goods
 - 3960 Costume Jewelry & Notions
 - 3990 Misc. Manufactures

DIVISION E. TRANSPORTATION & PUBLIC UTILITIES

- 4000 Railroad Transportation
- 4100 Local & Interurban Passenger Transit
 - 4110 Local & Suburban Transportation
 - 4120 Taxicab
 - 4130 Intercity Highway Transportation
 - 4140 Transportation Charter Service
 - 4151 School Buses
 - 4170 Bus Terminals & Service Facilities
- 4200 Trucking & Warehousing
 - 4210 Trucking, Local & Long Distance
 - 4220 Public Warehousing
 - 4230 Trucking Terminal Facilities
- 4300 U.S. Postal Service
- 4400 Water Transportation
 - 4410 Deep Sea Foreign Transportation
 - 4420 Deep Sea Domestic Transportation
 - 4450 Local Water Transportation
 - 4454 Towing & Tugboat Service
 - 4459 Local Water Transportation, nec.
 - 4480 Water Transportation Services
 - 4483 Marine Cargo Handling
 - 4489 Water Transportation Svcs., nec.
- 4500 Air Transportation
 - 4510 Certificated Air Transportation
 - 4520 Noncertificated Air Transportation
 - 4580 Air Transportation Services
 - 4582 Airports & Flying Fields
 - 4583 Airport Terminal Services
- 4600 Pipelines, Except Natural Gas
 - 4610 Pipelines, Except Natural Gas
 - 4612 Crude Petroleum Pipelines
 - 4613 Refined Petroleum Pipelines
 - 4619 Pipelines, nec.

- 4700 Transportation Services
 - 4712 Freight Forwarding
 - 4720 Transportation Arrangement
 - 4780 Misc. Transportation Services
- 4800 Communication
 - 4810 Telephone Communication
 - 4820 Telegraph Communication
 - 4832 Radio Broadcasting
 - 4833 TV Broadcasting
 - 4899 Communication Service, nec.

- 4900 Electric, Gas & Sanitary Services
 - 4911 Electric Services
 - 4920 Gas Production & Distribution
 - 4930 Combination Utility Services
 - 4940 Water Supply
 - 4950 Sanitary Services
 - 4952 Sewerage Systems
 - 4953 Refuse Systems

DIVISION F. WHOLESALE TRADE

- 5000 Wholesale Trade Durable Goods
 - 5010 Motor Vehicles & Auto Equipment
 - 5013 Automotive Parts & Supplies
 - 5014 Tires & Tubes
 - 5020 Furniture & Home furnishings
 - 5030 Lumber & Construction Materials
 - 5040 Sporting Goods, Toys & Hobby Goods
 - 5060 Electrical Goods
 - 5070 Hardware, Plumbing & Heating Equip.
 - 5080 Machinery, Equipment, & Supplies
 - 5080 Misc. Durable Goods
 - 5084 Jewelry, Watches, & Precious Stones
 - 5089 Durable Goods, nec.

- 5100 Wholesale Trade Nondurable Goods
 - 5110 Paper & Paper Products
 - 5122 Drugs, Proprietarys, & Sundries
 - 5130 Apparel, Piece Goods, & Notions
 - 5140 Groceries & Related Products
 - 5150 Farm-Products Raw Materials
 - 5160 Chemicals & Allied Products
 - 5170 Petroleum & Petroleum Products
 - 5180 Beer, Wine, & Distilled Beverages
 - 5190 Misc. Nondurable Goods

DIVISION G. RETAIL TRADE

- 5200 Building Materials & Garden Supplies
 - 5210 Lumber & Other Building Materials
 - 5230 Paint, Glass, & Wallpaper Stores
 - 5250 Hardware Stores
 - 5260 Retail Nurseries & Garden Stores
 - 5279 Mobile Home Dealers

- 5300 General Merchandise Stores
 - 5310 Department Stores
 - 5330 Variety Stores
 - 5399 Misc. General Merchandise Stores

- 5400 Food Stores
 - 5410 Grocery Stores
 - 5420 Meat Markets & Freezer Provisioners
 - 5430 Fruit Stores & Vegetable Markets
 - 5440 Candy, Nut & Confectionary Stores
 - 5450 Dairy Products Stores
 - 5460 Retail Bakeries
 - 5499 Misc. Food Stores

- 5500 Automotive Dealers & Service Stations
 - 5510 New & Used Car Dealers
 - 5520 Used Car Dealers
 - 5530 Auto & Home Supply Stores
 - 5540 Gas Service Stations
 - 5550 Boat Dealers
 - 5589 Recreation and Utility Trailer Dealers
 - 5570 Motorcycle Dealers

- 5600 Apparel & Accessory Stores
 - 5610 Men's & Boy's Clothing & Furnishings
 - 5620 Women's Ready to Wear Stores
 - 5630 Women's Accessory & Specialty Stores
 - 5640 Children's & Infants' Wear Stores
 - 5650 Family Clothing Stores
 - 5660 Shoe Stores
 - 5680 Furriers & Fur Shops
 - 5699 Misc. Apparel & Accessories

- 5700 Furniture & Home Furnishings Stores
 - 5712 Furniture Stores
 - 5713 Floor Covering Stores
 - 5714 Drapery & Upholstery Stores
 - 5719 Misc. Home Furnishing Stores
 - 5722 Household Appliance Stores
 - 5730 Radio, Television, & Music Stores

- 5800 Eating & Drinking Places
 - 5812 Eating Places
 - 5813 Drinking Places

- 5900 Miscellaneous Retail
 - 5912 Drug & Proprietary Stores
 - 5920 Liquor Stores
 - 5930 Used Merchandise Stores
 - 5940 Misc. Shopping Goods Stores
 - 5941 Sporting Goods & Bicycles Shops
 - 5942 Book Stores
 - 5943 Stationery Stores
 - 5944 Jewelry Stores
 - 5945 Hobby, Toy, & Game Shops
 - 5946 Camera, & Photographic Supply Stores
 - 5947 Gift, Novelty, & Souvenir Shops
 - 5948 Luggage & Leather Goods Stores
 - 5949 Sewing, Needlework, & Piece Goods
 - 5960 Nonstore Retailers

- 5961 Mail Order Houses
- 5963 Direct Selling Organizations
- 5963 Fuel Oil Dealers
- 5964 Liquefied Petroleum Gas Dealers
- 5964 Florists
- 5965 Cigar Stores & Stands
- 5964 News Dealers & Newsstands
- 5964 Misc. Retail Stores, Nec.

DIVISION H. FINANCE, INSURANCE, & REAL ESTATE

- 6000 Banking
 - 6010 Federal Reserve Banks
 - 6020 Commercial & Stock Savings Banks
 - 6022 State Banks, Federal Reserve
 - 6025 National Banks, Federal Reserve
 - 6030 Mutual Savings Banks
 - 6040 Trust Companies, Nond deposit
 - 6050 Functions Closely Related to Banking

- 6100 Credit Agencies Other Than Banks
 - 6110 Rediscunt & Financing Institutions
 - 6120 Savings & Loan Associations
 - 6130 Agricultural Credit Institutions
 - 6140 Personal Credit Institutions
 - 6150 Business Credit Institutions
 - 6160 Mortgage Bankers & Brokers

- 6200 Security, Commodity Brokers & Services

- 6300 Insurance Carriers
 - 6310 Life Insurance
 - 6320 Medical Service & Health Insurance
 - 6330 Fire, Marine, & Casualty Insurance
 - 6350 Surety Insurance
 - 6360 Title Insurance
 - 6370 Pension, Health, & Welfare Funds
 - 6380 Insurance Carriers, nec.

- 6400 Insurance Agents, Brokers & Service

- 6500 Real Estate
 - 6510 Real Estate Operators & Lessors
 - 6512 Nonresidential Building Operators
 - 6513 Apartment Building Operators
 - 6514 Dwelling Operators, exc. Apt.
 - 6515 Mobile Home Site Operators
 - 6530 Real Estate Agents Managers
 - 6540 Title Abstract Offices
 - 6550 Subdividers & Developers

- 6600 Combined Real Estate, Insurance, etc.

- 6700 Holding & Other Investment Offices
 - 6710 Holding Offices
 - 6720 Investment Offices
 - 6730 Trusts
 - 6790 Misc. Investing

DIVISION I. SERVICES

- 7000 Hotels, & Other Lodging Places
 - 7010 Hotels, Motels, & Tourist Courts
 - 7020 Rooming & Boarding Houses
 - 7030 Camps & Trailer Parks

- 7200 Personal Services
 - 7210 Laundry, Cleaning, & Garment Svcs.
 - 7215 Coin-op Laundry & Cleaning
 - 7216 Dry Cleaning Plants, except Rug
 - 7217 Carpet & Upholstery Cleaning
 - 7220 Photo Studios, Portrait
 - 7230 Jewelry Shops
 - 7240 Barber Shops
 - 7250 Shoe Repair
 - 7260 Funeral Service & Crematories
 - 7299 Misc. Personal Services

- 7300 Business Services
 - 7310 Advertising
 - 7329 Credit Reporting & Collection
 - 7330 Mailing, Reproduction, Steno
 - 7333 Commercial Photography & Art
 - 7342 Services to Buildings
 - 7341 Window Cleaning
 - 7342 Disinfecting & Exterminating
 - 7348 Building Maintenance Svcs, nec.
 - 7350 News Syndicates
 - 7360 Personal Supply Services
 - 7370 Computer & Data Processing Svcs.
 - 7390 Misc. Business Services
 - 7392 Management & Public Relations
 - 7393 Detective & Protective Services
 - 7394 Equipment Rental & Leasing
 - 7395 Photofinishing Labs
 - 7399 Business Services, Nec.

- 7500 Auto Repair, Services & Garages
 - 7512 Passenger Car Rental & Leasing
 - 7513 Truck Rental & Leasing
 - 7520 Automobile Parking
 - 7530 Auto Repair Shops
 - 7540 Auto Services, except Repair
 - 7542 Car Washes

- 7600 Misc. Repair Services
 - 7620 Electrical Repair Shops
 - 7622 Radio & TV Repair
 - 7630 Watch, Clock, & Jewelry Repair
 - 7640 Repholstery & Furniture Repair
 - 7690 Misc. Repair Shops
 - 7692 Welding Repair

- 7800 Motion Pictures
 - 7810 Motion Picture Production & Services
 - 7813 Motion Picture Production, except TV
 - 7814 Motion Picture Production for TV
 - 7819 Services Allied to Motion Pictures
 - 7820 Motion Picture Dist. & Services
 - 7830 Motion Picture Theaters
 - 7833 Drive-in Motion Picture Theaters

- 7900 Amusement & Recreation Services
 - 7910 Dance Halls, Studios, & Schools
 - 7920 Producers, Orchestras, Entertainers
 - 7929 Entertainers & Entertainment Groups
 - 7932 Billiard, Pool Establishments
 - 7933 Bowling Alleys
 - 7940 Commercial Sports
 - 7999 Misc. Amusement, Recreational Svcs.
 - 7993 Coin-op Amusement Devices

- 8000 Health Services
 - 8010 Offices of Physicians
 - 8020 Offices of Dentists
 - 8029 Offices of Osteopathic Physicians
 - 8040 Offices of Other Health Practitioners
 - 8041 Offices of Chiropractors
 - 8042 Offices of Optometrists
 - 8049 Offices of Health Practitioners, nec.
 - 8059 Nursing & Personal Care Facilities
 - 8060 Hospitals
 - 8062 General Medical & Surgical Hospitals
 - 8063 Psychiatric Hospitals
 - 8069 Specialty Hospitals, exc. Psych.
 - 8070 Medical & Dental Laboratories
 - 8071 Medical Laboratories
 - 8072 Dental Laboratories
 - 8080 Outpatient Care Facilities, nec.
 - 8090 Health & Allied Services, nec.

- 8100 Legal Services

- 8200 Educational Services
 - 8210 Elementary & Secondary Schools
 - 8220 Colleges & Universities
 - 8230 Libraries & Information Centers
 - 8241 Correspondence Schools
 - 8243 Data Processing Schools
 - 8244 Business & Secretarial Schools
 - 8249 Vocational Schools, nec.

- 8300 Social Services
 - 8320 Individual & Family Services
 - 8330 Job Training & Related Services
 - 8350 Child Day Care Services
 - 8399 Social Services, nec.

- 8400 Museums, Botanical, Zoological Gardens

- 8600 Membership Organizations
 - 8610 Business Associations
 - 8620 Professional Associations
 - 8630 Labor Organizations
 - 8640 Civic & Social Associations
 - 8650 Political Organizations
 - 8660 Religious Organizations

- 8800 Private Households

- 8900 Miscellaneous Services
 - 8919 Engineering & Architectural Svcs.
 - 8920 Noncommercial Research Organizations
 - 8930 Accounting, Auditing & Bookkeeping
 - 8999 Services, nec.

DIVISION J. PUBLIC ADMINISTRATION

- 9100 Executive Legislative, & General
- 9200 Justice, Public Order, & Safety
- 9300 Finance, Taxation & Monetary Policy
- 9400 Administration of Human Resources
- 9500 Environmental Quality & Housing
- 9600 Administration of Economic Programs
- 9700 National Security & Intl. Affairs

DIVISION K. NONCLASSIFIABLE ESTABLISHMENTS

- 9900 Nonclass Establishments

Apply For Special Federal Licenses

Federal license is required to sell firearms and ammunition. This application is available from the Bureau of Firearm, Tobacco and Alcohol listed under U.S. Government.

Obtain Information On Zoning

Generally, zoning is not a problem for the home-based business unless it creates unusual noise, signs, odors, parking problems, etc.

First, find out if your community has zoning. If it does, there are probably three boards governing zoning:

The Planning Board develops long-term growth plans and reviews developers' plans to ensure that they are in line with long-term plans.

The Zoning Board develops regulations to ensure compliance with the Planning Board's long-term plan. (The Planning and Zoning Boards are often combined.)

The Appeals Board can waive zoning regulations and hear appeals for zoning decisions.

Obtain A Social Security Number

Social Security

Every company which has employees must pay social security tax. Your local Post Office has applications for social security. Employers pay a 7.15% tax on wages up to \$42,000 a year for each employee. The employee pays a similar tax on all wages up to the same amount; the employee's share is deducted from his/her pay check.

Federal Identification Number

Any company with employees must identify itself on tax forms using a Federal Employer Identification Number. Form SS-4 is used to apply for this number; it can be obtained from the nearest Internal Revenue Service Office. Once your company has an identification number, the IRS will automatically send you quarterly and year-end payroll tax returns to complete.

Goal 5.0 To understand how to obtain funds

Competencies:

- 5.1 List sources of funds**
- 5.2 Develop a statement of financial need**
- 5.3 List types of business loans**
- 5.4 List kinds of collateral**
- 5.5 Describe loan limitations**
- 5.6 Complete loan application**
- 5.7 Open a checking account**

List Sources Of Funds

Once you have decided upon the ownership structure for your home-based business and have formulated your plans for it, the next step is to decide where and how to get the money (starting capital) for setting your business enterprise into motion. This will need your careful consideration. First, think about the money that is closest and most available to you. Then, consider all the possible money resources that you can tap:

Your Own Money

You may put your savings into your home-based business. You can also get some cash by selling your car or other belongings if necessary.

Loans and Investments From Family and Friends

You may get an interest-free personal loan from a relative or friend. If you chose to form a partnership, your partner will also put some money into the business.

If all the money at hand is still not enough, or your friends and relatives just are unable to help right now, then you can go to a lender--a bank or government agency--to get a business loan.

Banks and Credit Unions

To get a business loan from a bank, you need to present some of your property as collateral to the bank. Collateral is a valuable possession like a house or car that is given as a pledge that the debt will be paid. If the loan is not repaid, the bank may sell the possession to recover the money it lent. If you are a member of a credit union, you may borrow money there.

The Small Business Administration

The Small Business Administration (SBA) may also help you, especially if you can't get a bank loan. The SBA lends money directly to small business owners and helps them borrow money from banks.

from Home Entrepreneurship: Instructional Materials in the Operation of a Small Business from the Home, Susan F. Weis and Kay S. O'Brien, Pennsylvania Department of Education, Bureau of Vocational Education, Harrisburg, PA, June, 1983.

Small Business Administration Loans

SBA's Business Loan Programs

Under its Congressional mandate, the U.S. Small Business Administration (SBA) assists the nation's small businesses through a number of programs and efforts. SBA helps new or growing businesses meet their financial needs, counsels small firms with problems, offers special assistance to minority, women-owned and veteran-owned businesses, helps small businesses to secure government contracts, and acts as a special advocate for small business with other Federal agencies, with states and within the private sector.

Through its work, the Agency helps preserve the nation's free enterprise system, bolsters competition and strengthens the national economy.

SBA loans have helped thousands of small companies get started, expand and prosper. This section is designed to explain SBA's business loan programs and to describe where and how to apply for a business loan.

Basic Types of Business Loans

Business loan proceeds can be used for working capital, purchase of inventory, equipment and supplies, or for building construction and expansion.

SBA offers two basic types of business loans:

1. Loans made by private lenders, usually banks, and guaranteed by SBA. By law, SBA can guarantee a portion of a loan made by a bank or other private lender, however, SBA's guaranty cannot exceed \$500,000.
2. Loans made directly by the Agency.

In general, direct SBA loans carry interest rates slightly lower than those in the private financial markets. They are available only to applicants unable to secure private financing or an SBA-guaranteed or participation loan.

In addition to its basic loan program, SBA offers loans for low-income and other disadvantaged persons, loans to help small firms owned by handicapped persons and nonprofit sheltered workshops employing the handicapped, loans to small firms engaged in manufacturing, selling, installing, servicing or developing specific energy conservation measures, loans to development companies for projects aiding small businesses in urban or rural communities, loans and revolving lines of credit for export purposes, and guaranteed loans for qualified employee stock ownership trusts.

SBA licenses, regulates and financially helps private firms called "Small Business Investment Companies" (SBICs) which supply equity capital and regular loans to small firms with unusual growth potential.

Details concerning special loan programs can be obtained from any SBA office.

Even with its varied programs, SBA cannot assist all the small businesses, or all the persons interested in starting a small firm. Agency funds and personnel are limited. Therefore in recent years, SBA--as small business' advocate--has increased its liaison and cooperation with the private sector, with the primary aim of widening assistance and making more funds available to the millions of small entrepreneurs in our country. The nation's banks have been made more aware of the advantages of participating in SBA guaranteed loans, and have been urged to respond through their own loan programs to small business' needs and wants. SBA has instituted a special arrangement with a number of banks to cut red tape and paperwork in Agency guaranteed loans. Other companies have been organized as SBA "non-bank lenders," and can make small business loans guaranteed by the Agency.

This approach--involving greater cooperation with the private financial markets and putting the Agency more and more into a role of a "wholesaler" --will be emphasized in the months and years ahead. The private lender will be more and more the "retailer" of small business lending, while SBA takes on the role of "wholesaler".

Who is Eligible for an SBA Loan?

By law, the Agency may not make or guarantee a loan if a business can obtain funds on reasonable terms from a bank or other private source. A borrower therefore must first seek private financing before applying to SBA. This means that a person first must apply to a bank or other lending institution for a loan. In a city of over 200,000 population, a person must be turned down by two banks before applying for an SBA loan.

A business must be independently owned and operated for profit (except sheltered workshops), not dominant in its field and must meet certain standards of size in terms of employees or annual receipts. Loans cannot be made to speculative businesses, newspapers, or businesses engaged in gambling.

Applicants for loans also must agree to comply with SBA regulations that there will be no discrimination in employment or services to the public, based on race, color, religion, national origin, sex or marital status.

What is a Small Business?

At present, eligibility for loans varies by industry and SBA program. For business loans, the general size standard eligibility requirements are:

Manufacturing - Maximum number of employees may range from 500 to 1,500 depending on the industry in which the applicant is primarily engaged.

Wholesaling - Maximum number of employees must not exceed 500.

Services - Annual receipts must not exceed \$3.5 million to \$14.5 million, depending on the industry in which the applicant is primarily engaged.

Retailing - Annual sales or receipts must not exceed \$3.5 to \$13.5 million, depending on the industry.

Construction - General construction average annual receipts must not exceed \$17 million for the three most recently completed fiscal years.

Special trade construction - Average annual receipts must not exceed \$7 million for three most recently completed fiscal years, depending on the industry.

Agriculture - Annual receipts must not exceed \$0.1 to \$3.5 million.

What are the Credit Requirements?

A loan applicant must:

Be a good character.

Have enough capital in an existing firm so that, with an SBA loan, the business can operate on a sound financial basis.

Show the proposed loan is of such sound value or so secured as reasonably to assure payment.

Show that the past earnings record and future prospects of the firm indicate ability to repay the loan and other fixed debt, if any, out of profits.

Be able to provide, from personal resources, sufficient funds to have a reasonable amount at stake to withstand possible losses, particularly during the early stages of a new venture.

How Much Can a Person Borrow?

Loans made directly by SBA have a maximum of \$150,000.

The guaranteed loan program permits the Agency to guarantee a maximum of \$500,000.

Note: When neither private financing nor a loan guarantee is available, SBA may provide loan funds on an "immediate participation" basis with a bank. The bank disburses part of the loan, at market interest rates, and the balance of the loan is disbursed directly by SBA, at a lower interest rate. SBA's share of an immediate participation loan may not exceed \$150,000. (These administrative limits are subject to change.)

A handicapped assistance loan made directly by SBA is limited to \$150,000.

Local Development Company loans made directly by SBA are limited to \$150,000.

Terms of Loans

Regular business loans have a maximum maturity of 25 years.

Working capital loans are generally limited to seven years.

SBA regularly sets a maximum allowable interest rate which banks can charge on guaranteed loans. Interest rates on direct loans and SBA's share of an immediate participation loan are tied to the cost of money to the Federal government and adjusted periodically. The interest rate is 3 percent for SBA's share of a handicapped assistance loan.

Collateral

One or more of the following may be acceptable security for a loan:

a mortgage on land, a building and/or equipment

assignment of warehouse receipts for marketable merchandise

a mortgage on chattels

guarantees or personal endorsements, and in some instances, assignments of current receivables

How to Apply for a Loan

Those already in business should:

- 1. Prepare a current financial statement (balance sheet) listing all assets and all liabilities of the business.**
- 2. Prepare an earnings (profit and loss) statement for the current period to the date of the balance sheet.**
- 3. Prepare a current personal financial statement of the owner, or each partner or stockholder owning 20 percent or more of the corporate stock in the business.**
- 4. List collateral to be offered as security for the loan, with an estimate of the present market value of each item.**
- 5. State the amount of the loan requested and exact purposes for which it can be used.**
- 6. Take the foregoing material to your banker. Ask for a direct bank loan and if you are declined, ask the bank to make the loan under SBA's Loan Guarantee Plan or Immediate Participation Plan. If the bank is interested in an SBA guaranteed or participation loan, ask the banker to contact SBA for discussion of your application. In most cases of guaranteed or participation loans, SBA will deal directly with the bank.**
- 7. Write or visit the nearest SBA office, if a guaranteed or a participation loan is not available. SBA has 110 field offices which often send loan officers to visit many smaller cities as the need is indicated. To speed matters, make your financial information available when you first write or visit SBA.**

Those wanting to start a business should:

1. Describe the type of business you plan to establish.
2. Describe your experience and management capabilities.
3. Prepare an estimate of how much you or others have to invest in the business and how much you will need to borrow.
4. Prepare a current financial statement (balance sheet) listing all personal assets and all liabilities.
5. Prepare a detailed projection of earnings for the first year the business will operate.
6. List collateral to be offered as security for the loan, indicating your estimate of the present market value of each item.
7. Follow steps 6 and 7 for those already in business.

from "Business Loans from the SBA," U.S.
Small Business Administration, 1984.

Secure Credit and Obtain Funds

Business Loans

Most entrepreneurs apply for business loans to get at least some of the money they need to start their business. With a business loan, you have to pay back a part of the loan money every month, plus a certain percentage of interest. Interest is the extra money you pay for the privilege of using someone else's money. The larger amount of your own money you put into your home-based business, the less loan money and the less interest you will need to pay back.

Business Loan Information

In order to get a business loan you will need to provide a lot of information to prove that you are a good business risk, information such as your personal background and qualifications, a clear business description, and a financial plan.

Personal Background Information

You will be expected to tell the lender about your work and business experience, as well as your personal financial situation. You will need to show that you have facts concerning your home-based business and possess good business sense. You will be expected to put some of your own money into your business enterprise.

For example, Mary is planning to start a home-based business. The amount of money she has on hand is not enough to get the business started, so Mary will apply for a loan from the Happy Valley Bank. She wrote this resume:

"I am planning to open a special craft service center in my own home. I have \$5,000 to invest in this business. A relative has offered to lend me \$2,500. Initially I will have \$7,500 to invest in my business. However, I estimate I will need a total of \$12,500 to initiate the operation of my business. I will, therefore, need to borrow an additional \$5,000.

I have taught a fourth grade class in the local elementary school since graduating from college eight years ago.

I have excellent craft skills which I acquired through home economics courses, and have perfected through constant practice during my spare time. Creating and designing unique craft items is my specialty.

I have demonstrated good business ability through being the school manager of fund raising projects for the past five years."

Business Description

Every new business begins with an idea. Your next step in getting your loan is to put your ideas into writing by preparing a written description of your business. Your business description should tell:

the name of your business

the scope and purpose of your business

the services and products to be provided by your business

the specialties to be offered by your business, how it will be unique

your plans for the growth of your business.

The following is a description Mary wrote about her home-based business.

The name of the craft service center will be the "Maple Leaf." The store will be open 9:00 a.m. to 8:00 p.m., six days a week. It will sell products, unfinished-products, and various materials for making crafts. It will also provide special services for customers. The Maple Leaf will be located in my home at 123 North Maple Drive. I plan to remodel my home to accommodate this business. I estimate that this will cost \$3,000.

I will have an employee working in the craft center as a clerk. I will teach craft skills to customers in addition to providing clerk service.

If I can get this loan from your bank I plan to open the Maple Leaf by September 1.

Financial Information About Your Business

To get a business loan, you will need to give the lender at least two kinds of financial information about your business. First, you need to show how much you expect to earn and spend during the first year. This information gives the bank an idea of whether your business will succeed. It lets the bank know if your business will bring in enough revenue for you to earn a profit and to pay off your loan. Second, you need to fill out a form (statement of financial need) telling the bank how much money you need to borrow.

Mary predicts the profit for her business during the first year:

Sample Profit/Loss Statement

Profit/Loss Statement		
Sept. 1, 1985 - Aug. 31, 1986		
<u>Revenues</u>	\$	%
Products sold	\$23,500.00	
Materials sold	\$23,500.00	
Services to customers	<u>\$ 8,000.00</u>	
Total	\$55,000.00	100%
<u>Expenses</u>		
Salary for an employee	\$ 9,000.00	
Utilities	\$ 1,200.00	
Supplies	\$20,000.00	
Advertising	\$ 1,200.00	
Others	<u>\$ 2,000.00</u>	
Total	\$33,400.00	61%
Net Profit		
(including my salary and income taxes)	\$21,600.00	39%

Evaluation of Needs

A new business will usually accumulate some expenses before it can begin providing services or collecting money. At first a business will spend more than it makes. It will need money to support the start-up operation. That is why most businesspersons apply for a business loan to help them get started. As the business gets established it should collect more money than it spends. The owner can use the profit to pay back money that was borrowed. Interest on loans is a major business expense and needs careful consideration by the entrepreneur.

Statement of Financial Need

On this form you will need to show the total cash on hand that you have, the total expenses you estimate that you will need for the first few months of operating your home-based business, and finally, figure how much you will need to borrow from the bank.

Your total cash on hand includes your savings and any loans from relatives or friends. Your total expenses include start-up expenses (money needed right at the beginning to open your business) and operating expenses (money needed after start-up to run your business every month). By subtracting the total money on hand from the total estimated expenses, you can calculate the total loan money needed. The formula for the computation is:

$$\boxed{\text{Total expenses} - \text{total money on hand} = \text{total loan money needed}}$$

Sample Financial Need Statement

Financial Need Statement		
Expenses (for first three months)	Money On Hand	
<u>Start-up Expenses</u>	Owner's Cash On Hand	
Repairs and Renovations	\$3,000	\$5,000
Equipment and Furniture	\$2,000	
Supplies and Inventory	\$2,000	Loan from Relative
Advertising	\$ 150	
Others	\$ 350	\$2,500
Total start-up expenses	\$7,500	Total Money On Hand
		\$_____
<u>Operating Expenses</u>		
Salary for an employee ($\$720 \times 3$)	\$2,160	
Utilities ($\$40 \times 3$)	\$ 120	Total Expenses
Supplies and Inventory ($\$1,000 \times 3$)	\$3,000	\$_____
Advertising ($\$70 \times 3$)	\$ 210	Total Money On Hand
Others ($\$100 \times 3$)	\$ 300	\$_____
Total operating expenses	\$5,790	Total Money Needed
Total Expenses \$_____		\$_____
(for first three months)		

Calculate the total loan money she will need.

Examples of Applications

Happy Valley Bank Application for Business Loan

Date: _____

Borrower _____

Address _____

Loan Requested \$ _____ Debt to Bank will be \$ _____

Unsecured () Secured ()

Collateral _____

Value of Collateral will be \$ _____

Guaranteed By _____

Demand () Time No. Days _____ Rate of Interest _____

Payment Program _____

Purpose of Loan _____

Deposit Relationship _____

Authorization

For the purpose of procuring credit from Happy Valley Bank, the undersigned hereby confirms that I/we have read and understand the foregoing; that it is true, accurate, and complete to the best of my/our knowledge and belief. I/we authorize Happy Valley Bank to make whatever credit inquiries it deems necessary in connection with this credit application or in the course of review collection of any credit extended in reliance on this application. I authorize and instruct any person or consumer reporting agency to compile and furnish Happy Valley Bank any information it may have or obtain in response to such credit inquiries.

Applicant's Signature _____

Applicant's Signature _____

FOR BANK USE ONLY

Approved By _____ Date _____

Sr. Loan Committee _____ Regional Board _____ Joint Board _____

Notified of action taken _____ / _____ / _____ Oral _____ Written _____

Remarks _____

Suggested Activities

1. Complete a resume of your own personal background information and a description of your home-based business to get a business loan to start your business.
2. Using this statement of financial need form as a guide, (a) estimate the start-up expenses and the operating expenses for starting your home-based business; (b) figure out how much money on hand you have; and (c) calculate how much loan money you need.

Financial Need Statement	
Expenses (for first three months)	Money On Hand
<u>Start-up Expenses</u>	
Repairs and Renovations	Owner's Cash On Hand
\$ _____	\$ _____
Equipment and Furniture	Loan from Relative
\$ _____	\$ _____
Supplies and Inventory	
\$ _____	
Advertising	
\$ _____	
Others	
\$ _____	
Total start-up expenses \$ _____	Total Money On Hand \$ _____
<u>Operating Expenses</u>	
Salary for an employee	Total Expenses
\$ _____	\$ _____
Utilities	Total Money On Hand
\$ _____	\$ _____
Supplies and Inventory	
\$ _____	
Advertising	
\$ _____	
Others	
\$ _____	
Total operating expenses \$ _____	Total Money Needed \$ _____
Total Expenses \$ _____ (for first three months)	\$ _____

3. Make a list for yourself of all the possible sources of money that you may have. Enumerate all the possible advantages and disadvantages to yourself in using each source.

Money Source	Advantages	Disadvantages
1.		
2.		
3.		
4.		

4. a) Begin shopping for loans.
 b) Compare interest rates.
 c) Compare obligations and risks associated with borrowing from each institution.

Other loan applications and information are available from banks, credit unions and the Small Business Administration, 701 C Street, P.O. Box 67, Anchorage, Alaska 99513, Phone: 907-271-4022.

from Home Entrepreneurship: Instructional Materials in the Operation of a Small Business from the Home, Susan F. Weis and Kay S. O'Brien, Pennsylvania Department of Education, Bureau of Vocational Education, Harrisburg, PA, June, 1983.

ABC's of Borrowing

U.S. Small Business Administration
Number 1.001

Summary

Some small businesspersons cannot understand why a lending institution refused to lend them money. Others have no trouble getting funds, but they are surprised to find strings attached to their loans. Such owner-managers fail to realize that banks and other lenders have to operate by certain principles just as do other types of business.

This Aid discusses the following fundamentals of borrowing: (1) credit worthiness, (2) kinds of loans, (3) amount of money needed, (4) collateral, (5) loan restrictions and limitations, (6) the loan application, and (7) standards which the lender uses to evaluate the application.

Introduction

Inexperience with borrowing procedures often creates resentment and bitterness. The stories of three small businesspersons illustrate this point.

"I'll never trade here again," Bill Smith* said when his bank refused to grant him a loan. "I'd like to let you have it, Bill," the banker said, "but your firm isn't earning enough to meet your current obligations." Mr Smith was unaware of a vital financial fact, namely, that lending institutions have to be certain that the borrower's business can repay the loan.

Tom Jones lost his temper when the bank refused him a loan because he did not know what kind or how much money he needed. "We hesitate to lend," the banker said, "to business owners with such vague ideas of what and how much they need."

John Williams' case was somewhat different. He didn't explode until after he got the loan. When the papers were ready to sign, he realized that the loan agreement put certain limitations on his business activities. "You can't dictate to me," he said and walked out of the bank. What he didn't realize was that the limitations were for his good as well as for the bank's protection.

Knowledge of the financial facts of business life could have saved all three the embarrassment of losing their tempers. Even more important, such information would have helped them to borrow money at a time when their businesses needed it badly.

*All names in Aids are fictitious

This Aid is designed to give the highlights of what is involved in sound business borrowing. It should be helpful to those who have little or no experience with borrowing. More experienced owner-managers should find it useful in re-evaluating their borrowing operations.

Is Your Firm Credit Worthy?

The ability to obtain money when you need it is as necessary to the operation of your business as is a good location or the right equipment, reliable sources of supplies and materials, or an adequate labor force. Before a bank or any other lending agency will lend you money, the loan officer must feel satisfied with the answers to the five following questions:

1. What sort of person are you, the prospective borrower? By all odds, the character of the borrower comes first. Next is your ability to manage your business.
2. What are you going to do with the money? The answer to this question will determine the type of loan, short or long-term. Money to be used for the purchase of seasonal inventory will require quicker repayment than money used to buy fixed assets.
3. When and how do you plan to pay it back? Your banker's judgment of your business ability and the type of loan will be a deciding factor in the answer to this question.
4. Is the cushion in the loan large enough? In other words, does the amount requested make suitable allowance for unexpected developments? The banker decides this question on the basis of your financial statement which sets forth the condition of your business and on the collateral pledged.
5. What is the outlook for business in general and for your business particularly?

Adequate Financial Data Is a "Must."

The banker wants to make loans to businesses which are solvent, profitable, and growing. The two basic financial statements used to determine those conditions are the balance sheet and profit-and-loss statement. The former is the major yardstick for solvency and the latter for profits. A continuous series of these two statements over a period of time is the principal device for measuring financial stability and growth potential.

In interviewing loan applicants and in studying their records, the banker is especially interested in the following facts and figures.

General Information: Are the books and records up-to-date and in good condition? What is the condition of accounts payable? Of notes payable? What are the salaries of the owner-manager and other company officers? Are all taxes being paid currently? What is the order backlog? What is the number of employees? What is the insurance coverage?

Accounts Receivable: Are there indications that some of the accounts receivable have already been pledged to another creditor? What is the accounts receivable turnover? Is the accounts receivable total weakened because many customers are far behind in their payments? Has a large enough reserve been set up to cover doubtful accounts? How much do the largest accounts owe and what percentage of your total accounts does this amount represent?

Inventories: Is merchandise in good shape or will it have to be marked down? How much raw material is on hand? How much work is in process? How much of the inventory is finished goods?

Is there any obsolete inventory? Has an excessive amount of inventory been consigned to customers? Is inventory turnover in line with the turnover for other businesses in the same industry? Or is money being tied up too long in inventory?

Fixed Assets: What is the type, age, and condition of the equipment? What are the depreciation policies? What are the details of mortgages or conditional sales contracts? What are the future acquisition plans?

What Kind of Money?

When you set out to borrow money for your firm, it is important to know the kind of money you need from a bank or other lending institution. There are three kinds of money: short term, term money, and equity capital.

Keep in mind that the purpose for which the funds are to be used is an important factor in deciding the kind of money needed. But even so, deciding what kind of money to use is not always easy. It is sometimes complicated by the fact that you may be using some of the various kinds of money at the same time and for identical purposes.

Keep in mind that a very important distinction between the types of money is the source of repayment. Generally, short-term loans are repaid from the liquidation of current assets which they have financed. Long-term loans are usually repaid from earnings.

Short-Term Bank Loans

You can use short-term bank loans for purposes such as financing accounts receivable for, say 30 to 60 days. Or you can use them for purposes that take longer to pay off—such as for building a seasonal inventory over a period of 5 to 6 months. Usually, lenders expect short-term loans to be repaid after their purposes have been served: for example, accounts receivable loans, when the outstanding accounts have been paid by the borrower's customers, and inventory loans, when the inventory has been converted into saleable merchandise.

Banks grant such money either on your general credit reputation with an unsecured loan or on a secured loan.

The unsecured loan is the most frequently used form of bank credit for short-term purposes. You do not have to put up collateral because the bank relies on your credit reputation.

The secured loan involves a pledge of some or all of your assets. The bank requires security as a protection for its depositors against the risks that are involved even in business situations where the chances of success are good.

Term Borrowing

Term borrowing provides money you plan to pay back over a fairly long time. Some people break it down into two forms: (1) intermediate—loans longer than 1 year but less than 5 years, and (2) long-term—loans for more than 5 years.

However, for your purpose of matching the kind of money to the needs of your company, think of term borrowing as a kind of money which you probably will pay back in periodic installments from earnings.

Equity Capital

Some people confuse term borrowing and equity (or investment) capital. Yet there is a big difference. You don't have to repay equity money. It is money you get by selling a part interest in your business.

You take people into your company who are willing to risk their money in it. They are interested in potential income rather than in an immediate return on their investment.

How Much Money?

The amount of money you need to borrow depends on the purpose for which you need funds. Figuring the amount of money required for business construction,

conversion, or expansion—term loans or equity capital—is relatively easy. Equipment manufacturers, architects, and builders will readily supply you with cost estimates. On the other hand, the amount of working capital you need depends upon the type of business you're in. While rule-of-thumb ratios may be helpful as a starting point, a detailed projection of sources and uses of funds over some future period of time—usually for 12 months—is a better approach. In this way, the characteristics of the particular situation can be taken into account. Such a projection is developed through the combination of a predicted budget and a cash forecast.

The budget is based on recent operating experience plus your best judgment of performance during the coming period. The cash forecast is your estimates of cash receipts and disbursements during the budget period. Thus, the budget and the cash forecast together represent your plan for meeting your working capital requirements.

To plan your working capital requirements, it is important to know the "cash flow" which your business will generate. This involves simply a consideration of all elements of cash receipts and disbursements at the time they occur. These elements are listed in the profit-and-loss statement which has been adapted to show cash flow. They should be projected for each month.

What Kind of Collateral?

Sometimes, your signature is the only security the bank needs when making a loan. At other times, the bank requires additional assurance that the money will be repaid. The kind and amount of security depends on the bank and on the borrower's situation.

If the loan required cannot be justified by the borrower's financial statements alone, a pledge of security may bridge the gap. The types of security are: endorsers; comakers and guarantors; assignment of leases; trust receipts and floor planning; chattel mortgages; real estate; accounts receivables; savings accounts; life insurance policies; and stocks and bonds. In a substantial number of States where the Uniform Commercial Code has been enacted, paperwork for recording loan transactions will be greatly simplified.

Endorsers, Co-makers, and Guarantors

Borrowers often get other people to sign a note in order to bolster their own credit. These **endorsers** are contingently liable for the note they sign. If the borrower fails to pay up, the bank expects the endorser to make the note good. Sometimes, the endorser may be asked to pledge assets or securities too.

A **co-maker** is one who creates an obligation jointly with the borrower. In such cases, the bank can collect directly from either the maker or the co-maker.

A **guarantor** is one who guarantees the payment of a note by signing a guaranty commitment. Both private and government lenders often require guarantees from officers of corporations in order to assure continuity of effective management. Sometimes, a manufacturer will act as guarantor for customers.

Assignment of Leases

The assigned lease as security is similar to the guarantee. It is used, for example, in some franchise situations.

The bank lends the money on a building and takes a mortgage. Then the lease, which the dealer and the parent franchise company work out, is assigned so that the bank automatically receives the rent payments. In this manner, the bank is guaranteed repayment of the loan.

Warehouse Receipts

Banks also take commodities as security by lending money on a warehouse receipt. Such a receipt is usually delivered directly to the bank and shows that the merchandise used as security either has been placed in a public warehouse or has been left on your premises under the control of one of your employees who is bonded (as in field warehousing). Such loans are generally made on staple or standard merchandise which can be readily marketed. The typical warehouse receipt loan is for a percentage of the estimated value of the goods used as security.

Trust Receipts and Floor Planning

Merchandise, such as automobiles, appliances, and boats, has to be displayed to be sold. The only way many small marketers can afford such displays is by borrowing money. Such loans are often secured by a note and a trust receipt.

This trust receipt is the legal paper for floor planning. It is used for serial-numbered merchandise. When you sign one, you (1) acknowledge receipt of the merchandise, (2) agree to keep the merchandise in trust for the bank, and (3) promise to pay the bank as you sell the goods.

Chattel Mortgages

If you buy equipment such as a cash register or a delivery truck, you may want to get a chattel mortgage loan. You give the bank a lien on the equipment you are buying.

The bank also evaluates the present and future market value of the equipment being used to secure the loan. How rapidly will it depreciate? Does the borrower have the necessary fire, theft, property damage, and public liability insurance on the equipment? The banker has to be sure that the borrower protects the equipment.

Real Estate

Real estate is another form of collateral for long-term loans. When taking a real estate mortgage, the bank finds out: (1) the location of the real estate, (2) its physical condition, (3) its foreclosure value, and (4) the amount of insurance carried on the property.

Accounts Receivable

Many banks lend money on accounts receivable. In effect, you are counting on your customers to pay your note.

The bank may take accounts receivable on a notification or a nonnotification plan. Under the notification plan, the purchaser of the goods is informed by the bank that his or her account has been assigned to it and he or she is asked to pay the bank. Under the nonnotification plan, the borrower's customers continue to pay you the sums due on their accounts and you pay the bank.

Savings Accounts

Sometimes, you might get a loan by assigning to the bank a savings account. In such cases, the bank gets an assignment from you and keeps your passbook. If you assign an account in another bank as collateral, the lending bank asks the other bank to mark its records to show that the account is held as collateral.

Life Insurance

Another kind of collateral is life insurance. Banks will lend up to the cash value of a life insurance policy. You have to assign the policy to the bank.

If the policy is on the life of an executive of a small corporation, corporate resolutions must be made authorizing the assignment. Most insurance companies allow you to sign the policy back to the original beneficiary when the assignment to the bank ends.

Some people like to use life insurance as collateral rather than borrow directly from insurance companies. One reason is that a bank loan is often more convenient to obtain and usually may be obtained at a lower interest rate.

Stocks and Bonds

If you use stocks and bonds as collateral, they must be marketable. As a protection against market declines and possible expenses of liquidation, banks usually lend no

more than 75 percent of the market value of high grade stock. On Federal Government or municipal bonds, they may be willing to lend 90 percent or more of their market value.

The bank may ask the borrower for additional security or payment whenever the market value of the stocks or bonds drops below the bank's required margin.

What Are the Lender's Rules?

Lending institutions are not just interested in loan repayments. They are also interested in borrowers with healthy profit-making businesses. Therefore, whether or not collateral is required for a loan, they set loan limitations and restrictions to protect themselves against unnecessary risk and at the same time against poor management practices by their borrowers. Often some owner-managers consider loan limitations a burden.

Yet others feel that such limitations also offer an opportunity for improving their management techniques.

Especially in making long-term loans, the borrower as well as the lender should be thinking of: (1) the net earning power of the borrowing company, (2) the capability of its management, (3) the long range prospects of the company, and (4) the long range prospects of the industry of which the company is a part. Such factors often mean that limitations increase as the duration of the loan increases.

What Kinds of Limitations?

The kinds of limitations, which an owner-manager finds set upon the company depends, to a great extent, on the company. If the company is a good risk, only minimum limitations need be set. A poor risk, of course, is different. Its limitations should be greater than those of a stronger company.

Look now for a few moments at the kinds of limitations and restrictions which the lender may set. Knowing what they are can help you see how they affect your operations.

The limitations which you will usually run into when you borrow money are:

- (1) Repayment terms.
- (2) Pledging or the use of security.
- (3) Periodic reporting.

A loan agreement, as you may already know, is a tailor-made document covering, or referring to, all the terms and conditions of the loan. With it, the lender does two things: (1) protects position as a creditor (keeps that position in as protected a state as it was on the date the loan was made) and (2) assures repayment according to the terms.

The lender reasons that the borrower's business should generate enough funds to repay the loan while taking care of other needs. The lender considers that cash inflow should be great enough to do this without hurting the working capital of the borrower.

Covenants—Negative and Positive

The actual restrictions in a loan agreement come under a section known as covenants. Negative covenants are things which the borrower may not do without prior approval from the lender. Some examples are: further additions to the borrower's total debt, nonpledge to others of the borrower's assets, and issuance of dividends in excess of the terms of the loan agreement.

On the other hand, positive covenants spell out things which the borrower must do. Some examples are: (1) maintenance of a minimum net working capital, (2) carrying of adequate insurance, (3) repaying the loan according to the terms of the agreement, and (4) supplying the lender with financial statements and reports.

Overall, however, loan agreements may be amended from time to time and exceptions made. Certain provisions may be waived from one year to the next with the consent of the lender.

You Can Negotiate

Next time you go to borrow money, thrash out the lending terms before you sign. It is good practice no matter how badly you may need the money. Ask to see the papers in advance of the loan closing. Legitimate lenders are glad to cooperate.

Chances are that the lender may "give" some on the terms. Keep in mind also that, while you're mulling over the terms, you may want to get the advice of your associates and outside advisors. In short, try to get terms which you know your company can live with. Remember, however, that once the terms have been agreed upon and the loan is made (or authorized as in the case of SBA), you are bound by them.

The Loan Application

Now you have read about the various aspects of the lending process and are ready to apply for a loan. Banks

and other private lending institutions, as well as the Small Business Administration, require a loan application on which you list certain information about your business.

For the purposes of explaining a loan application, this Aid uses the Small Business Administration's application for a loan (SBA Form 4 not included). The SBA form is more detailed than most bank forms. The bank has the advantage of prior knowledge of the applicant and his or her activities. Since SBA does not have such knowledge, its form is more detailed. Moreover, the longer maturities of SBA loans ordinarily will necessitate more knowledge about the applicant.

Before you get to the point of filling out a loan application, you should have talked with an SBA representative, or perhaps your accountant or banker, to make sure that your business is eligible for an SBA loan. Because of public policy, SBA cannot make certain types of loans. Nor can it make loans under certain conditions. For example, if you can get a loan on reasonable terms from a bank, SBA cannot lend you money. The owner-manager is also not eligible for an SBA loan if he or she can get funds by selling assets which his or her company does not need in order to grow.

When the SBA representative gives you a loan application, you will notice that most of its sections ("Application for Loan"—SBA Form 4) are self-explanatory. However, some applicants have trouble with certain sections because they do not know where to go to get the necessary information.

Section 3—"Collateral Offered" is an example. A company's books should show the net value of assets such as business real estate and business machinery and equipment. "Net" means what you paid for such assets less depreciation.

If an owner-manager's records do not contain detailed information on business collateral, such as real estate and machinery and equipment, the bank sometimes can get it from your Federal income tax returns. Reviewing the depreciation which you have taken for tax purposes on such collateral can be helpful in arriving at the value of these assets.

If you are a good manager, you should have your books balanced monthly. However, some businesses prepare balance sheets less regularly. In filling out your "Balance Sheet as of _____, 19____, Fiscal Year Ends _____" remember that you must show the condition of your business within 60 days of the date on your loan application. It is best to get expert advice when working

up such vital information. Your accountant or banker will be able to help you.

Cash Budget

(For three months, ending March 31, 19 ____)

	January		February		March	
	Budget	Actual	Budget	Actual	Budget	Actual
Expected Cash Receipts:						
1. Cash sales						
2. Collections on accounts receivable						
3. Other income						
4. Total cash receipts						
Expected Cash Payments						
5. Raw materials						
6. Payroll						
7. Other factory expenses (including maintenance)						
8. Advertising						
9. Selling expense						
10. Administrative expense (including salary of owner-manager)						
11. New plant and equipment						
12. Other payments (taxes, including estimated income tax; repayment of loans; interest; etc.)						
13. Total cash payments						
14. Expected Cash Balance at beginning of the month						
15. Cash increase or decrease (Item 4 minus item 13)						
16. Expected cash balance at end of month (item 14 plus item 15)						
17. Desired working cash balance						
18. Short-term loans needed (item 17 minus item 16, if item 17 is larger)						
19. Cash available for dividends, capital cash expenditures, and/or short investments (item 16 minus item 17, if item 16 is larger than item 17)						
Capital Cash:						
20. Cash available (item 19 after deducting dividends, etc.)						
21. Desired capital cash (item 11, new plant equipment)						
22. Long-term loans needed (item 21 less item 20, if item 20 is larger than item 20)						

Again, if your records do not show the details necessary working up profit and loss statements, your Federal income tax returns may be useful in getting together facts for the SBA loan application.

Insurance

SBA also needs information about the kinds of insurance a company carries. The owner-manager gives these facts by listing various insurance policies.

Personal Finances

SBA also must know something about the personal financial condition of the applicant. Among the types of information are: personal cash position; source of income including salary and personal investments; stocks, bonds, real estate, and other property owned in the applicant's own name; personal debts including installment credit payments, life insurance premiums, and so forth.

Evaluating the Application

Once you have supplied the necessary information, the next step in the borrowing process is the evaluation of

your application. Whether the processing officer is in a bank or in SBA, the officer considers the same kinds of things when determining whether to grant or refuse the loan. The SBA loan processor looks for:

- (1) The borrower's debt paying record to suppliers, banks, home mortgage holders, and other creditors.
- (2) The ratio of the borrower's debt to net worth.
- (3) The past earnings of the company.
- (4) The value and condition of the collateral which the borrower offers for security.

The SBA loan processor also looks for: (1) the borrower's management ability, (2) the borrower's character, and (3) the future prospects of the borrower's business.

Open a Checking Account

The Business Checking Account

You need a business checking account to pay the expenses of your business. It is important to have a good system for paying your bills and recording your expenses. Besides the business checkbook, you may want to keep a file of your unpaid business bills and use the daily cash sheet for keeping financial records.

It is important for every home-based business owner to open a business checking account. There are three steps involved in using a checking account.

First: Deposit revenue from the business into the account.

Second: Write checks to pay business expenses.

Third: Check the monthly bank statement to make sure your record of deposits and payments agrees with the bank's record; adjust any inconsistencies with the bank if there is any discrepancy.

Every time you write a business check, fill out the checking account record which is used to record deposits and payments. On the check write the date, the name of the person or group receiving payment after the words, "pay to the order of", and the amount of the payment in both numbers and words. You may want to make a notation in the space allowed for a memo. Most important, you must put your signature on the check. The following is an example of a correctly written check.

Little Stars Company 235 South Sky Road Our Town, State 00101	124 ^R <u>Sept 16</u> 19 <u>86</u>
PAY TO THE ORDER OF <u>Bob Smith</u>	<u>\$ 5⁰⁰</u>
<u>Five and ^{no}/₁₀₀</u>	Dollars
Happy Valley Bank Our Town, State 00101	
MEMO <u>bicycle repairs</u>	<u>Kay Jones</u>

from Home Entrepreneurship: Instructional Materials in the Operation of a Small Business from the Home, Susan F. Weis and Kay S. O'Brien, Pennsylvania Department of Education, Bureau of Vocational Education, Harrisburg, PA, June, 1983.

Sample Application for a Checking Account

Individual, Joint ACCT #	AMOUNT	Checking <input type="checkbox"/>	Savings <input type="checkbox"/>	DATE
PRIMARY NAME (LIMIT 38 CHARACTERS)		TRUST CODE		
SECONDARY NAME (LIMIT 38 CHARACTERS)		S.S. OR TAX #		
THIRD NAME OR SUB-TITLE (LIMIT 38 CHARACTERS)		DATE OF BIRTH		
STREET-ROUTE (LIMIT 38 CHARACTERS)		ZERO BAL CODE		
CITY-STATE (LIMIT 25 CHARACTERS) ZIP CODE		CYCLE CODE		
Short name		ACCT TYPE <input type="radio"/> S/C CODE <input type="radio"/>		
Signature		HOLD ST'MT		
Signature		HOLD AMOUNT		
Signature		DATE LAST ACTIVE		
		ACCRUED INTEREST		

ANB OP 549 2-77

Another Example

Account Number _____ (To be filled in by treasury)

I hereby make application for membership in and agree to conform to the By-Laws or any amendments thereof in the _____ CREDIT UNION

Membership Eligibility _____ Sec. No. or Tax Ident. No. _____

APPLICANT SIGN HERE (Do not print) _____

Complete Address: _____

Date of Birth _____ Husband's first name or wife's maiden name _____ Dept. _____

Employer _____ Occupational _____ Home Phone _____

This application approved by the: (Check one)
 Board Exec. Committee Membership Officer Sec. Phone _____

Date: _____ Signed: _____ (Person representing approval of application)

← Side One

Side Two →

JOINT SHARE ACCOUNT AGREEMENT NOT TRANSFERABLE

The Credit Union is hereby authorized to recognize any of the signatures subscribed hereto in the payment of funds or the transaction of any business for this account. The joint owners of this account, hereby agree with each other and with said Credit Union that all sums now paid in on shares, or hereafter or hereafter paid in on shares by any or all of said joint owners to their credit as such joint owners with all accumulations thereon, are and shall be owned by them jointly, with right of survivorship and be subject to the withdrawal or receipt of any of them, and payment to any of them or the survivor or survivors shall be valid and discharge said Credit Union from any liability for such payment.

Any or all of said joint owners may pledge all or any part of the shares in this account as collateral security to a loan or loans.

The right or authority of the credit union under this agreement shall not be changed or terminated by said owners, or any of them except by written notice to said credit union which shall not affect transactions heretofore made.

Joint Account No. Date 19.....
 Sec. No. Joint Owners* Date of Birth

*Each joint owner should sign

Form FCU 150-125 Rev. 9/60 - 11114

Goal 6.0 To understand recordkeeping

Competencies:

- 6.1 Keep effective business records**
- 6.2 Keep records for tax purposes**
- 6.3 Collect local sales taxes**
- 6.4 Pay social security taxes**
- 6.5 Compute 1040 and Schedule C**

Keep Effective Records

Keeping good records helps you successfully manage your business. Even though it may seem like a lot of work, you must keep records of your business expenses and income on a daily, weekly, monthly, quarterly and yearly basis.

Information provided by good records includes:

An accurate, current assessment

- of sales
- of operating costs
- of fixed costs
- of variable costs
- of inventory levels
- of credit totals

Data to assess growth

- compared to previous year(s)
- compared to goals

A basis for comparing the performance of your business with the performance of similar businesses

Data for financial statements for investors and creditors

Information to prepare and substantiate

- tax returns
- government reports

Control method

- for stock levels
- for inventory

from Home Entrepreneurship: Instructional Materials in the Operation of a Small Business from the Home, Susan F. Weis and Kay S. O'Brien, Pennsylvania Department of Education, Bureau of Vocational Education, Harrisburg, PA, June, 1983.

Plan For The Future

Information on future business needs can be obtained from:

Directory of Business, Trade and Public Organization
Office of Advocacy
Washington, DC
(202) 653-6533

Secure Information to Keep Current

Secure trade publications that are related to a particular area. Information and addresses can be obtained from related magazines and trade journals. Contact local wholesale companies and businesses.

Write Sales Receipts

Sales receipts are available from local business supply stores, New England Business Supply and Drawing Board, Dallas, TX.

Complete Purchase Orders

The Purchase Order

The purchase order is used to order goods from suppliers. The order form must supply some necessary information:

name and address of the supplier
name and address of the purchaser's business
purchase order number and date
required delivery date
delivery method
quality, quantity and description of units or items
cost of each unit
subtotal cost of each category of units
freight
total cost of entire order

from Home Entrepreneurship: Instructional Materials in the Operation of a Small Business from the Home, Susan F. Weis and Kay S. O'Brien, Pennsylvania Department of Education, Bureau of Vocational Education, Harrisburg, PA, June, 1983.

Sample of Purchase Order Form

PURCHASE ORDER				
From: <u>Ms. Mary Perdon</u>		Date: <u>Feb. 1, 1986</u>		
<u>Little Stars Co.</u>		Purchase Order No.: <u>125</u>		
Ship To: <u>Georgiana Mann</u>		Required Delivery Date: <u>Feb 15, 1986</u>		
<u>253 S. Sky Road</u>		Ship Via: <u>V.S. Parcel</u>		
Quantity	Unit	Description	Unit Cost	Total Cost
200	dozen	dried flowers	1.20	240.00
100	dozen	potpourri	.90	90.00
Signature: <u>Georgiana Mann</u>			Subtotal Tax (6%) Total	<u>330.00</u> <u>19.80</u> <u>349.80</u>

This Small Business Bibliography, No. 15 *Recordkeeping Systems—Small Store and Service Trade*, is a revision and replaces all previous editions. The systems are listed in two sections: "Systems Designed for Use in any Retail or Service Establishments" and "Systems Designed for Use in Specific Retail and Service Trades." Publishers and others may submit to SBA information about new systems in this field and changes in listings presently included, for consideration when this Bibliography is again revised or reprinted. The author of the introductory article, Nathan H. Olshan, CPA, is a partner of Olshan & Olshan, Certified Public Accountants in Washington, D.C. Systems listings for this Bibliography were prepared by staff members of the Support Services Section.

Recordkeeping

This publication contains a list and brief description of recordkeeping systems which can be used by operators of small retail and service trade establishments. It is intended primarily for proprietors of very small businesses who are interested in obtaining a set of records which can be maintained by persons with little or no experience or training in bookkeeping or accounting. The systems listed can be kept by the small business owner or by an employee with ordinary clerical ability. It would be advisable, however, to thoroughly understand the system before undertaking to maintain it. This can be accomplished by having an accountant review and teach the system to the one who will maintain it.

The Importance of Recordkeeping

For the individual just going into business, experience clearly indicates that an adequate recordkeeping system helps increase the chances of survival and reduces the probability of early failure. Similarly, for the established business owner, it has been clearly demonstrated that a good recordkeeping system increases the chances of staying in business and of earning large profits.

How do accounting records decrease the chances of failure and increase the likelihood of staying in business and of earning larger profits?

This can best be answered by listing some of the information a simple but adequate system of records can furnish:

How much business (cash and credit) am I doing? How much is tied up in receivables?

~~How are my collections? What are my losses from credit sales? Who owes me money? Who is delinquent? Should I continue to extend credit to delinquent accounts? How~~

soon can I anticipate realizing a return on my accounts receivable?

How much cash do I have on hand and in the bank? Does this amount agree with what records tell me I should have, or is there a shortage? How much is my investment in merchandise? How often do I turn over my inventory? Have I allowed my inventory to become obsolete?

How much merchandise did I take out of my store for personal or family use which affects my gross profit calculations?

How much do I owe my suppliers and other creditors? Have I received all of my outstanding credits for returned merchandise?

How much gross profit (margin) did I earn?

What were my expenses, including those not requiring cash outlays?

What is my weekly payroll? Do I have adequate payroll records to meet the requirements of Workers Compensation, Wage Hour Laws, Social Security, Unemployment Insurance and Withholding taxes?

How much net profit did I earn (and how much resultant income taxes will I owe)?

What is my capital; that is, of my total assets, how much would be left for me after paying my creditors in full?

Are my sales, expenses, profits, and capital showing improvement or did I do better last year than this? How do I stand as compared with two periods ago? Is my position about the same, improving, or deteriorating?

On what lines of goods or in what departments am I making a profit, breaking even, or losing money?

Am I taking full advantage of cash discounts for prompt payments? How do my discounts taken compare with my discounts lost?

How do the financial facts of my business compare with those of similar businesses?

Recordkeeping and Sound Management

~~When the business owner can answer these and similar questions it is known whether something is wrong, and, if so, what has caused unfavorable conditions. By knowing~~

that sales declines or sales of unprofitable items, slow collections, overinvestment in inventory, or that rising expenses are trouble areas, corrective action can be taken that will do the most good. By spotting these trouble areas promptly, correction can be attempted before serious or permanent damage is done.

It is practically impossible to negotiate for a business loan from a bank without properly prepared financial statements. It may even be difficult to secure credit in any form without statements. Bankers and other credit grantors need to study the business owner's balance sheet and income statement in order to decide whether credit should be extended. Sometimes audited financial statements are required; the recordkeeping system must provide the basis for these statements.

Government Requirements

Probably equally as important as the management and credit importance of financial statements, is the requirement by Federal and local Government agencies for adequate records. The responsibility for maintaining records and proving their accuracy falls on the taxpayer. Federal and local income taxes, payroll taxes, sales taxes, personal property taxes, and an increasing number of other laws and regulations require certain reports which are easier to prepare and substantiate if the figures are organized by a good recordkeeping system.

Records backing up Government requirements must be available during the audit period. Record retention will depend upon the Statute of Limitations set forth by local and Federal law. It is important to consult an attorney as to the requirements of governing statutes. Because of the cumulative volume of required records, storage and retrieval can become burdensome. Many business owners are microfilming their old records, and microfilming service centers are being called on to solve this problem.

Types of Recordkeeping Systems

A number of "one-book" recordkeeping systems are available. Some are prepared with instructions and forms designed for specific kinds of business; while others are for small business use in general. In addition to the systems listed below, some trade associations, manufacturers, and wholesalers offer specially designed recordkeeping systems to their dealer customers. These systems, as well as the ones listed in this publication, are prepared to meet the general recordkeeping needs of a large variety of retail and service trade establishments. The owner of a business will often find it desirable to obtain specialized assistance to help adapt such systems to special requirements.

The Role of Public Accountants

The installation of accounting systems and the preparation of tax returns is a service commonly rendered by public

accountants. These professionals are listed under appropriate headings in the yellow pages of any local telephone directory. For complete listings, you may request membership rosters from the American Institute of Certified Public Accountants, 1211 Ave. of the Americas, New York, N.Y. 10036 and National Society of Public Accountants, 1010 North Fairfax Street, Alexandria, VA 22314. Phone (703) 549-6400.

Public accountants also render many accounting services, such as auditing, preparation of reports for Government agencies, tax planning, analysis of financial reports, and a variety of specialized management advisory services.

U.S. Small Business Administration Publications

Many of SBA's management publications discuss the necessity for keeping adequate records and the services available from public accountants. Most of these publications are slanted toward a certain phase of business operation or a specific kind of small business.

Listings of currently available publications may be requested from SBA, P.O. Box 15434, Ft. Worth, TX 76119. Ask for list 115A Free Publications and 115B For-Sale Publications.

Examples of relevant publications include:

Accounting Services for Small Service Firms (MA 1.010)
Keeping Records in Small Business (MA 1.017)
Association Services for Small Business (MA 7.002)
Free. Listed in 115A.

A Handbook of Small Business Finance. Small Business Management Series No. 15. For sale. 115B.

Financial Recordkeeping for Small Stores. Small Business Management Series No. 32. For sale. 115B.

Keep Records For Tax Considerations

Tax Considerations

Using Your Home as a Business Expense

If you use your home as the location for your business, you are allowed to charge a pro-rated amount of the costs for operating and maintaining your home as a legitimate business expense.

To take a deduction for using part of your home in business, that part must be used "exclusively" and "regularly"

As your principal place of business. Factors to consider in deciding if your home is your principal place of business include the total time you regularly spend doing your work there, the degree of your business activity there, and the relative amount of income you get from doing business at home.

As a place where you meet or deal with your patients, clients, and customers in the normal course of your trade or business, even though you may carry on business in another location, or

In connection with your trade or business, if you are using a separate structure that is not attached to your house or residence, such as a garage, barn or studio. This structure does not have to be your principal place of business or the place where you meet clients, customers, or patients.

You must keep records that provide information needed to figure your tax deductions. You should keep all evidence of expenses paid on your home. You must be able to show the part of your home used for the business, that you use it exclusively and/or regularly, and the amount of depreciation and other expenses for keeping up your business.

"Exclusive use" means that you must use a specific part of your home only for the purpose of carrying out your trade or business. If you use part of your home as your business office and also use it for personal purposes, you do not meet the exclusive use test.

"Regular use" means that you use the exclusive business part of your home on a continuing basis. The occasional or incidental business use of a part of your home does not meet the regular use test even if that part of your home is used for no other purpose.

Two exceptions to the exclusive use test are: the use of part of your home for the storage of inventory, and the use of part of your home as a day care facility. However, you must regularly use a part of your home for these purposes.

Storage of Inventory

You may deduct expenses if you meet the following IRS tests:

The inventory must be kept for use in your trade or business.

Your trade or business must be wholesale or retail selling of products.

Your home must be the only fixed location of your trade or business.

The storage space must be used on a regular basis.

The space used must be separately identifiable space suitable for storage.

Day Care

You may deduct expenses if you meet the following IRS tests:

You must be in the trade or business of providing day care for children, for persons 65 or older, or for persons who are physically or mentally unable to care for themselves, and

You must have applied for, been granted, or be exempt from having a license, certification, registration, or approval as a day care center or as a family or group day care home under any applicable state laws.

Figuring Usage of the Home

Some of the expenses of operating your business from your home are figured on the area-usage basis, and others are figured with the time-usage basis.

Area Basis

Divide the area used for business by the total area of your home.

For example, if 120 square feet is the total area of your home that is used for the business, and 1,200 square feet equals the total area of your home, then ten percent of your home is used by the business:

$$\frac{120 \text{ sq. ft.}}{1,200 \text{ sq. ft.}} = 10\%$$

The percentage rate you get after you divide the area of your business by the area of your home is what you use to figure your business expenditure deductions.

Time-Usage Basis

Compare the total time you use the business area to the total time that particular business area of your home can be used for all purposes. This can be computed by either comparing the number of hours the space is used for business purposes in a week (168), or you may compare the hours of business use for the tax year with the number of hours in your tax year (8,760).

For example, you use your basement to care for children on an average of 8 hours a day, 5 days a week. During the other 16 hours, the family can use the basement. During the year, you use your basement as a day care facility for a total of 2,000 hours (251 days x 8 hours). The basement can be used 8,760 hours, (24 hours x 365 days) during the year. Only 22.92 percent (2,000 divided by 8,760) of the expenses of your basement are business expenses. You may deduct 22.92 percent of any direct expenses for the basement. However, only 22.92 percent of the base part of your indirect expenses are business expenses. If the basement is 25 percent of the total area of your home, you may deduct 5.73 percent (22.92% of 25%) of your indirect expenses.

Day care facilities must figure their deductions using the time usage basis.

Business Expense Deductions

There is one overriding rule on home business expenses: your total deduction for business use of your home cannot be more than the gross income you derive from the business use of your home. In other words, you may not have a loss resulting from the business use of your home.

1. Direct Expenses

Expenses directly related to the business use of your home are fully deductible, unless it is used for day care services or for some other less-than-exclusive use.

2. Indirect Expenses

Expenses you have for keeping up and running your entire home, benefiting both the business and personal parts of your home, are indirect expenses. Usually, real estate taxes, mortgage interest, casualty losses, rent, utilities and services, insurance, and repairs are indirect expenses. The business part of these expenses is deductible.

Indirect expense deductions are figured by multiplying indirect expenses by the percentage of your home used for the business.

Example: Utilities = \$8,000 per year,
and you use 10% of your home for business.
 $\$8,000 \times 10\% = \800

Six hundred dollars is the allowable business deduction.

3. Depreciation

Depreciation is another indirect expense but it is handled differently. Capital expenditures and depreciation may be figured in different ways.

Accelerated Cost Recovery System (ACRS)

For any property placed in use after 1980, you must use the ACRS. Using ACRS, tangible property is depreciated using three-year, five-year, ten-year, or fifteen-year recovery periods, depending on the type of property being depreciated. Homes fall into the ten-year or fifteen-year class, and most other business assets used will fall into the three or five-year classes.

The deduction is figured by multiplying your "unadjusted basis" in the property by a specified percentage. (The "unadjusted basis" is basically your initial cost with no adjustment for depreciation.) The percentage varies from year to year during the recovery period. There are also options to take longer recovery periods under an alternate ACRS method. For further details obtain a copy of IRS publication 587, "Business Use of Your Home" by calling 1-800-542-7890.

Straight Line Depreciation

If you purchased your home before 1980, you will normally use straight line depreciation. This is figured by multiplying the lesser of the "adjusted basis" of your home or its fair market value at the time you change it to business use (excluding land value), by the part used for business, then dividing by its useful life.

To figure the "adjusted basis" at the time you change your home to business use, you add your original costs, plus any capital improvements, and subtract any deductions you may have claimed on the home. You must deduct the cost or value of the land, because land is not depreciable.

Example: You bought a home for \$55,000 with land valued at \$10,000. You use 10 percent of your home for business and estimate that the useful life of your home is 30 years. Your business depreciation is \$150 per year.

$$\frac{(55,000 - 10,000) \times 10\%}{30} = \$150$$

NOTE: If you sell your home after taking a business deduction on the depreciation, you must recognize any capital gain or loss on that business portion regardless of whether you buy another home or not.

Tax booklets are available from the IRS toll free Zenith 3700.

from Operating a Home Business in Washington State, Washington State Office of Small Business, 101 General Administration Building, Olympia, WA 98504, May, 1985.

Collect Local Sales Taxes

Contact your local, city or town government concerning any local sales tax and a sales tax number.

Pay Social Security Taxes

Contact the IRS for information booklets. Toll free Zenith 3700.

Complete Personal Income Tax Forms

W-4 and W-2 forms are available from the IRS. Toll free Zenith 3700.

For the year January 1-December 31, 1985, or other tax year beginning . 1985, ending . 19 OMB No. 1545-0074

Use IRS label. Otherwise, please print or type.	Your first name and initial (if joint return, also give spouse's name and initial)	Last name	Your social security number
	John & Mary	Dough	YYY YY YYYY
	Present home address (number and street, including apartment number, or rural route)		Spouse's social security number
2245 Flour Street		ZZZ ZZ ZZZZ	
City, town or post office, state, and ZIP code		Your occupation	Spouse's occupation
Loaf, Alaska 99XXX		Baker-Self Employed	Hot Cookie

Presidential Election Campaign Do you want \$1 to go to this fund? Yes No

If joint return, does your spouse want \$1 to go to this fund? Yes No

Note: Checking "Yes" will not change your tax or reduce your refund.

Filing Status

1 Single For Privacy Act and Paperwork Reduction Act Notice, see instructions.

2 Married filing joint return (even if only one had income)

3 Married filing separate returns. Enter spouse's social security no. above and full name here.

4 Head of household (with qualifying person). (See page 5 of instructions.) If the qualifying person is your unmarried child but not your dependent, write child's name here.

5 Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 6 of instructions.)

Exemptions

6a Yourself 65 or over Blind

b Spouse 65 or over Blind

c First names of your dependent children who lived with you Enter number of boxes checked on 6a and b ▶ **2**

d First names of your dependent children who did not live with you (see page 6). (If pre-1985 agreement, check here ▶) Enter number of children listed on 6c ▶ **2**

e Other dependents:

(1) Name	(2) Relationship	(3) Number of months lived in your home	(4) Did dependent have income of \$1,040 or more?	(5) Did you provide more than one-half of dependent's support?	Enter number of other dependents ▶

f Total number of exemptions claimed (also complete line 36). Add numbers entered in boxes above ▶

Income

Please attach Copy B of your Forms W-2, W-2G, and W-2P here.

If you do not have a W-2, see page 4 of instructions.

7	Wages, salaries, tips, etc. (Attach Form(s) W-2.)	7	
8	Interest income (also attach Schedule B if over \$400)	8	150 00
9a	Dividends (also attach Schedule B if over \$400)	9a	
9b	Exclusion	9b	
9c	Subtract line 9b from line 9a and enter the result.	9c	
10	Taxable refunds of state and local income taxes, if any, from the worksheet on page 9 of instructions.	10	
11	Alimony received	11	
12	Business income or (loss) (attach Schedule C)	12	50,850 00
13	Capital gain or (loss) (attach Schedule D)	13	
14	40% of capital gain distributions not reported on line 13 (see page 9 of instructions)	14	
15	Other gains or (losses) (attach Form 4797)	15	
16	Fully taxable pensions, IRA distributions, and annuities not reported on line 17 (see page 9)	16	
17a	Other pensions and annuities, including rollovers. Total received	17a	
17b	Taxable amount, if any, from the worksheet on page 10 of instructions	17b	
18	Rents, royalties, partnerships, estates, trusts, etc. (attach Schedule E)	18	
19	Farm income or (loss) (attach Schedule F)	19	
20a	Unemployment compensation (insurance). Total received	20a	
20b	Taxable amount, if any, from the worksheet on page 10 of instructions	20b	
21a	Social security benefits (see page 10). Total received	21a	
21b	Taxable amount, if any, from worksheet on page 11. { Tax-exempt interest }	21b	
22	Other income (list type and amount—see page 11 of instructions) Alaska Permanent Fund Dividend	22	2,000 00
23	Add lines 7 through 22. This is your total income.	23	53,000 00

Adjustments to Income

(See instructions on page 11.)

24	Moving expense (attach Form 3903 or 3903F)	24	
25	Employee business expenses (attach Form 2106)	25	
26	IRA deduction, from the worksheet on page 12	26	2,250 00
27	Keogh retirement plan deduction	27	
28	Penalty on early withdrawal of savings	28	
29	Alimony paid (recipient's last name _____ and social security no. _____)	29	
30	Deduction for a married couple when both work (attach Schedule W)	30	
31	Add lines 24 through 30. These are your total adjustments.	31	2,250 00
32	Adjusted gross income. Subtract line 31 from line 23. This is your adjusted gross income. If this line is less than \$11,000 and a child lived with you, see "Earned Income Credit" (line 59) on page 16 of instructions. If you want IRS to figure your tax, see page 13 of instructions.	32	50,750 00

Tax Computation

(See instructions on page 13.)

Table with 3 columns: Line number, Description, and Amount. Includes lines 33-40 for tax computation.

Credits

(See instructions on page 14.)

Table with 3 columns: Line number, Description, and Amount. Includes lines 41-50 for credits.

Other Taxes

(Including Advance EIC Payments)

Table with 3 columns: Line number, Description, and Amount. Includes lines 51-56 for other taxes.

Payments

Attach Forms W-2, W-2G, and W-2P to front.

Table with 3 columns: Line number, Description, and Amount. Includes lines 57-64 for payments.

Refund or Amount You Owe

Table with 3 columns: Line number, Description, and Amount. Includes lines 65-68 for refund or amount owed.

Please Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete.

Signature lines for taxpayer and spouse with date fields.

Paid Preparer's Use Only

Form for paid preparer including signature, date, and social security number.



**SCHEDULE C
(Form 1040)**

**Profit or (Loss) From Business or Profession
(Sole Proprietorship)**

OMB No. 1545-0074

1985
09

Department of the Treasury
Internal Revenue Service (0)

Partnerships, Joint Ventures, etc., Must File Form 1065.

▶ Attach to Form 1040 or Form 1041. ▶ See instructions for Schedule C (Form 1040).

Name of proprietor: **John Dough** Social security number: **YYY YY YYYY**

A Principal business or profession, including product or service (see instructions): **Bakery -- Bread** B Principal business code from page 2

C Business name and address ▶ **John's Bakery**
2245 Flour Street, Loaf, Alaska 99XXX D Employer ID number: **X | X | X | X | X | X | X | X | X**

E Method(s) used to value closing inventory:
(1) Cost (2) Lower of cost or market (3) Other (attach explanation)

F Accounting method: (1) Cash (2) Accrual (3) Other (specify) ▶

G Was there any change in determining quantities, costs, or valuations between opening and closing inventory?
If "Yes," attach explanation. Yes No

H Did you deduct expenses for an office in your home? Yes No

Part I Income

1 a	Gross receipts or sales	166,900	00
b	Less: Returns and allowances	578	00
c	Subtract line 1b from line 1a and enter the balance here	166,322	00
2	Cost of goods sold and/or operations (from Part III, line 8)	42,500	00
3	Subtract line 2 from line 1c and enter the gross profit here	123,822	00
4 a	Windfall Profit Tax Credit or Refund received in 1985 (see instructions)		
b	Other income		
5	Add lines 3, 4a, and 4b. This is the gross income	123,822	00

Part II Deductions

6	Advertising	250	00	22	Pension and profit-sharing plans		
7	Bad debts from sales or services (Cash method taxpayers, see instructions)			23	Rent on business property	9,600	00
8	Bank service charges	72	00	24	Repairs	200	00
9	Car and truck expenses	800	00	25	Supplies (not included in Part III below)	500	00
10	Commissions			26	Taxes (Do not include Windfall Profit Tax here. See line 30.)	800	00
11	Depletion			27	Travel and entertainment		
12	Depreciation and section 179 deduction from Form 4562 (not included in Part III below)	5,000	00	28	Utilities and telephone	6,250	00
13	Dues and publications	200	00	29 a	Wages	15,000	00
14	Employee benefit programs	1,200	00	b	Jobs credit		
15	Freight (not included in Part III below)	10,000	00	c	Subtract line 29b from 29a	15,000	00
16	Insurance	6,000	00	30	Windfall Profit Tax withheld in 1985		
17	Laundry and cleaning	4,000	00	31	Other expenses (specify):		
18	Legal and professional services	4,000	00	a			
19	Mortgage interest paid to financial institutions (see instructions)	12,000	00	b			
20	Office expense	100	00	c			
21	Other interest			d			
22				e			
23				f			
24				g			
32	Add amounts in columns for lines 6 through 31g. These are the total deductions			32		75,972	00
33	Net profit or (loss). Subtract line 32 from line 5 and enter the result. If a profit, enter on Form 1040, line 12, and on Schedule SE, Part I, line 2 (or Form 1041, line 5). If a loss, you MUST go on to line 34			33		47,850	00

34 If you have a loss, you MUST answer this question: "Do you have amounts for which you are not at risk in this business (see instructions)?" Yes No
If "Yes," you MUST attach Form 6198. If "No," enter the loss on Form 1040, line 12, and on Schedule SE, Part I, line 2 (or Form 1041, line 5).

Part III Cost of Goods Sold and/or Operations (See Schedule C instructions for Part III)

1	Inventory at beginning of year (if different from last year's closing inventory, attach explanation)	6,000	00
2	Purchases less cost of items withdrawn for personal use	42,000	00
3	Cost of labor (do not include salary paid to yourself)		
4	Materials and supplies		
5	Other costs		
6	Add lines 1 through 5	48,000	00
7	Less: Inventory at end of year	5,500	00
8	Cost of goods sold and/or operations. Subtract line 7 from line 6. Enter here and in Part I, line 2, above.	42,500	00

Paperwork Reduction Act Notice, see Form 1040 Instructions.



Codes for Principal Business or Professional Activity

Review the major business categories listed in Step 1 and find the one which best describes your type of business or professional activity. The appropriate category will direct you to specific activity

codes in Step 2. Select the activity code that identifies the business or profession that is the principal source of your sales or receipts. Enter this 4 digit code on line B on page 1 of Schedule C. (Note: If your principal source of income is from farming activities, you should file Schedule F (Form 1040), Farm Income and Expenses.)

Step 1

Major Business Categories

Production (construction, manufacturing, mining), including custom or contract production services	A
Agricultural services (excluding farming), forestry, and fishing	B
Wholesale trade—selling goods you do not produce to businesses and institutions, including sales to professional practices and for farm production	C
Retail trade—selling goods you do not produce to individuals and households	D
Serving food or drink	D
Real estate, insurance, finance, and related services	E
Transportation, communications, public utilities, and related services	F
Providing personal, professional, and business services not included in the above categories	G

See Specific Activity in Step 2

Code	Description	Code	Description
4317	Other home furnishing stores (china, floor coverings, drapes, etc.)	7617	Legal services (or lawyer)
4333	Music and record stores	7633	Income tax preparation
	Building, hardware, and garden supply	7658	Accounting and bookkeeping
4416	Building materials dealers	7674	Engineering, surveying, and architectural
4432	Paint, glass, and wallpaper stores	7690	Management, consulting, and public relations
4457	Hardware stores	7716	Advertising, except direct mail
4473	Nurseries and garden supply stores	7732	Employment agencies and personnel supply
	Other retail stores	7757	Computer and data processing, including repair and leasing
4614	Used merchandise and antique stores	7773	Equipment rental and leasing (except computer or automotive)
4630	Gift, novelty, and souvenir shops	7914	Investigative and protective services
4655	Florists	7880	Other business services
4671	Jewelry stores		Personal services
4697	Sporting goods and bicycle shops	8110	Beauty shops (or beautician)
4812	Boat dealers	8318	Barber shop (or barber)
4838	Hobby, toy, and game shops	8334	Photographic portrait studios
4853	Camera and photo supply stores	8516	Shoe repair and shine services
4879	Optical goods stores	8532	Funeral services and crematories
4895	Luggage and leather goods stores	8557	Physical fitness facilities
5017	Book stores, excluding newsstands	8714	Child day care
5033	Stationery stores	8730	Teaching or tutoring
5058	Fabric and needlework stores	8755	Counseling (except health practitioners)
5074	Mobile home dealers	8771	Ministers and chaplains
5090	Fuel dealers (except gasoline)	6882	Other personal services
5884	Other retail stores		Automotive services
		8813	Automotive rental or leasing, without driver
		8839	Parking, except valet
		8854	General automotive repairs
		8870	Specialized automotive repairs (brake, body repairs, paint, etc.)
		8896	Other automotive services (wash, towing, etc.)
			Miscellaneous repair, except computers
		9019	TV and audio equipment repair
		9035	Other electrical equipment repair
		9050	Reupholstery and furniture repair
		2881	Other equipment repair
			Medical and health services
		9217	Physicians and surgeons (MD's)
		9233	Dentists
		9258	Osteopathic physicians and surgeons
		9274	Chiropractors
		9290	Optometrists
		9415	Registered and practical nurses
		9431	Other licensed health practitioners
		9456	Dental laboratories
		9472	Nursing and personal care facilities
		9886	Clinics and other health services
			Amusement and recreational services
		9613	Video tape rental stores
		9639	Motion picture theaters
		9654	Other motion picture and TV activities
		9670	Bowling alleys and pool parlors
		9696	Professional sports and racing, including promoters and managers
		9811	Theatrical performers, musicians, agents, producers, and related services
		9837	Other amusement and recreation services
		8888	Unable to classify—Explain

Step 2

Code	Description
A	Production (Including Custom or Contract Production Services)
0018	Operative builders (building for own account)
	General contractors
0034	Residential building
0059	Nonresidential building
0075	Highway and street construction
3889	Other heavy construction (pipe laying, bridge construction, etc.)
	Building trade contractors, including repairs
0232	Plumbing, heating, air conditioning
0257	Painting, paper hanging, decorating
0273	Electrical work
0299	Masonry, plastering, stone, tile
0414	Carpentering and flooring
0430	Roofing and sheet metal work
0455	Concrete work
0471	Water well drilling
0885	Other building trade contractors (excavation, demolition, etc.)
	Manufacturing, including printing and publishing
0612	Bakeries selling at retail
0638	Other food products and beverages
0653	Textile mill products
0679	Apparel and other textile products
0695	Leather, footwear, handbags, etc.
0810	Furniture and fixtures
0836	Lumber and other wood products
0851	Printing and publishing
0877	Paper and allied products
0893	Chemicals and allied products
1016	Rubber and plastics products
1032	Stone, clay, and glass products
1057	Primary metal industries
1073	Fabricated metal products
1099	Machinery and machine shops
1115	Electric and electronic equipment
1313	Transportation equipment
1339	Instruments and related products
1883	Other manufacturing industries
	Mining and mineral extraction
1511	Metal mining
1537	Coal mining
1552	Oil and gas
1719	Quarrying and nonmetallic mining
B	Agricultural Services, Forestry, and Fishing
1917	Soil preparation services
1933	Crop services
1958	Veterinary services, including pets
1974	Livestock breeding
1990	Other animal services
2113	Farm labor and management services
12	Horticulture and landscaping

Code	Description
2238	Forestry, except logging
0836	Logging
2279	Fishing, hunting, and trapping
C	Wholesale Trade—Selling Goods to Other Businesses, Government, or Institutions, etc.
	Durable goods, including machinery, equipment, wood, metals, etc.
2618	Selling for your own account
2634	Agent or broker for other firms—more than 50% of gross sales on commission
	Nondurable goods, including food, fiber, chemicals, etc.
2659	Selling for your own account
2675	Agent or broker for other firms—more than 50% of gross sales on commission
D	Retail Trade—Selling Goods to Individuals and Households
3012	Selling door-to-door, by telephone or party plan, or from mobile unit
3038	Catalog or mail order
3053	Vending machine selling
	Selling From Store, Showroom, or Other Fixed Location
	Food, beverages, and drugs
3079	Eating places (meals or snacks)
3095	Drinking places (alcoholic beverages)
3210	Grocery stores (general line)
0612	Bakeries selling at retail
3236	Other food stores (meat, produce, candy, etc.)
3251	Liquor stores
3277	Drug stores
	Automotive and service stations
3319	New car dealers (franchised)
3335	Used car dealers
3517	Other automotive dealers (motorcycles, recreational vehicles, etc.)
3533	Tires, accessories, and parts
3558	Gasoline service stations
	General merchandise, apparel, and furniture
3715	Variety stores
3731	Other general merchandise stores
3756	Shoe stores
3772	Mens' and boys' clothing stores
3913	Womens' ready-to-wear stores
3939	Family clothing stores
3954	Other apparel and accessory stores
3970	Furniture stores
3996	TV, audio, and electronics
4119	Household appliance stores

Code	Description
E	Real Estate, Insurance, Finance, and Related Services
5512	Real estate agents and managers
5538	Operators and lessors of buildings (except developers)
5553	Operators and lessors of other real property (except developers)
5710	Subdividers and developers, except cemeteries
5736	Insurance agents and services
5751	Security and commodity brokers, dealers and investment services
5777	Other real estate, insurance, and financial activities
F	Transportation, Communications, Public Utilities, and Related Services
6114	Taxis
6312	Bus and limousine transportation
6338	Trucking (except trash collection)
6510	Trash collection without own dump
6536	Public warehousing
6551	Water transportation
6619	Air transportation
6635	Travel agents and tour operators
6650	Other transportation and related services
6676	Communication services
6692	Utilities, including dumps, snowplowing, road cleaning, etc.
G	Services (Providing Personal, Professional, and Business Services)
	Hotels and other lodging places
7096	Hotels, motels, and tourist homes
7211	Rooming and boarding houses
7237	Camps and camping parks
	Laundry and cleaning services
7419	Coin-operated laundries and dry cleaning
7435	Other laundry, dry cleaning, and garment services
7450	Carpet and upholstery cleaning
7476	Janitorial and related services (building, house, and window cleaning)

SCHEDULE SE
Form 1040

Department of the Treasury
Internal Revenue Service (0)

Computation of Social Security Self-Employment Tax

OMB No. 1545-0074

1985

18

▶ See instructions for Schedule SE (Form 1040).
▶ Attach to Form 1040.

Name of self-employed person (as shown on social security card) John Dough	Social security number of self-employed person ▶ YYY : YY : YYYY
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Regular Computation of Net Earnings From Self-Employment

Note: If you performed services for certain churches or church-controlled organizations and you are not a minister or a member of a religious order, see the instructions.

1 Net farm profit or (loss) from Schedule F (Form 1040), line 39, and farm partnerships, Schedule K-1 (Form 1065), line 13a	1		
2 Net profit or (loss) from Schedule C (Form 1040), line 33, Schedule K-1 (Form 1065), line 13a (other than farming), and Form W-2 wages of \$100 or more from an electing church or church-controlled organization. (See instructions for other income to report.)	2	47,850	00

Note: Check here if you are exempt from self-employment tax on your earnings as a minister, member of a religious order, or Christian Science practitioner because you filed Form 4361.

See instructions for kinds of income to report. If you have other earnings of \$400 or more that are subject to self-employment tax, include those earnings on line 2.

Optional Computation of Net Earnings From Self-Employment (See "Who Can Use Schedule SE")

Generally, this part may be used only if you meet any of the following tests:

- A Your gross farm income (Schedule F (Form 1040), line 12) was not more than \$2,400; or
- B Your gross farm income (Schedule F (Form 1040), line 12) was more than \$2,400 and your net farm profits (Schedule F (Form 1040), line 39) were less than \$1,600; or
- C Your net nonfarm profits (Schedule C (Form 1040), line 33) were less than \$1,600 and also less than two-thirds (2/3) of your gross nonfarm income (Schedule C (Form 1040), line 5).

See instructions for other limitations.

3 Maximum income for optional methods	3	1,600	00
4 Farm Optional Method—If you meet test A or B above, enter: the smaller of two-thirds (2/3) of gross farm income from Schedule F (Form 1040), line 12, and farm partnerships, Schedule K-1 (Form 1065), line 13b; or \$1,600	4		
5 Subtract line 4 from line 3	5		
6 Nonfarm Optional Method—If you meet test C above, enter: the smallest of two-thirds (2/3) of gross nonfarm income from Schedule C (Form 1040), line 5, and Schedule K-1 (Form 1065), line 13c (other than farming); or \$1,600; or, if you elected the farm optional method, the amount on line 5	6		

Computation of Social Security Self-Employment Tax

7 Enter the amount from Part I, line 1, or, if you elected the farm optional method, Part II, line 4	7		
8 Enter the amount from Part I, line 2, or, if you elected the nonfarm optional method, Part II, line 6	8	47,850	00
9 Add lines 7 and 8. If less than \$400, do not fill in the rest of the schedule because you are not subject to self-employment tax. (Exception: If this line is less than \$400 and you are an employee of an electing church or church-controlled organization, complete the schedule unless this line is a loss. See instructions.)	9	47,850	00
10 The largest amount of combined wages and self-employment earnings subject to social security or railroad retirement tax (Tier 1) for 1985 is	10	32,400	00
11a Total social security wages and tips from Forms W-2 and railroad retirement compensation (Tier 1). Note: U.S. Government employees whose wages are only subject to the 1.35% hospital insurance benefits tax (Medicare) and employees of certain church or church-controlled organizations should not include those wages on this line (see instructions).	11a	0	
11b Unreported tips subject to social security tax from Form 4137, line 9, or to railroad retirement tax (Tier 1)	11b	0	
11c Add lines 11a and 11b	11c		
12a Subtract line 11c from line 10	12a	32,400	00
12b Enter your "qualified" U.S. Government wages if you are required to use the worksheet in Part III of the instructions.	12b		
12c Enter your Form W-2 wages from an electing church or church-controlled organization.	12c		
13 Enter the smaller of line 9 or line 12a	13	32,400	00
14 If line 13 is \$39,600, fill in \$4,672.80 on line 14. Otherwise, multiply line 13 by .118 and enter the result on line 14	14	.0935	
Self-employment tax. Enter this amount on Form 1040, line 51		3,029	40

Work Reduction Act Notice, see Form 1040 Instructions.

Schedule SE (Form 1040) 1985

Goal 7.0 To understand insurance

Competencies:

- 7.1 Identify types of insurance**
- 7.2 Determine the best insurance coverage and rates**

Insurance Checklist for Small Business

U.S. Small Business Administration
Number 2.018

Summary

There may be ways of strengthening your insurance program that have not occurred to you. The purpose of this *Aid* is to help you find out. To this end, a checklist is provided that will help you identify areas in which improvement may be possible. It will also serve as a guide for the discussions you should have with a qualified agent, broker, or other insurance counselor.

The points covered are grouped under three general heads: coverages that are essential for most businesses; coverages that are desirable for many firms but not absolutely necessary; and coverages for employee benefits.

The checklist is followed by a brief discussion of four basic steps that are necessary for good insurance management: (1) Recognize the risks to which you are exposed. (2) Follow the guides for buying insurance economically. (3) Have a plan. (4) Get professional advice.

Some small business owners look on insurance as if it were a sort of tax. They recognize that it is necessary but consider it a burdensome expense that should be kept at a minimum. Is this view justified?

Not if you take a more conservative approach. You can use insurance to get many positive advantages as well as the negative one of avoiding losses. Used correctly, insurance can contribute a great deal to your success by reducing the uncertainties under which you operate. It can reduce employee turnover, improve your credit at the bank, make it easier to sell to customers on favorable terms, help keep your business going in case an insured peril interrupts operations. The potential benefits of good insurance management make it well worth your study and attention.

How It Works

Insurance has been defined as a system in which "winners pay losers." Those who are lucky enough to avoid loss contribute through premium payments to the unlucky ones who do suffer loss. If you never collect from your insurance, consider yourself ahead, because then you are one of the winners. If you suffer a loss for which you are insured, you have the security of knowing that the other members of the insurance system will relieve you of most of your burden.

In this sense, you come out ahead either way. Your premiums are the price you pay for the freedom from worry about economic loss from conditions outside your control.

But insurance itself becomes the subject of worry for many small business owners. This *Aid* is designed to help you lessen this worry.

A Checklist

The points covered in the checklist are grouped under three general classes of insurance: (1) coverages that are essential for most businesses, (2) coverages that are desirable for many firms but not absolutely necessary, and (3) coverages for employee benefits. For each of the statements, put a check in the first answer column if you understand the statement and how it affects your insurance program. Otherwise, check the second column. Then study your policies with these points in mind and discuss any questions you still have with your agent.

Essential Coverages

Four kinds of insurance are essential: *fire insurance*, *liability insurance*, *automobile insurance*, and *workers' compensation insurance*. In some areas and in some kinds of businesses, crime insurance, which is discussed under "Desirable Coverages," is also essential.

Are you certain that all the following points have been given full consideration in your insurance program?

Fire Insurance

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1. You can add other perils—such as windstorm, hail, smoke, explosion, vandalism, and malicious mischief—to your basic fire insurance at a relatively small additional cost.

2. If you need comprehensive coverage, your best buy may be one of the all-risk contracts that offer the broadest available protection for the money.

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3. The insurance company may indemnify you—that is, compensate you for your losses—in any one of several ways: (1) It may pay actual cash value of the property at the time of loss. (2) It may repair or replace the property with material of like kind and quality. (3) It may take *all* the property at the agreed or appraised value and reimburse you for your loss.

4. You can insure property you don't own. You must have an insurable interest—a financial interest—in the property *when a loss occurs* but not necessarily at the time the insurance contract is made. For instance, a repair shop or drycleaning plant may carry insurance on customers' property in the shop, or you may hold a mortgage on a building and insure the building although you don't own it.

5. When you sell property, you cannot assign the insurance policy along with the property unless you have permission from the insurance company.

6. Even if you have several policies on your property, you can still collect only the amount of your actual cash loss. All the insurers share the payment proportionately. Suppose, for example, that you are carrying two policies—one for \$20,000 and one for \$30,000—on a \$40,000 building, and fire causes damage to the building amounting to \$12,000. The \$20,000 policy will pay \$4,800; that is,

$$\frac{20,000}{50,000}, \text{ or } \frac{2}{5} \text{ of } \$12,000.$$

The \$30,000 policy will pay \$7,200;

$$\text{that is } \frac{30,000}{50,000}, \text{ or } \frac{3}{5} \text{ of } \$12,000.$$

7. Special protection other than the standard fire insurance policy is needed to cover the loss by fire of accounts, bills, currency, deeds, evidence of debt, and money and securities.

8. If an insured building is vacant or unoccupied for more than 60 consecutive days, coverage is suspended unless you have a special endorsement to your policy canceling this provision.

9. If, either before or after a loss, you conceal or misrepresent to the insurer any material fact or circumstance concerning your insurance or the interest of the insured, the policy may be voided.

10. If you increase the hazard of fire, the insurance company may suspend your coverage even for losses not originating from the increased hazard. (An example of such a hazard might be renting part of your building to a drycleaning plant.)

11. After a loss, you must use all reasonable means to protect the property from further loss or run the risk of having your coverage canceled.

12. To recover your loss, you must furnish within 60 days (unless an extension is granted by the insurance company) a complete inventory of the damaged, destroyed, and undamaged property showing in detail quantities, costs, actual cash value, and amount of loss claimed.

13. If you and the insurer disagree on the amount of loss, the question may be resolved through special appraisal procedures provided for in the fire-insurance policy.

14. You may cancel your policy without notice at any time and get part of the premium returned. The insurance company also may cancel at any time with a 5-day written notice to you.

15. By accepting a coinsurance clause in your policy, you get a substantial reduction in premiums. A coinsurance clause states that you must carry insurance equal to 80 or 90 percent of the value of the insured property. If you carry less than this, you cannot collect the full amount of your loss, even if the loss is small. What percent of your loss you can collect will depend on what percent of the full value of the property you have insured it for.

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16. If your loss is caused by someone else's negligence, the insurer has the right to sue this negligent third party for the amount it has paid you under the policy. This is known as the insurer's right of subrogation. However, the insurer will usually waive this right upon request. For example, if you have leased your insured building to someone and have waived your right to recover from the tenant for any insured damages to your property, you should have your agent request the insurer to waive the subrogation clause in the fire policy on your leased building.

17. A building under construction can be insured for fire, lightning, extended coverage, vandalism, and malicious mischief.

Liability Insurance

1. Legal liability limits of \$1 million are no longer considered high or unreasonable even for a small business.

2. Most liability policies require you to notify the insurer immediately after an incident on your property that might cause a future claim. This holds true no matter how unimportant the incident may seem at the time it happens.

3. Most liability policies, in addition to *bodily* injuries, may now cover *personal* injuries (libel, slander, and so on) if these are specifically insured.

4. Under certain conditions, your business may be subject to damage claims even from trespassers.

5. You may be legally liable for damages even in cases where you used "reasonable care."

6. Even if the suit against you is false or fraudulent, the liability insurer pays court costs, legal fees, and interest on judgments in *addition to* the liability judgments themselves.

7. You can be liable for the acts of others under contracts you have signed with them. This liability is insurable.

8. In some cases you may be held liable for fire loss to property of others in your care. Yet, this property would normally not be covered by your fire or general liability insurance. This risk can be covered by fire legal liability insurance or through requesting subrogation waivers from insurers of owners of the property.

Automobile Insurance

1. When an employee or a subcontractor uses a car on your behalf, you can be legally liable even though you don't own the car or truck.

2. Five or more automobiles or motorcycles under one ownership and operated as a fleet for business purposes can generally be insured under a low-cost fleet policy against both material damage to your vehicle and liability to others for property damage or personal injury.

3. You can often get deductibles of almost any amount—say \$250 or \$500—and thereby reduce your premiums.

4. Automobile medical-payments insurance pays for medical claims, including your own, arising from automobile accidents regardless of the question of negligence.

5. In most States, you must carry liability insurance or be prepared to provide other proof (surety bond) of financial responsibility when you are involved in an accident.

6. You can purchase uninsured-motorist protection to cover your own bodily-injury claims from someone who has no insurance.

7. Personal property stored in an automobile and not attached to it (for example, merchandise being delivered) is not covered under an automobile policy.

Worker's Compensation

1. Federal and common law requires that an employer (1) provide employees a safe

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place to work. (2) hire competent fellow employees. (3) provide safe tools, and (4) warn employees of an existing danger.

— —

2. If an employer fails to provide the above, the employer is liable for damage suits brought by an employee and possible fines or prosecution.

— —

3. State law determines the level or type of benefits payable under workers' compensation policies.

— —

4. Not all employees are covered by workers' compensation laws. The exceptions are determined by State law and therefore vary from State to State.

— —

5. In nearly all States, you are now legally required to cover your workers under workers' compensation.

— —

6. You can save money on workers' compensation insurance by seeing that your employees are properly classified.

— —

7. Rates for workers' compensation insurance vary from 0.1 percent of the payroll for "safe" occupations to about 25 percent or more of the payroll for very hazardous occupations.

— —

8. Most employers in most States can reduce their workers' compensation premium cost by reducing their accident rates below the average. They do this by using safety and loss-prevention measures.

— —

Desirable Coverages

Some types of insurance coverage, while not absolutely essential, will add greatly to the security of your business. These coverages include business-interruption insurance, crime insurance, glass insurance, and rent insurance.

Business Interruption Insurance

1. You can purchase insurance to cover lost expenses that would continue if a fire

shut down your business—such as salaries to key employees, taxes, interest, depreciation, and utilities—as well as the profits you would lose.

— —

2. Under properly written contingent business-interruption insurance, you can also collect if fire or other peril closes down the business of a supplier or customer and this interrupts your business.

— —

3. The business-interruption policy provides payments for amounts you spend to hasten the reopening of your business after a fire or other insured peril.

— —

4. You can get coverage for the extra expenses you suffer if an insured peril, while not actually closing your business down, seriously disrupts it.

— —

5. When the policy is properly endorsed, you can get business-interruption insurance to indemnify you if your operations are suspended because of failure or interruption of the supply of power, light, heat, gas, or water furnished by a public utility company.

— —

Crime Insurance

1. Burglary insurance excludes such property as accounts, fur articles in a showcase window, and manuscripts.

— —

2. Coverage is granted under burglary insurance only if there are visible marks of the burglar's forced entry.

— —

3. Burglary insurance can be written to cover, in addition to money in a safe, inventoried merchandise and damage incurred in the course of a burglary.

— —

4. Robbery insurance protects you from loss of property, money, and securities by force, trickery, or threat of violence on or off your premises.

— —

5. A comprehensive crime policy written just for small business owners is available.

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In addition to burglary and robbery, it covers other types of loss by theft, destruction, and disappearance of money and securities. It also covers thefts by your employees.

Key-man insurance protects the company against financial loss caused by the death of a valuable employee or partner.

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6. If you are in a high-risk area and cannot get insurance through normal channels without paying excessive rates, you may be able to get help through the federal crime insurance plan. Your agent or State Insurance Commissioner can tell you where to get information about these plans.

Group Life Insurance

Glass Insurance

1. You can purchase a special glass-insurance policy that covers all risk to plate-glass windows, glass signs, motion-picture screens, glass brick, glass doors, showcases, countertops, and insulated glass panels.

2. The glass-insurance policy covers not only the glass itself, but also its lettering and ornamentation, if these are specifically insured, and the costs of temporary plates or boarding up when necessary.

3. After the glass has been replaced, full coverage is continued without any additional premium for the period covered.

1. If you pay group-insurance premiums and cover all employees up to \$50,000, the cost to you is deductible for Federal income-tax purposes, and yet the value of the benefit is not taxable income to your employees.

2. Most insurers will provide group coverages at low rates even if there are 10 or fewer employees in your group.

3. If the employees pay part of the cost of the group insurance, State laws require that 75 percent of them must elect coverage for the plan to qualify as group insurance.

4. Group plans permit an employee leaving the company to convert group-insurance coverage to a private plan, at the rate for his/her age, without a medical exam, within 30 days after leaving the job.

Rent Insurance

1. You can buy rent insurance that will pay your rent if the property you lease becomes unusable because of fire or other insured perils and your lease calls for continued payments in such a situation.

2. If you own property and lease it to others, you can insure against loss if the lease is canceled because of fire and you have to rent the property again at a reduced rental.

Group Health Insurance

1. Group health insurance costs much less and provides more generous benefits for the worker than individual contracts would.

2. If you pay the entire cost, individual employees cannot be dropped from a group plan unless the entire group policy is canceled.

3. Generous programs of employee benefits, such as group health insurance, tend to reduce labor turnover.

Employee Benefit Coverages

Insurance coverages that can be used to provide employee benefits include group life insurance, group health insurance, disability insurance, and retirement income.

Disability Insurance

1. Workers' compensation insurance pays an employee only for time lost because of

No
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work injuries and work-related sickness— not for time lost because of disabilities incurred off the job. But you can purchase, at a low premium, insurance to replace the lost income of workers who suffer short-term or long-term disability not related to work.

2. You can get coverage that provides employees with an income for life in case of permanent disability resulting from work-related sickness or accident.

Retirement Income

1. If you are self-employed, you can get an income tax deduction for funds used for retirement for you and your employees through plans of insurance or annuities approved for use under the Employees Retirement Income Security Act of 1974 (ERISA).

2. Annuity contracts may provide for variable payments in the hope of giving the annuitants some protection against the effects of inflation. Whether fixed or variable, an annuity can provide retirement income that is guaranteed for life.

Key-Man Insurance

1. One of the most serious setbacks that can come to a small company is the loss of a key employee. But your key employee can be insured with life insurance and disability insurance owned by and payable to your company.

2. Proceeds of a key-man policy are not subject to income tax, but premiums are not a deductible business expense.

3. The cash value of key-man insurance which accumulates as an asset of the business, can be borrowed against and the interest and dividends are not subject to income tax as long as the policy remains in force.

Organizing Your Insurance Program

A sound insurance protection plan is just as important to the success of your business as good financing, market-

ing, personnel management, or any other business function. And like the other functions, good risk and insurance management is not achieved by accident, but by organization and planning. A lifetime of work and dreams can be lost in a few minutes if your insurance program does not include certain elements. To make sure that you are covered, you should take action in four distinct ways:

1. Recognize the various ways you can suffer loss.
2. Following the guides for buying insurance economically.
3. Organize your insurance-management program.
4. Get professional advice.

Recognize the risks. The first step toward good protection is to recognize the risks you face and make up your mind to do something about them. Wishful thinking or an it-can't-happen-to-me attitude won't lessen or remove the possibility that a ruinous misfortune may strike your business.

Some businesses will need coverages not mentioned in the checklist. For example, if you use costly professional tools or equipment in your business, you may need special insurance covering loss or damage to the equipment and/or business interruption resulting from not being able to use the equipment.

Study insurance costs. Before you purchase insurance, investigate the methods by which you can reduce the costs of your coverage. Be sure to cover the following points:

1. Decide what perils to insure against and how much loss you might suffer from each.
2. Cover your largest loss exposure first.
3. Use as high a deductible as you can afford.
4. Avoid duplication in insurance.
5. Buy in as large a unit as possible. Many of the "package policies" are very suitable for the types of small businesses they are designed to serve, and often they are the only way a small business can get really adequate protection.
6. Review your insurance program periodically to make sure that your coverage is adequate and your premiums are as low as possible consistent with sound protection.

Have a plan. To manage your insurance program for good coverage at the lowest possible cost, you will need a definite plan that undergirds the objectives of your business. Here are some suggestions for good risk and insurance management:

Write down a clear statement of what you expect insurance to do for your firm.

Select only one agent to handle your insurance. Having more than one may spread and weaken responsibility.

If an employee or partner is going to be responsible for your insurance program, be sure he/she understands the responsibility.

Do everything possible to prevent losses and to keep the amount that do occur as low as possible.

Don't withhold from your insurance agent important information about your business and its exposure to loss. Treat your agent as a professional helper.

Don't try to save money by underinsuring or by not insuring some perils that could cause loss, even though

you think the probability of their occurring is very small. If the probability of loss is really small, the premium will also be small.

7. Keep complete records of your insurance policies, premiums paid, losses, and loss recoveries. This information will help you get better coverage at lower costs in the future.

8. Have your property appraised periodically by independent appraisers. This will keep you informed of what your exposures are, and you will be better able to prove what your actual losses are if any occur.

Get professional advice about your insurance. Insurance is a complex and detailed subject. A professionally qualified agent, broker, or consultant can explain the options, recommend the right coverage, and help you avoid financial loss.

Goal 8.0 To understand purchasing

Competencies:

- 8.1 Locate and select suppliers**
- 8.2 Identify purchasing agreements and discounts**
- 8.3 Determine shipping methods**
- 8.4 Balance quantity purchasing with storage and inventory considerations**
- 8.5 Keep inventory records**

Understand Purchasing

As the owner of a home-based business you will need to understand the purchasing requirements of your particular business. You will need to develop an effective purchasing system that meets the demands of operating your business, whether it sells products or services. Service businesses, such as a dressmaking service, sell services, not products, so only a limited inventory is needed to run the business.

Products being stored waiting to be sold or utilized in production are called inventory. The inventory represents money that is "tied up" or invested in the business. This is money that is not free to be used for other business needs. The money "tied up" in inventory will not be regained until a sale is made. This is why home business owners must understand the needs of their particular business. After careful thought and thorough investigation an inventory system should be tailored to effectively supply the requirements of the business operation.

An important rule to remember when making purchases is to have access to multiple sources. If you can, establish at least two or more supply sources for every item of supply or service. Consider, on the one hand, that with multiple supply sources chances are increased that you will be able to get the best price and on-time delivery. On the other hand, suppliers seem to favor loyal customers with preferential treatment. Suppliers who know you personally can be a source of helpful information. For example, they may be able to give you useful news or special bargain offers, or tell you about significant developments in your business area.

The Chamber of Commerce in your region may provide access to information regarding manufacturers, wholesalers, and suppliers in your area. Set up your purchasing system with either manufacturers or wholesalers who will have goods that will satisfy your customers' standards.

Selecting Suppliers

Businesses selling goods to other businesses are called suppliers. A home-based business owner may be able to purchase directly from a manufacturer who makes the kind of product needed for use in his or her business enterprise. Products needed for use in a business may be purchased from a wholesaler or middleman who buys from the manufacturer and sells to retailers. Wholesalers customarily sell goods cheaper than retailers, but usually only in large quantities.

Many suppliers offer credit terms which present the business person with the option of getting a discount by paying cash at the time of purchase. No discount may be given in exchange for paying the bill within a specified time period. For the privilege of paying over an extended period of time, the home entrepreneur can expect to pay an interest charge.

Buying Policy--Decision Factors

When planning to purchase supplies and products for your home-based business, you must base your buying decision on: What, Where, How, and When.

What To Buy?

Modern marketing programs are built around the "marketing concept," which directs managers or owners to focus their efforts on identifying and satisfying their customer's needs--at a profit. To use the marketing concept, a home-based business should:

- Determine the needs of their customers.
- Analyze their competitive advantages.
- Select specific markets to serve.
- Determine how to satisfy the needs.

To decide what goods you need in your home-based business, you will need to study the customers you want to reach; then decide what they want and need.

Service oriented businesses need to decide which suppliers have the products and services that will help their small business perform in the best possible way. Order products and materials that reflect the customer's needs.

How Much To Buy?

In order to save money, the quantities purchased should be as small as possible to comfortably satisfy the needs of your business, yet not so small that you are left unsupplied at a critical moment. Too large a purchase ties up money that might be more productively used elsewhere to enable your business to function more effectively. You don't want money tied up for too long a time in goods waiting to be used or sold. You have to learn how to do a "balancing act." It takes a little experience to get to know just how much is the right amount.

When To Buy?

As a home-based business owner, you will probably have to buy supplies several weeks or months before you need them, especially if you have to allow time for a long distance delivery. Some goods needed in your business everyday should be ordered regularly. Other goods related to the season should be ordered only at certain times of the year. Having a good system for timing orders is very important for your business.

Where To Buy

As a home-based business person, you have to decide which supplier is best for you. Quality, price and service are three things to consider carefully when choosing a supplier.

Quality

- Satisfy the customer's taste.
- Satisfy the customer's budget.
- Satisfy the customer's standard of acceptable quality.

Price

- Make a sales effort to sell quality.
- Bring the advantages of quality to the customers' attention; customers usually favor quality over low price if the advantages of quality are brought to their attention.
- Find the supplier offering the best quality at the lower price.
- Reflect the supplier's cost in your price to the customer.
- Consider all the costs of the business operation when setting prices.
- Set prices so you make a profit.

The Inventory System

Home entrepreneurs may wish to study several inventory techniques, and then decide upon a system that will best satisfy their style of business operation. The trial and error method will lead the way to the most efficient system.

Here are some points to consider incorporating into your inventory system.

Keep a running inventory, using a card file for current data.

Keep records to aid in the prompt and systematic filling of customer orders.

Account for all your business related items, to help you determine prices and taxes.

Keep accurate records of what inventory is stored, where it is stored, and why it is stored.

Maintain your inventory in good condition; damaged inventory results in economic loss.

Check your inventory once or twice every year:

- Determine the amount of inventory.
- Determine the quality of inventory items.
- Make decisions about product changes.
- Determine what is stored.
- Decide what to do with stored items.

You will want to keep an inventory card for each product item used in your business or sold by your business. As you receive a shipment from a supplier, make up an inventory card. The card should record:

- what the item is
- who is the supplier
- when you received the shipment
- how many items were received

On the following page is an example of an inventory card format that could be useful to a small business.

Daily, as sales are made, record how many items have been sold; figure how many are still in stock.

Original Quantity - Sales = Amount Remaining

from Home Entrepreneurship: Instructional Materials in the Operation of a Small Business from the Home, Susan F. Weis and Kay S. O'Brien, Pennsylvania Department of Education, Bureau of Vocational Education, Harrisburg, PA, June, 1983.

Sample of Inventory Card

Inventory Card					
Items: <u>Skeins of wool - blue color</u>					
Supplier: <u>John Johnson</u>					
Reorder Point: <u>60 skeins</u> Reorder Amount: <u>200 skeins</u>					
Date Order Placed: <u>September 10</u>					
Amount Received		Amount Sold		Amount Remaining	
Date	Quantity	Date	Quantity	Date	Quantity
Sept 15	200	Sept 16	10	Sept 16	190
		Sept 17	15	Sept 17	175
		Sept 18	9	Sept 18	166
		Sept 19	7	Sept 19	159
		Sept 20	12	Sept 20	147

Goal 9.0 To understand selling

Competencies:

9.1 Describe different marketing channels:

consignment
mail order
word of mouth
door to door
appointment
parties
telephone solicitation
fairs, shows, etc.
yellow pages
bulletin boards
sales agent

9.2 Plan advertising for media and establish sales promotions

9.3 Determine prices for products and services:

expenses and break-even point
time involved
supply and demand
hourly rate of earnings
fair return

Selling Products on Consignment

U.S. Small Business Administration
Number 4.007

Summary

Sellers seeking new and expanded wholesale and retail markets for goods can use consignment selling to economic advantage in many cases.

This Aid provides a discussion of the advantages/disadvantages of consignment selling and general comments about how to use consignment as an effective selling tool for the small business operation.

What happens to a manufacturer who has developed a new consumer product that is thought to be a best-seller, but no retailer or wholesaler is willing to invest enough capital to stock a small number of the items in inventory?

What happens to a manufacturer who is told that the seasonal product he or she is trying to sell is such a capital risk that there is probably no chance that it will make the retail shelves during that Christmas season?

How can manufacturers in these cases and similar cases make the products and terms of sale sufficiently attractive to get the product on retail shelves for exposure to the buying market?

Perhaps through the use of consignment selling.

Selling goods on consignment is described as a situation whereby goods are shipped to a dealer who pays you, the consignor, only for the merchandise which sells.

The dealer, referred to as the consignee, has the right to return to you the merchandise which does not sell and without obligation.

As you can see, this may not be an ideal arrangement. The dealer has no money invested and is not obligated to "push" your merchandise.

Purpose Of Consignment Selling

Even with obvious disadvantages, there may be times when you may decide that consignment selling can serve your purpose. It can be used as a marketing tool which creates no obligation on the part of the dealer in the event they do not sell. As a result, such practice can provide an attractive incentive for the dealer, at least to stock your merchandise. The dealer has no risk and you have your merchandise before the buying public.

Examples of goods which very often are sold on consignment include light bulbs, produce, eggs, poultry, magazines, newspapers, Christmas decorations, garden

seeds, batteries for flashlights, and potted plants such as those found in supermarkets.

In the case of perishable merchandise (either in quality or in seasonal appeal) dealers are often more inclined to consider placing it in their stock if they have no great threat of financial loss on investment in the event it does not sell.

In the case of a newly designed and manufactured product for which there is no sales record, dealers might be more enthusiastic about promotion if their investment loss is minimized.

Advantages Of Consignment Selling

Now that you've read some general facts about consignment selling, look at the specific advantages to you as a manufacturer.

1. It allows a seller (manufacturer) to place merchandise in wholesale and retail outlets for additional exposure to the buying market.
2. It can provide an incentive for the wholesaler and retailer to stock goods in inventory because no capital of theirs is tied up in inventory.
3. It can encourage wholesalers and retailers to stock seasonal or otherwise newly introduced merchandise which they might not usually buy because of a lack of demand.
4. It provides the manufacturer with the opportunity to have the merchandise exposed to the buying market, instead of having it stored and isolated in a warehouse while waiting for an order from a buyer.

Disadvantages Of Consignment Selling

In deciding whether or not to use consignment selling, you need to look at the disadvantages.

1. While your merchandise is being exposed on the shelves of a wholesaler or retailer, you get no money until they sell.
2. As the manufacturer you must have enough cash on hand to wait extended periods for payment of merchandise sold.
3. Since the goods are out of your physical control, you cannot control the damage and shopper abuse which inventory merchandise is generally subject to.
4. You cannot always affect shelving decision which wholesalers and retailer make concerning maximum exposure of the merchandise. Because consignees do not

have any capital invested in the inventory, they may be inclined to place their outright-owned inventory in the most advantageous display spots in order to realize a fast return on investment. They are aware that they do not lose any investment if the consigned goods do not sell. They do lose if the inventory they own does not sell.

5. Where personal selling is important, outright owned merchandise might be promoted over consigned goods because, again, return on investment matters where investment exists.

6. If the gross margin to the seller is greater than the percentage commission with the sale of consigned goods, then the seller might tend to favor selling the outright owned goods. For this reason, the consignor is introduced to the importance of providing an attractive incentive in the form of a commission for the consignee. In other words, the consignee needs a strong reason to sell the merchandise since the motive to recoup investment is not present.

A Few Words Of Caution

Consignment selling may or may not be attractive to you. It depends on your situation. You might use consignment selling for market testing. It might be a fairly inexpensive way to learn how or if a new product will sell.

Keep in mind, however, that you tie up your funds waiting for merchandise to be sold. Also, the dealer may be a poor credit risk. Moreover, there may be other hazards inherent in a situation where the dealer does not have funds tied up.

In brief, the various factors over which you have less control than in other marketing situations could mean that the risks may be greater than your resources can absorb.

To evaluate whether or not consignment selling can be advantageous to you, consider the following discussion of the consignment relationship, special considerations, and examples of operational aspects.

The Consignment Relationship

The relationship which exists between you, the consignor, and another seller, the consignee, is an agency relationship. That is the consignee never takes title to the merchandise but acts as the agent of the consignor to pass title to the buyer.

Since title does not pass to the consignee in the absence

of an agreement, liability of loss for the merchandise remains with the consignor.

This means that you and the consignee can agree to specific statements for assuming a share of the loss in case of shoplifting or other damage to the merchandise. However in the absence of such an agreement, you, the consignor, are responsible for the loss involved even though the merchandise might have been shoplifted from the premises of the seller while the consignee exercised normal care in the display and handling of the merchandise.

Because of the details and legal implications involved in consignment selling you, as a consignor, should give careful attention and planning to selling products on consignment.

Give Special Consideration To...

Contractually speaking, you and your consignee can agree to a variety of mutually-advantageous measures. That is, you might agree in writing that the merchandise will be placed in the wholesale or retail business where it is exposed to an estimated 50 percent of foot traffic that enters the store.

Also, you should agree as to the exact commission to be awarded to the consignee upon sale of the merchandise. The length of time (days, weeks, etc.) which the consignee will agree to keep the merchandise will probably be specified. Also, the intervals at which the consignee will make payments for goods sold should be considered.

Agreement concerning delivery and pick-up of the merchandise might be included, as well as conditions of storage of any merchandise that is not on display, particularly perishable merchandise. Your contractual agreement might specify that you will be paid for "inventory sold," when

Inventory Delivered Less Inventory Collected
Equals Inventory Sold

Yet, the formula for payment noted above assumes that all merchandise will be either sold or claimed by the consignor and completely rules out the possibility of disappearance of the merchandise from the sales floor. Since shopper damage and shoplifting are sobering realities of doing business, it is wise to consider them and to plan for their occurrence beforehand.

The merchandise legally belongs to the consignor in a consignment sale and liability for any loss is still the

consignor's problem. Some consignees may be willing to share the responsibility involved in loss due to shoplifting if the issue is handled tactfully.

In some cases, the consignee will assume responsibility for damaged goods. When this is the case, you, the manufacturer, will suffer no loss. However, such cases are rare. At best, you can expect a sharing of the loss with the consignee.

When you assume part or all of the loss, ask for and keep the damaged goods for your own records. A consignee could claim that some of your merchandise was damaged when in fact the consignee sold it and pocketed the money.

Also consider damage caused by sun rays that fade colors and make some merchandise unfit for sale.

Examples Of Consignment Selling

Consider the wholesaler of artificial floral merchandise who sell to numerous small and medium retail floral establishments. Such a wholesaler often stocks mostly staple merchandise with a limited assortment of infrequently sold items.

A manufacturer who has developed a novel item for that industry and has no sales history to use as a basis for showing the wholesaler that the item will sell, probably will have a difficult time getting the item into the wholesaler's inventory.

If a potential consignee such as the wholesaler in this example, is comfortable with current sales levels and gross margin, the manufacturer will find it difficult to convince the wholesaler to carry this item in inventory.

Yet, in a consignment sale, the manufacturer can always ask, "What do you have to lose?" The answer is, of course, "Nothing."

If the manufacturer makes it easy enough for the wholesaler to stock the item and the wholesaler is aware of a possible commission for exerting very little effort, the merchandise usually has a very good chance of being placed in stock. As a result, the merchandise has wide exposure in the market and the wholesaler feels no risk associated with trying the merchandise. If it sells well, chances are good that it will be placed again. Even if the wholesaler had bought the items outright the first time around, and they did not sell, they would not be reordered. Thus, the marketability of the merchandise is at stake in either situation and the positive aspect in

consignment selling is that the wholesaler is assured that he or she has no investment to lose.

In another example, consider a manufacturer of a seasonal item such as Easter baskets, Christmas ornaments, Halloween items, or beach toys. Often wholesalers and retailers order these items far in advance and make a strong effort not to overorder because the market is defined in terms of days or weeks.

Manufacturers can promote their products in these industries by assuring the wholesaler and retailer that whatever is not sold will be taken back by the manufacturer.

In such cases as these, shopper density is usually heavy during a short period of time. That is, there are several peak shopping days during which crowds of shoppers are likely, by their number alone, to cause significant sales and damage to at least some of the merchandise on the shelves.

An agreement concerning shoplifting and damage becomes particularly important in such cases.

Consignor's Liability

A serious issue to consider in consignment selling is that of liability for merchandise. Since the consignor remains owner and title does not pass to the consignee, legally the liability rests with the consignor, in the absence of any other agreement.

This means that whenever merchandise is destroyed by water, fire, or smoke while in the inventory of the consignee, the loss is that of the consignor.

The importance of the issue calls for special attention at this point because there is a sales situation which has been viewed by some as similar to consignment selling and can become a legal problem for the consignor. "Sale or return" as it is called, is a situation in which the risk of loss passes to the consignee when the goods are in his or her possession.

"True Consignment"

From court decisions over the years, certain points have surfaced that are important in the determination of "true consignment." They are:

1. The consignor is authorized to demand return of the goods at any time.

- 2. The title rests with the consignor until the goods are sold, at which point, title moves directly to the buyer and never passes through the consignee.**
- 3. The consignee is authorized to sell the goods only at a specified price or not less than the invoice amount.**
- 4. The consignee is required to meet certain standards in keeping of the goods, such as their segregation from goods wholly owned or held under a claim of ownership or interest.**
- 5. The consignee is required to forward proceeds of sale immediately to the consignor or to deposit them in a special account.**

The title issue becomes critical because creditors of the consignee will have claim to the merchandise if the title has passed to the consignee in a "sale or return" situation. In a true consignment sale, the title always remains with the consignor.

If you plan to sell on consignment, your attorney can provide guidance on the legal aspects and your accountant can advise on the recordkeeping and accounting aspects of this type of selling.

Selling by Mail Order

U.S. Small Business Administration
Number 3

This Small Business Bibliography No. 3, *Selling by Mail Order*, is a major revision and provides a list of publications and trade associations for persons interested in selling by mail. It should be helpful in establishing and promoting a profitable mail order business. Space limits selection of listings; omission of a publication implies no slight to other authors. Prices and availability of listed publications are subject to change without notice.

This Bibliography was prepared with the help of the National Mail Order Association, Los Angeles, Calif., and was written by Paul Muchnick, president of Paul Muchnick Company in Los Angeles.

Mail Order

—two words that both inspire and excite the mind of the business entrepreneur. More so perhaps than any other business, mail order conjures up visions of enormous wealth, easy living, and the proverbial "pot of gold" at the end of the rainbow.

There is a magic—a mystic—a magnetic attraction that draws people to mail order. Like other types of businesses, mail order has its advantages and disadvantages—its share of successes and failures. It is not a quick, easy, effortless road to riches.

Yet it is also true that mail order, as a way of doing business, has been good to many people. There are countless success stories of people who have not only made a good living selling products and services by mail, but have amassed fortunes—starting on a kitchen table, a garage or spare room. It is likewise the fact that many people attempt, flounder about, and lose money in the effort to establish a successful mail order enterprise.

Despite the greater mobility of people throughout the Nation, the abundance of shopping centers, the convenience of telephone shopping, and boom and recession economies, mail order continues to grow. Mail order sales total approximately \$60 billion annually and represents about 12 percent of all consumer purchases. That's over a billion dollars a week of products and services purchased by mail.

What Sells by Mail?

There is, of course, no single or simple answer to this basic question. The stories are common of the unusual sales of items such as the ant farm, pet rock, and others. These are exceptions! Like lightning, they do not strike twice too often. Generally speaking,

products that sell well by mail are usually those not readily available in stores or other sources.

To discover such items requires studying many trade publications, attending product shows such as giftwares, housewares, stationery, jewelry, boutique, and other consumer merchandise, contacting manufacturers, and answering ads. Talk to friends, relatives and business associates and use any other means to find the elusive small order money-maker.

Make a thorough study of magazines and newspapers and review the ads appearing there over a period of time. Note ads that run consistently, month after month or several times a year. Answer ads that are particularly interesting. Carefully study the catalogs, sales letters, brochures and sales literature received. Study particularly all follow-up mailings received. You must learn from the promotions of the successful mail order firms that this will be a competitive market and know well what the competition is doing.

Ideally, the most profitable mail order product is one which customers will buy repeatedly, or a variety of products from which customers may make repeated purchases. Rarely, is a profitable mail order business established through the sale of a single product or any kind of one-shot offer.

Test, Test, Test to Maximize Profits

Once a product or product line has been selected, it's time to promote sales. If the item is low priced, it may be sold directly from the ad or direct mail. If it is a more costly item, it may be necessary to first advertise for inquiries, then follow-up the inquiries with a letter and circular to obtain the order.

Here again there is no hard and fast rule which applies to every product. What works for one may not for another. Only testing may reveal the most profitable way to sell any product. In general, the lowest cost way to sell a product by mail is through media advertising. Advertising rates for magazines, newspapers, and other media are shown in *Standard Rate and Data Service*. (see *Directories* in this SBB) together with mechanical requirements, closing dates, circulation and other data.

When preparing advertising, use the best possible photograph of a product. Describe it accurately, honestly, and in a manner that makes it desirable to the reader. Then price the product competitively and you are in business. Bear in mind that exaggerated

claims of quality, performance, construction, and other features will be quickly detected and will do more to turn off prospective customers than anything else. In addition, Federal, State, and local government agencies, as well as the Better Business Bureaus and consumer groups constantly watch advertising and are quick to take action against unsubstantiated claims or infractions of any laws.

When and Where to Advertise

Use direct mail and media for advertising but always within a budget. Also, keep careful records of the returns from ads and mailings. This will indicate which ads pull and whether any season or time of year produces better results than others. Letters, circulars, catalogs or other direct mail act as tests to determine the best copy appeal, most effective art work, right price, and other features.

Classified Advertising can be an excellent and low cost means of testing new products. In many respects, it is the mail order operator's best friend. For relatively small sums several offers simultaneously can be tested to determine which work and which don't, before investing in large-scale advertising. Many people rely solely (and successfully) on classified advertising.

Advertising—Win or Lose

Whether it be magazine, newspaper, radio, TV, direct mail or other form of promotion, nothing determines the success of a mail order enterprise so much as its advertising. Writing advertising copy, preparing art, selecting media, determining price, and other factors require long and successful experience in mail order selling—and for this there is no substitute!

Generally, these are abilities possessed by advertising agencies specializing in this field. So, select an advertising agency carefully, and primarily on the basis of successful experience in producing profitable mail order advertising.

Selling by Direct Mail

Despite increasing costs of postage, printing, paper and mailing operations, direct mail continues to be an effective and profitable means of selling. Mailing lists covering virtually every conceivable type of market and customer base are available from a great variety of sources. However, finding such lists is not always easy.

Publicity Can Be Profitable

So-called "free" publicity is largely a myth; yet carefully prepared, properly placed publicity can prove invaluable in producing mail order sales. Many publications have special sections devoted to new products where a product may be featured.

To capitalize on this sales opportunity requires thorough knowledge of how to properly present a product to editors. In a sense, the editor must be "sold" on the value of a product to the publication's readers.

Simple as it sounds, successful writing and placing of product publicity is not a chore for the amateur. Usually this service is performed by an advertising agency or a specialist in this field. Here again remember that experience usually pays off.

Direct Mail Advertising

The importance of direct mail in mail order selling is obvious. Catalogs, sales letters, brochures, order forms, broadsides, other sales literature contribute substantially to the success of every mail order enterprise.

If possessed of the ability to clearly, effectively, and persuasively communicate, write your own copy. Many mail order people do, and often attribute their success to their own particular style of writing which "brings in the orders." That, of course, is the ultimate criterion.

If writing copy is not a skill of yours, recognize that fact and seek the services of competent professional help. Ultimately, direct mail advertising—used effectively—will determine the profitability of a business.

Whether selling one, several or a large selection of products, sales will largely be the result of direct mail. Use sales letters, brochures, and other sales literature to illustrate and describe a limited number of products; use catalogs for a large selection.

As in most businesses, quality usually costs more but pays the most. The successful operator looks first to make dollars rather than save pennies.

This does not imply reckless spending on advertising, direct mail, and other promotion. Far from it! Don't invest in full color printing when one or two colors will do the job. There is no need to use the costliest

papers, elaborate art, or engage in other extravagances to sell profitably. Avoid going overboard in either direction.

Keep Good Records

A word of caution: to succeed in mail order pay close attention to details! But don't get bogged down in them. Keeping accurate records, results of ads, advertising costs, printing, postage, cost-per-order, and other figures are important to the success of the business. However, do it in the simplest, easiest, least time-consuming way possible.

Repeat Business—Key to Maximum Profits

Continuous profits come from continuous sales. As already suggested, rarely is a profitable mail order business established on a one-time sale. Below are some of the ways to stimulate repeat orders at minimal cost:

Never Forget the Customer. The list of customers built up is a most valuable asset. Use it to send offers of merchandise at frequent intervals.

Use Package Stuffers. A regular catalog or a special offer rides "free" in outgoing orders. Since postage and packing costs already are being paid to ship the merchandise, package enclosures can bring in new sales and profits.

Offer Quantity Discounts. Get larger orders by offering savings on quantity purchases. Every one loves a bargain. A discount or a special price, a premium for an order over a given amount, and similar incentives stimulate larger orders. Furthermore, gift certificates are often used profitably too, especially during Christmas and other holiday seasons.

Advertise on Envelopes. If you are enclosing advertising in the envelope, consider utilizing the envelope itself to feature one or more specially-selected offers. The additional printing cost could prove insignificant compared to the extra sales produced.

Use the Personal Touch. Occasionally send "personalized" letters or mailings to "best" customers. Make special offers such as presenting special prices, and introducing new products to them. Consumers generally respond favorably to recognition, attention, and interest in an increasingly impersonal world.

Sum and Substance

Mail order can be profitable or unprofitable, depending upon personal skills, ability, business judgment, capital resources, imagination, aggressiveness, and stick-to-it-iveness. One entrepreneur may enjoy tremendous success promoting a product, while another may fail miserably. Usually, "it isn't the product, but what one does with it" that makes the difference!

U.S. Government Publications

The following selected titles of publications are listed under the names of issuing agencies. Some are free; others are for sale. Request the free publications from issuing agency, giving the publication's title and series number (if shown).

GPO—Government Printing Office—identifies the for-sale publications. These may be ordered from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. For current price write to Superintendent of Documents. Give the publication's title, its series number (if shown), and name of issuing agency. Check local libraries for further listings of Federal publications and reference copies of some of the titles. Many public libraries keep selected publications provided through the Federal Depository Library System.

U.S. Small Business Administration Washington, DC 20416

SBA issues several series of management and technical publications designed for the owner-manager and prospective owners of small business. Listings of publications may be requested from SBA, P.O. Box 15434, Ft. Worth, TX 76119.

Ask for **SBA 115A Free Management Assistance Publications** and **SBA-115B For-Sale Booklets**. The lists are free and may be used for ordering the free series from SBA or the for-sale booklets from the Superintendent of Documents (GPO).

Listed below are titles in the various series that may be of interest to persons engaged in selling by mail order.

Small Business Bibliography (4- to 24-page pamphlet). Free. Each title deals with a specific kind of business function, giving brief description of the subject operation along with appropriate bibliographic listings of selected references.

Handcrafts (SBB 1)
Home Business (SBB 2)

Management Aids (4- to 16-page pamphlet). Free. Each title gives guidance on a specific subject for owners of small retail, wholesale, and service businesses.

Checklist for Going Into Business (MA 2.018)
Keeping Records in Small Business (MA 1.017)
Plan Your Advertising Budget (MA 4.018)

Library of Congress
Washington, DC 20540

A mail order operator, one who prepares materials to sell by mail, frequently needs to copyright printed materials. A list of copyright publications is available upon request from the Copyright Office, Library of Congress, Washington, DC 20540.

The Copyright Law of the United States of America. Request price from the Superintendent of Documents.

Federal Trade Commission
Washington, DC 20580

List of Publications. Free. Includes listings of publications such as trade practice rules for many industries.

U.S. Postal Service
Washington, DC 20260

The following booklets supply general information on post office services, rates, and various office sizes. Some of these are available in large post offices and local libraries.

International Mail. Request price from Superintendent of Documents. Contains detailed information about postage rates, services available, prohibitions, import restrictions, and other conditions governing mail to other countries. The countries are listed alphabetically, with the specific requirements applicable to mail addressed to each of them. Sold on a subscription basis only, which includes the basic book in looseleaf form, and changes issued as required for an indefinite period.

Directory of Post Offices. Request price from Superintendent of Documents. List of post offices, branches, and postal stations by States, counties, and alphabetically by name.

Postal Bulletin. Issued weekly with supplementary issues. Request price from Superintendent of Documents. Covers such topics as: changes in regulations, new developments in postal service, and handling of mail. Intended primarily for postal employees; also of value to larger direct mail advertisers and mail-order dealers.

Postal Service Manual. Subscription basis. Basic book and changes service for an indefinite period. Contains regulations and procedures for public use; explains the services available; stipulates rates and fees; and prescribes conditions under which postal services are available to the public. From Superintendent of Documents.

National ZIP Code Directory. Request price from Superintendent of Documents. List ZIP Code for every mailing address in the United States. Arranged alphabetically by State, within each State, complete listing is given of all post offices. Appendix after each State gives ZIP Code for each address in larger cities, and other pertinent ZIP Code data.

Department of the Treasury
Internal Revenue Service
Washington, DC 20220

Tax Guide for Small Business. Designed to assist businesspeople in preparation of Federal tax returns for the calendar year. Annually in December. Request price from Superintendent of Documents or local District Director of Internal Revenue.

Nongovernment Publications

Following is a list of books, directories, magazines, and trade associations which may be helpful in obtaining information about selling by mail order. Many of the books may be purchased from book stores or directly from the publishers, but most are available at local libraries. The publisher, address, and price are given for direct ordering although availability and prices are subject to change.

Books

For additional listings, consult the *Cumulative Book Index, Subject Guide to Books in Print*, and the *Publishers Trade List Annual* at local libraries.

ARCO Publishing Company, Inc.
219 Park Ave., South
New York, NY 10003

How to Win Success in the Mail Order Business. 1966. \$5. Presents profitwise techniques of mail order, including fundamentals of capital, organization, plant, equipment, supplies, buying, merchandising, sales promotion, legal requirements and record-keeping.

How Mail Order Fortunes are Made. Stern, Alfred, 1974. \$12.95. Complete "how to" book on basics of mail order, covering everything from locating saleable products to writing ads and promotional literature. Order from Selective Pub., Inc., P.O. Box 1140, Clearwater, FL 33517.

Crain Books
740 Rush St.
Chicago, IL 60611

Successful Direct Marketing Methods. Stone, Bob, 1975. \$24.95. Widely regarded as the modern "Bible" of direct response advertising, this book reveals how successful professionals use direct mail, space broadcast and other media to sell all kinds of products. Included are over 100 illustrations, self-quizzes and case studies.

Dartnell Corporation, The
4660 Ravenswood Ave.
Chicago, IL 60640

Direct Mail & Mail Order Handbook. Richard S. 3rd ed. \$52.50. Comprehensive guide to every phase of mail advertising and selling. Methods used by top professionals described in detail, enabling you to adapt their ideas to your own needs to get results you seek.

McGraw-Hill Book Company
1221 Avenue of the Americas
New York, NY 10020

How to Start and Operate a Mail Order Business. Simon, J. 1976. \$19.95. This up-dated text clarifies techniques of earning maximum profits and provides mail order operators with sound guidance for improving efficiency.

How to Write Advertising That Sells. Bedell, C. 2d ed. 1975. \$26.50. Describes what ad copy should do and how it can be written to do it. Discusses selling strategies and methods for applying them in the writing of effective ads.

Planning and Creating Better Direct Mail. Yeck, J. and J. Maguire. 1976. \$19.95. Packed with ideas and methods for producing art and copy that sells merchandise by mail.

Printing and Promotion Handbook. Melcher, D. and N. Larrick. 1976. \$24.95. Encyclopedia of information vital to the preparation of printing, production and related services used in mail order/direct mail selling.

Prentice-Hall, Inc.
Englewood Cliffs, NJ 07632

Tested Advertising Methods. Caples, John. \$11.95. Revised edition of the copywriter's "Bible" removes advertising guesswork and reveals proven selling techniques. Includes 82 pages of illustrations of result-getting headlines, ads, and direct mail.

How I Made \$1 Million in Mail Order. Cossman, E. Joseph. 1975. \$9.95. Practical, step-by-step system for successful mail order promotion explained in detail by a man who started small and achieved giant-size mail order success.

Tab Books
P.O. Box 40
Blue Ridge Summit, PA 17214

My First 65 Years in Advertising. Sackheim, Maxwell. \$9.95. Copy genius who created "Book of the Month Club" idea explains why his greatest ads were such huge successes and why they sold billions of dollars of merchandise.

Directories

Listed here are useful directories for locating sources of supply, services, and products. Some are available for reference at local libraries. Publishers' names and addresses are provided for direct ordering although availability and prices are subject to change.

Mail Order USA
P.O. Box 19083
Washington, DC 20036

Mail Order USA. O'Callaghan, Dorothy. \$7.00. Guide to 2000 top mail order catalogs in the United States and Canada. Every type of catalog and merchandise is listed.

B. Klein Publications, Inc.
P.O. Box 8503
Coral Springs, FL 33065

Mail Order Business Directory. Biennially. \$45. Lists over 5000 names, addresses, and basic facts about U.S. firms doing business by mail. Buyer's names are shown and types of merchandise sold.

Guide to American Directories. 10th ed. \$45. Lists over 5000 directories available as mailing lists and provides publishers' names, cost, contents of each directory.

Standard Rate & Data Service, Inc.
5201 Old Orchard Road,
Skokie, IL 60076

Direct Mail List Rates & Data. Semiannually. \$92. Comprehensive listing of mailing lists, arranged by subject in consumer, business and farm categories.

Consumer Magazines & Farm Publications. Monthly. \$126. Listing of advertising rates, publication, closing dates, other data of publications accepting advertising.

The fact that a publisher or firm is listed in this *Small Business Bibliography* does not indicate that the U.S. Small Business Administration endorses any such firm.

Magazines, Newsletters

Following are some of the periodicals offering marketing and management information related to various aspects of selling by mail.

Advertising Age Weekly. \$40 a year; \$1.00 a copy. Grain Communications, Inc., 740 Rush St., Chicago, IL 60611.

Direct Marketing. Monthly. \$30 a year; \$3.00 a copy. Hoke Communications, Inc., 224 7th Ave., Garden City, NY 11530.

Direct Marketing Letter. Monthly. \$45 a year. Janux Marketing Communications, Inc., 1370 Longwood Rd., Lake Forest, IL 60045.

Mail Order Digest. Monthly. \$42 a year. National Mail Order Association, 5818 Venice Blvd., Los Angeles, CA 90019.

World Gift Review. Monthly. \$14 a year. World Gift Review, 618 9th St., Union City, NJ 07087.

Washington Newsletter. Monthly. \$42 a year. National Mail Order Association, 5818 Venice Blvd., Los Angeles, CA 90019.

Trade Associations

Trade associations are generally excellent sources of information and assistance in their specific areas. Some of the associations dealing with various phases of mail sales are listed below. Most will send descriptive literature of their services, sample publications, and membership requirements.

Direct Mail Marketing Association
6 East 43d St., New York, NY 10017

Associated Third Class Mail Users
1725 K St., N.W., Washington, DC 20006

National Mail Order Association
5818 Venice Blvd., Los Angeles, CA 90019

Single copies of *Small Business Bibliographies* are available free from SBA, P.O. Box 15434, Ft. Worth, TX 76119. Information presented is necessary selective and no slight is intended toward material not mentioned. *Bibliographies* may be reprinted but not used to indicate approval or disapproval by this Agency of any private organization, product, or service. Credit to the U.S. Small Business Administration will be appreciated if this *Bibliography* is reproduced.

Determine Prices

Determining prices for the products or services sold by your business is one of the most challenging tasks facing the entrepreneur, especially the novice. How much is paid by the customer for a product or service is the selling price. Some essential questions to ask to set prices are:

What are people willing to pay?

What is the break even point; when are expenses covered?

How much profit do you want to make?

What is your competition charging?

Setting prices for a service-oriented business is a little different than setting prices for products sold by a business. Both have some common cost considerations.

General Price Setting Components

Common essential considerations when setting prices are:

- operating expenses
- break even point
- profit

All the costs of running a business must be included in the price charged. Another name of these costs is operating expenses. These costs include:

- salaries
- fees--to lawyers, accountants
- rent (includes space in your house)
- utilities, heat
- repairs
- depreciation on any equipment
- advertising/promotional expenses
- general supplies
- insurance

Service-Oriented Business

A person operating a service-oriented business needs to figure out on paper the operating expenses incurred simply to keep the business going. Keep careful records each month of all the money spent for the business and the income received.

The price should include:

operating expenses
time investment/labor costs
profit

Remember to include the costs of heat, electricity, and rent even when working from your house. Bookkeeping and answering services, as well as office supplies, gasoline, postage, and telephone expenses need to be counted as business expenses and figured into the price charged. Service businesses either charge a flat fee or by the hour. In either case you must know what your hourly expenses are.

If you work full-time, 8 hours daily, then you are working 168 hours a month. The standard number of working days in a month is 21.

8 hours x 21 standard working days per month = 168 hours per month

Adjust these figures to suit your own personal situation if you work more time or part time.

To compute your hourly expenses take your total monthly expenses and divide by 168 to arrive at your hourly expense figure.

For example:

**Total monthly expenses divided by 168 = hourly expense
\$596 divided by 168 = \$3.55**

Labor is a major portion of the service-oriented business's expense. Figure out what your time per hour is worth for each task and include it in the price.

You may decide to charge the hourly minimum wage, which is currently \$3.35 per hour. If a task is complicated and requires a special expertise not readily available you may want to charge a high amount for your labor. Keep in mind this will elevate the price and some customers will either be unwilling or unable to buy your service. Some entrepreneurs are willing to charge less than minimum wage for their labor until they have established their business reputation.

Profit should also be included in the price charged. A business cannot continue to operate if it does not make a profit. You will want to find out the profit percentage made by other similar services and include a comparable amount in your price.

To arrive at the figure representing the price per hour to be charged:

- 1) Decide on the amount to charge per hour for your labor.
- 2) Add the amount of your hourly expense to the hourly labor charge.
- 3) Decide what you think is a fair and competitive amount of profit; add this to your other charges.
- 4) Arrive at the price to be charged per hour for the service you are selling.

Example:

\$3.55	+	\$3.55	+	\$1.40	->	\$8.50 per hour
labor expense per hour		hourly expense		profit per hour		price charged

Product-Oriented Business

Businesses selling products also have to keep their competition in mind and determine the "going rate" for similar products sold in their area. The profit percentage and business operating expenses are standard components figured into the price charged for products.

The selling price for products being sold should include:

cost of goods sold
operating expenses
profit

In retail businesses the difference between wholesale cost of the merchandise and the retail price is called mark-up. Mark-up must cover the costs of operating the business and allow the business to make some profit.

The most common strategy used to set prices is called gross profit pricing. This is the amount added to the wholesale cost, and in this case can be thought of as a mark-up. Gross profits must cover operating expenses. Net profit will be what is left over after paying out operating expenses. Net profit is the reward the owner expects for all the hard work and financial investment made in the business. Part of the profit money will be used to pay income taxes and some will be reinvested in the business.

Hard goods are usually marked up 100%. Living products such as plants may be marked up 100% to 300%.

To calculate the gross profit percentage or mark-up use this formula:

$$\frac{\text{Selling Price} - \text{Wholesale Cost}}{\text{Selling Price}} = \text{Gross Profit Percentage}$$
$$\frac{\$30 - \$10}{\$30} = 66\%$$

Other Relevant Elements in Price Setting

When setting prices the entrepreneur will be aided by guidelines and formulas; however, other factors also need consideration. The price charged by a competitor is relevant to the price you can charge. You want customers to buy goods or services through your business, not through your competitors' businesses.

The break-even point is another important figure to calculate. What is the minimum amount you can charge simply to regain the costs you have had to pay out to run the business? You will be able to determine this from your records of business expenses and product costs.

When products are not selling, the entrepreneur will need to mark down prices to help speed sales. Sometimes, an item will be marked below cost simply to move it out of inventory. Be sure customers know the original price so they can see the bargain they are getting. Mark downs make customers happy.

Stock Turnover

Stock turnover is the number of times inventory is sold and must be replaced in a year. It is an indicator of your business's health.

To figure your turnover rate, take the cost of the goods sold in your business in one year, and divide by the average cost of inventory carried to learn your turnover rate.

The average cost of inventory figure can be calculated by first adding up the wholesale costs of all inventory on hand January 1. Next count and add the wholesale costs of the end-of-month inventories for the next 12 months. Add these two figures together and divide by 13.

For Example:

Wholesale Cost of All Inventory on hand:		
----->		
January 1		\$ 900.00
<hr/>		
Wholesale Cost of Inventory at End of Each Month for Next 12 Months:		
----->		
January 31	\$ 1,000	↑ ----- ↓
February 28	900	
March 31	800	
April 30	950	
May 31	1,050	
June 30	1,100	
July 31	1,150	
August 31	1,300	
September 30	1,050	
October 31	1,000	
November 30	900	
December 31	800	
	Total	\$12,000.00
	Grand Total	\$12,900.00

Divide the total wholesale inventory costs by 13 to get the average cost of inventory carried:

$$\$12,900 \text{ divided by } 13 = \$992$$

Now you can figure what the turnover rate will be.

Take the total costs of the goods sold by your business in one year and divide by the average cost of inventory carried.

$$\frac{\text{Cost of Goods Sold in One Year}}{\text{Average Cost of Inventory Carried}} = \text{Turnover rate}$$

$$\frac{\$10,000}{\$992} = 11$$

A low turnover rate may indicate not only slow sales but a poor choice of merchandise. Too high a turnover rate may indicate a need to buy in larger quantities. A business selling perishable items will want a turnover rate between 9 and 12 times a year. In this way spoilage loss will be minimized, and more cash is available to buy merchandise to improve inventory.

Summary

Learning how to set prices takes some business experience. The information in this section is presented as a helpful guide; however, some degree of flexibility is needed. You need to set prices high enough to pay operating expenses and give some profit, but low enough that people will buy.

You will need to make some adjustments to your business if your operating expenses are too high.

from Home Entrepreneurship: Instructional Materials in the Operation of a Small Business from the Home, Susan F. Weis and Kay S. O'Brien, Pennsylvania Department of Education, Bureau of Vocational Education, Harrisburg, PA, June, 1983.

What is the Best Selling Price?

U.S. Small Business Administration
Number 1.002

Summary

In setting prices, the goal should be to maximize profit. Although some owner-managers feel that an increased sales volume is needed for increased profits, volume alone does not mean more profit. The ingredients of profit are costs, selling price, and the unit sales volume. They must be in the proper proportions if the desired profit is to be obtained.

No one pricing formula will produce the greatest profit under all conditions. To price for maximum profit, the owner-manager must understand the different types of costs and how they behave. You need up-to-date knowledge of market conditions because the "right" selling price for a product under one set of market conditions may be the wrong price at another time.

The "best" price for a product is not necessarily the price that will sell the most units. Nor is it always the price that will bring in the greatest number of sales dollars. Rather the "best" price is one that will maximize the profits of the company.

The "best" selling price should be cost oriented and market oriented. It should be high enough to cover your costs and help you make a profit. It should also be low enough to attract customers and build sales volume.

A Four Layer Cake

In determining the best selling price, think of price as being like a four layer cake. The four elements in your price are: (1) direct costs, (2) manufacturing overhead, (3) nonmanufacturing overhead, and (4) profit.

Direct costs are fairly easy to keep in mind. They are the cost of the material and the direct labor required to make a new product. You have these costs for the new product only when you make it.

On the other hand, even if you don't make the new product, you have manufacturing overhead such as janitor service, depreciation of machinery, and building repairs, which must be charged to old products. Similarly, non-manufacturing overhead such as selling and administrative expenses (including your salary) must be charged to your old products.

Direct Costing

The direct costing approach to pricing enables you to start with known figures when you determine a price for a new product. For example, suppose that you are considering a price for a new product whose direct costs—materials and direct labor—are \$3. Suppose further that you set the price at \$5. The difference (\$5 minus \$3 = \$2) is "contribution." For each unit sold, \$2 will be available to help absorb your manufacturing overhead and your non-manufacturing overhead and to contribute toward profit.

Price-Volume Relationship

Any price above \$3 will make some contribution toward you overhead costs which are already there whether or not you bring the new product to market. The amount of contribution will depend on the selling price which you select and on the number of units that you sell at that price. Look for a few moments at some figures which illustrate this price-volume-contribution relationship:

Selling Price	\$5	\$4	\$4
Projected sales in units	10,000	30,000	15,000
Projected dollar sales	\$50,000	\$120,000	\$60,000
Direct costs (\$3 per unit)	\$30,000	\$ 90,000	\$45,000
Contribution	\$20,000	\$ 30,000	\$15,000

In this example, the \$4 selling price, assuming that you can sell 30,000 units, would be the "best price" for your product. However, if you could sell only 15,000 units at \$4, the best price would be \$5. The \$5 selling price would bring in a \$20,000 contribution against the \$15,000 contribution from 15,000 units at \$4.

With these facts in mind, you can use a market-oriented approach to set your selling price. Your aim is to determine the combination of selling price and unit volume which will provide the greatest contribution toward your manufacturing overhead, nonmanufacturing overhead, and profit.

Complications

If you ran a nonmanufacturing company and could get as much of a product as you could sell, using the direct costing technique to determine your selling price would be fairly easy. Your success would depend on how well you could project unit sales volume at varying selling prices.

However, in a manufacturing company, various factors complicate the setting of a price. Usually, the quantity of a product that you can manufacture in a given time is limited. Also whether you ship directly to customers or manufacture for inventory has a bearing on your production and financial operation. Sometimes your production may be limited by labor. Sometimes by equipment. Sometimes by the availability of raw materials. And sometimes by practices of your competition. You have to recognize such factors in order to maximize your profits.

The direct costing concept enables you to key your pricing formula to that particular resource—labor, equipment, or material—which is in the shortest supply. The Gail Manufacturing Company* provides an example.

Establish Contribution Percentage

In order to use the direct costing approach, Mr. Gail had to establish a contribution percentage. He set it at 40 percent. From past records, he determined that, over a 12-month period, a 40-percent contribution for each price would take care of manufacturing overhead, non-manufacturing overhead, and profit. In arriving at this figure, Mr. Gail considered sales volume as well as overhead costs.

Determining the contribution percentage is a vital step in using the direct costing approach to pricing. You should review your contribution percentage periodically to be sure that it covers all your overhead (including interest on money you may have borrowed for new machines or for building an inventory of finished products) and to be sure it provides for profit.

Mr. Gail's 40-percent contribution meant that direct costs—material and indirect labor—would be 60 percent of the selling price (100—40 = 60). Here is an example of how Mr. Gail computed his minimum selling price:

Material	27¢
Direct labor	+ 10¢
	<hr/> 37¢

The 37 cents was 60 percent of the selling price which worked out to 62 cents (37 cents divided by 60 percent). The contribution was 25 cents (40 percent of selling price):

Selling price	62¢
Direct costs	-37¢
	<hr/> 25¢

In this approach, raw material is given the same importance as direct labor in determining the selling price.

* All names in Aids are fictitious.

Value of Material

The value of the material used in manufacturing the product has a bearing on the contribution dollars that will accrue from each unit sold. Suppose, in the example above, that the material costs are only 15 cents instead of 27 cents while the direct labor costs remain the same—10 cents. Total direct costs would be 25 cents.

In order to get a maximum contribution of 40 percent—as Mr. Gail did—the direct costs must not exceed 60 percent of the selling price. To arrive at the selling price, divide the total direct cost by 60 percent (25 cents divided by .60). The selling price is 42 cents. With this new selling price, the contribution is 17 cents (42 cents minus 25 cents for direct costs).

The point to remember is that when the material costs are less, the contribution will be less. This is true even though the same amount of direct labor and the same amount of machine use is required to convert the raw material into the finished product.

Contribution-Per-Labor-Hour

What happens if Mr. Gail is unable to operate the equipment fully at all time? In order to maximize profits, he must realize the same dollar contribution per direct labor dollar, regardless of the cost of materials. To do this, Mr. Gail could use the "Contribution per Labor Hour" Formula for setting his selling prices.

In this formula, you determine a mark-on percentage to use on your direct labor costs. This mark-on will provide the required contribution as a percentage of selling price. For example, if direct labor is 10 cents and contribution is 25 cents, then contribution as a percentage of direct labor will be:

$$\frac{25}{10} = 250\%$$

The mark-on factor to use on direct labor costs is 250 percent of direct labor costs.

Now suppose that material is 15 cents and direct labor cost is 10 cents. The selling price would be 50 cents, figured as follows:

Material costs	15¢
Direct labor	+ 10¢
	<hr/> 25¢
Contribution	+ 25¢
Selling Price	<hr/> = 50¢

The "Contribution per Labor Hour" approach assures Mr. Gail a 25-cent contribution for each 10 cents of

labor (350 percent) used to make a product regardless of the value of the raw material used.

Contribution-Per-Pound

If, and when, raw materials are in short supply and are the limiting factor, then the base to use is the dollar contribution-per-pound of material. This formula is similar to the one for contribution per labor hour. The difference is that you establish the contribution as a percentage of material cost rather than as a percentage of direct labor cost.

Contribution-Per-Machine-Hour

Determining the contribution-per-machine-hour can be a more involved task than figuring the contribution-per-pound. If different products are made on the same machine, each may use a different amount of machine time. This fact means that the total output of a certain machine in a given time period may vary. As a consequence, the dollar contribution-per-machine-hour that a company realizes may vary from product to product. For example, products A, B, and C are made on the same machine and their contribution-per-machine-hour is:

\$3.00 for product A
\$2.00 for product B
\$5.00 for product C.

When machine capacity is the limiting factor, you can maximize profit by using dollar contribution-per-machine-hour when setting prices. When selling to customers, you should give priority to products that give the greatest dollar contribution-per-machine-hour. In the above example, your salesrep would push product A over products B and C.

To use this pricing approach means that you have to establish a base dollar contribution-per-machine-hour for each machine group. You do it by determining the total number of machine hours available in a given time period. You then relate these machine hours to the manufacturing and nonmanufacturing overhead to be absorbed in that period. For example:

Total machine hours available in 12 months	=	5,000
Total manufacturing and nonmanufacturing overhead	=	\$300,000
Contribution required per machine hour to cover manufacturing and nonmanufacturing overhead	=	\$60*

\$60.000 divided by 5,000 hours

In this example, during periods when the company can sell output of all of its available machine hours, it must

realize a return of \$20 per machine hour in order to cover its manufacturing and nonmanufacturing overhead. When the full 5,000 hours are used, the \$20 per-hour return will bring the company to its breakeven point. When all the company's available machine hours cannot be sold, its return per-machine-hour must be more than \$20.

Notice that in the above example, only the breakeven point is considered. There is no provision for profit. How do you build profit into this pricing formula?

Return-on-investments is a good approach. If the Gail Manufacturing Company, for example, has \$300,000 invested and wants a 10-percent return, its profit before taxes would have to be \$30,000. Mr. Gail can relate this profit goal to the machine-hour approach by dividing the \$30,000 by 5,000 (the available machine hours). This means that he needs \$6 per machine hour as a mark-up for profit.

Selling Price For Product C

Now suppose that Mr. Gail wants to use the contribution-per-machine-hour and profit-per-machine-hour approach to set a price for product C. For product C, the direct labor cost per unit is \$1.80. Machine output (or units per hour) is 1.25, required contribution per machine hour is \$20, and desired profit per machine hour is \$6. The formula to set the unit selling price is:

Material cost	\$21.37
Direct labor	1.80
Contribution per Unit	<u>16.83*</u>
Price before profit	\$39.17
Desired profit	<u>4.80 (36 X .80)</u>
Desired selling price	\$43.97

* Calculated as follows: With a machine output of 1.25 units per hour, .80 of a machine hour is needed to produce 1 unit; the required contribution per-machine-hour is \$30; therefore, \$30 X .80 = \$24.

If Mr. Gail is to get a 10 percent return on his investments before taxes, the selling price must be \$43.97.

But suppose competitive factors mean that Mr. Gail cannot sell product C at \$43.97. In such case, he might:

(1) Not make product C if he can use the machine time to manufacture another product which will give his company its profit of 10 percent—provided, of course, that he has orders for the second product.

(2) Reduce the selling price, if refusing orders for product C means that the machines will be idle. Any price

greater than \$39.17 will generate some profit which is better than no profit.

But suppose that \$39.17 is also too high. Should Mr. Gail turn down all orders for product C at less than \$39.17? Not necessarily. If he has no orders to run on the machines, he should accept orders for product C at less than \$39.17 because \$16 of that price area contribution to manufacturing and nonmanufacturing overhead. He has to pay these costs even when the machines are idle.

Keep in mind that the direct costing method of setting a price gives you flexibility. For example, Mr. Gail has to get \$43.97 for product C in order to make his desired profit. But his price for that product can range from \$23.17 to \$43.97 (or higher, depending on market conditions).

Any price above \$39.17 brings in some contribution toward profit. Mr. Gail can break even at \$39.17. Any price between \$39.17 and \$23.17 brings some contribution toward his overhead. And in a pinch, he can sell as low as \$23.17 and recover his direct cost—material and direct labor.

However, Mr. Gail must use this flexibility with care. It takes only a few transactions at \$23.17 (recovering only direct costs) to keep him from maximizing profits over a 12-month period.

Market conditions will affect your pricing decision; but the cost analysis formulas for setting selling prices help you to maximize your profit.

Profit Costing and Pricing for Services

U.S. Small Business Administration
Number 1,020

parts: 1) the material cost, 2) the labor cost, and 3) the overhead cost. Direct materials and direct labor + overhead = total cost of service.

Introduction

This Aid discusses costing and pricing of services to assure that each job earns a reasonable profit. The figures used in the tables and examples do not reflect what your service costs, prices, and profits actually would or should be. The figures are used to demonstrate costing and pricing and are rounded off for further simplicity. Because of the importance and sometimes complexity of costing and pricing, it is good business practice to consult your trade association and particularly your accountant to learn what are the best current practices, cost ratios, and profit margins in your service business.

Cost Determination

Direct Material Cost The direct material cost is made up of the cost to you for parts and supplies that are used on specific jobs. Once the list of parts and supplies to be used is developed, a check with the supplier will give an up-to-date material cost. The shipping and other handling (storage, etc.) costs for the parts should be included in the material cost.

Direct Labor Cost The direct labor costs include those labor costs identified with a specific service job. The labor cost involved in providing a service is determined by multiplying the number of direct labor hours required by the cost per direct labor hour. It is very important to determine accurately the amount of direct labor hours involved to complete the service; therefore, you must use a time clock, worksheet, or a daily time card for each employee to determine the exact amount of labor time spent on each service job.

The hourly cost of direct labor can be figured (priced) two ways. One, it can be the hourly wage only, with fringe benefits, Social Security, Workers' Compensation, etc., (all labor-related costs) allocated to overhead. Or two, the hourly direct labor cost can include the hourly wages plus the employer's contribution to Social Security, unemployment compensation, disability, holidays and vacations, hospitalization and other fringe benefits (payroll costs).

By this second method, the added payroll costs for vacations, holidays and benefits are expressed as percentages of direct hourly wages. For instance, if two weeks of vacation and ten holidays are given annually, this amounts to four weeks per year or 7.7% (i.e., four weeks off divided by fifty-two weeks $\frac{4}{52} = 7.7\%$) of

total labor cost was for time off. Thus, to determine the total direct labor cost per hour by this method, you must add the prorated cost of the payroll taxes, workers' compensation, holidays and vacation pay, hospitalization, etc., to the hourly wage paid. As a rule of thumb, the sum of the various payroll-benefit costs have generally been in the range of 20% to 30% of the hourly wages paid. It is more complicated to figure but more precise to use the higher labor cost (including labor related payroll costs in addition to hourly wages in direct labor costs). The following table shows a sample calculation for figuring the total direct labor cost using this more exact method.

Costing Problems

Many small businesses are not making a profit today because they do not know the basic concepts of costing and pricing. The situation is most serious in the service business because each service performed has a different cost. Frequently, the service business must bid for jobs by making a price quotation in competition with similar businesses. Can you calculate your costs for your service and quote a price that is competitive and returns a profit?

Without realizing what they are doing, some business owners set their selling price below their total cost. This may result in more business for the company, but a loss will be incurred on each sale. Occasionally, a small business owner who lacks a knowledge of costing will try to compensate by setting prices very high. The end result is that the business is not price competitive and does not attract sufficient customers to survive. Frequently, a business earns a profit on some particular service and loses money on other services without knowing which services are earning a profit and which services are incurring a loss. The year-end income statement combines the profits and losses from the various services performed over the year. Therefore, it is impossible to determine the profitability of specific service jobs from a year-end income statement.

Use a simplified approach to cost accounting that reflects the needs of the small business and reports the cost with a reasonable degree of accuracy. The total cost of producing any service is composed of three

ABC Repair Company

Table 1 Direct Labor Cost Calculation

(1) Hourly Wage	(2) Payroll Taxes @ 12%	(3) Workers Compensation @ 3%	(4) Total Direct Labor Cost Per Year*	(5) Vacation and Holiday Cost per Working Hour**	(6) Actual Direct Labor Cost per Working Hour***
\$2.68	\$.32	\$.08	\$5406.40	\$.19	\$3.27
3.26	.39	.10	7800.00	.23	3.98
3.40	.41	.10	8132.80	.24	4.15
3.62	.43	.11	8652.80	.26	4.42
3.85	.46	.12	9214.40	.28	4.71
4.10	.49	.12	<u>9796.80</u>	.29	5.00
			Total \$50,003.20		

*40 hrs/wk X 52 wks/yr = 2080 hrs/yr

**6.25% of Columns 1 + 2 + 3.

***Columns 1 + 2 + 3 + 5.

Overhead Cost Overhead includes all job related costs other than direct materials and direct labor. Your overhead cost depends on which of the two ways you figured direct labor costs, with or without the labor-related payroll-benefits costs. If you did not include these expenses in direct labor, then you must include them in overhead. In our examples, however, these labor-related costs are included in direct labor and not in overhead. Either way the effect on the total job cost is the same, but your overhead cost varies accordingly.

Because they may not know how to allocate (or assign) overhead costs to the services performed, many small business owner-managers miscalculate or avoid considering overhead costs.

Overhead is the indirect cost of the service and is made up of indirect materials, indirect labor, and other indirect costs related to particular services. Indirect materials are too minor to include as direct material costs. Incidental supplies and machine lubricants are examples. Indirect labor is the wages, salaries, and other payroll-benefit costs incurred by workers who do NOT perform the service but who support the main service function, such as clerical, supply, and janitorial employees. Other costs like taxes, depreciation, insurance, and transportation are also part of the overhead cost because the service cost includes a portion of all indirect costs (overhead). Table 2 projects total overhead for all services for one year. To figure the portion of overhead related to particular services or jobs, you allocate the various overhead costs by calculating the overhead rate.

The way you calculate the overhead rate should relate the overhead costs to the primary cause for the overhead cost being expended, reflecting a reasonable amount of total overhead to each service. The overhead rate can be expressed as a decimal, as a percentage, or as an hourly rate. The use of the overhead rate helps to assure that all the overhead costs expended throughout the year will be recovered as the business's services are sold throughout the year.

In a situation where employee wages vary a lot, as when higher paid employees work with more expensive equipment, the overhead cost is allocated on the basis of direct labor cost. This occurs because a large proportion of the overhead cost will consist of equipment depreciation (other indirect cost), interest on the capital invested in equipment, and electrical costs. The overhead rate is determined as follows:

$$(1) \text{ Overhead Rate} = \frac{\text{Total Overhead Cost}}{\text{Total Direct Labor Cost}}$$

This is the most common method for allocating overhead cost to the specific service performed. The above rate is suitable for machine shops and auto repair shops.

In some cases there is relatively little difference in the hourly wages paid to different employees. In other cases, no relationship exists between the level of the worker's skill and the amount of equipment used by the worker. Under such circumstances, total overhead cost may be allocated on the basis of direct labor hours as follows:

$$(2) \text{ Overhead Rate} = \frac{\text{Total Overhead Cost}}{\text{Total Direct Labor Hours}}$$

The above rate is suitable for businesses such as secretarial services or janitorial services. The overhead costs result mainly from the workspace, supervision, and electricity that the workers need in order to provide the service. Using formula (2), it is possible to determine the overhead cost per hour per employee.

Calculating the Overhead Cost In determining the total overhead cost, a small business should not depend solely on last year's income statement. Due to inflation and business growth, last year's overhead costs do not accurately reflect today's overhead cost. The best approach is to project the overhead costs for the near future, that is, the anticipated overhead expenses for the next six months to one year. The projected overhead cost will reflect additional administrative salaries, the depreciation of new equipment that the business plans to purchase, rent increases, energy cost increases, etc. Table 2 shows projected overhead expenses for a small business, ABC Repair Company.

The payroll taxes included in the projected overhead expenses for the service business are only those paid on executive and office salaries. The direct labor payroll taxes, holiday pay, vacation pay, etc., are included in the direct labor cost shown in Table 1.

ABC Repair Company

Table 2 Projected Overhead Expenses for the Upcoming Year

Indirect Materials		
Office Expenses	\$ 1,800	
Postage	450	
Repairs	2,900	
Shop Supplies	2,700	
Utilities	2,400	
Telephone	4,400	
	<u> </u>	\$ 14,650
Indirect Labor		
Executive Salaries	\$30,000	
Office Salaries	7,000	
Payroll Taxes	12,000	
Travel & Entertainment	700	
	<u> </u>	49,700
Other Indirect Costs		
Accounting	\$ 2,400	
Advertising	4,800	
Auto-Truck Expense (Transportation)	5,400	
Depreciation	9,650	
Insurance	1,240	
Interest	2,560	
Licenses	650	
Miscellaneous Expense	500	
Rent	8,450	
	<u> </u>	35,650
Total Overhead		<u><u>\$100,000</u></u>

To insure that all overhead costs are included, it is best to project the overhead costs for a full fiscal year. This aids in the treatment of expenses that occur only once each year, such as business licenses.

Cost Calculation Example Perhaps the most common type of service business is the repair business. The cost calculation procedure illustrated here for the repair business can be used for other types of service businesses. The only precaution that needs to be taken is that the appropriate overhead rate formula which reflects the business's operation, as discussed above, be used in the calculation.

It has been estimated, based upon previous experience, that a specific repair job will require \$20 of parts and 2 hours of labor by an employee whose labor cost is \$5.00 per hour (These estimates will be used throughout this Aid). As discussed earlier, the total cost of producing any service is composed of: 1) the material cost, 2) the labor cost, and 3) the overhead cost.

To determine the material cost (the cost of the parts), check the cost of the part in your inventory or get a price quote from your parts supplier. A parts wholesaler is the source of the \$20 material cost in this example.

To determine the total direct labor cost, the number of hours of direct labor used is multiplied by the actual direct labor cost per hour. An employee whose actual direct labor cost is \$5.00 per hour, including payroll taxes and fringe benefits (see Table 1), requires two hours to complete the repair job.

Labor Cost = Direct Labor Cost per Hour X Hours Required
 Labor Cost = \$5.00 per Hour X 2 Hours
 Labor Cost = \$10.00

The projected overhead expenses were projected to be \$100,000 per year, as shown in Table 2. The nature of the repair business is that overhead costs are most directly related to direct labor costs than to direct material costs. The total projected direct labor cost including payroll taxes and fringe benefits was determined to be \$50,003.20 (see Table 1). The formula selected to determine the overhead rate based upon the direct labor cost is:

$$(1) \text{ Overhead Rate} = \frac{\text{Total Overhead Cost}}{\text{Total Direct Labor Cost}}$$

$$= \frac{\$100,000}{\$50,003.20}$$

$$= 2.00$$

In most small businesses, the overhead rate is between one and two (i.e., between 100% and 200% of the direct labor cost). This is based upon the author's five years of small business management consulting experience. Businesses that are very labor intensive, such as a janitorial service, will have an overhead rate much less than 100%.

To determine the overhead cost allocated to a specific job, the labor cost is multiplied by the overhead rate as shown below.

$$\begin{aligned} (1) \text{ Overhead Cost} &= \text{Direct Labor Cost} \times \text{Overhead Rate} \\ &= \$10.00 \times 2.00 \\ &= \$20.00 \end{aligned}$$

To determine the total cost of the repair job, the material cost, the direct labor cost, and the overhead cost are added together:

Material Cost	\$20.00
Direct Labor Cost	10.00
Overhead Cost	<u>20.00</u>
Total	<u>\$50.00</u>

Pricing

Calculate the profit and add it to the total cost to get the price to charge for the service, in this case a repair job. Prices charged by competitors (similar service businesses), economic conditions of supply and demand, and legal, political, and consumer pressures all influence the profit you can expect for your service and hence the price you can charge for your jobs. Inflation, the amount of business you have (i.e., number of jobs), and your productivity (the efficiency and quality of your business and service) also all affect your profit and the way you figure your prices. You can choose from several pricing methods. Common business practice is to express profit as a percentage of the base used for pricing calculations no matter which pricing method you use.

Pricing Alternatives In considering the total cost of the repair job discussed above, the material cost can normally be predicted with a high degree of accuracy. Labor and overhead costs cannot be predicted with such a high degree of accuracy. An employee may not feel well on a given day. Or there may be an equipment breakdown. Either will result in higher than expected labor costs. A provision to adjust for fluctuating labor and overhead costs can be established through your ap-

proach to profit. The profit can be applied to the three costs independently, allowing for variations in labor and overhead costs among jobs. For example, a 10% profit on material, a 30% profit on direct labor, and a 30% profit on overhead can be used to determine the price of the service.

Material Cost + Profit of Material

$$\$20 + \$20 \times 10\% = \$22.00 \quad \$ 2$$

Direct Labor Cost + Profit on Direct Labor

$$\$10 + \$10 \times 30\% = \$13.00 \quad \$ 3$$

Overhead Cost + Profit on Overhead

$$\begin{array}{r} \underline{\$20} + \$20 \times 30\% = \underline{\$26.00} \quad \underline{\$ 6} \\ \$50 \text{ Cost} \qquad \qquad \qquad \$61.00 \text{ Price} \quad \$11 \text{ Profit} \end{array}$$

The concept of applying a different rate of profit on the three underlying costs (material, labor, and overhead) is one method of dealing with the large difference in predictability of costs that exists between labor and materials in most service businesses. To reflect the fluctuations in utilization and cost of labor and overhead from job to job, your profit on labor and overhead should normally be higher than profits on materials.

Direct Cost Pricing With this method you set your selling price based on direct cost, that is, on direct materials (DM) and direct labor (DL). DM of \$20 plus DL of \$10 equals Direct Costs of \$30. Overhead (OH) costs are \$20; so to earn the \$11 profit you need, your selling price must be at least \$31 above your direct costs. To find the percentage of profit on direct cost to charge, divide direct costs into overhead plus needed profit:

$$\begin{aligned} \$31 (\$11 + \$20) \div \$30 &= 103 \frac{1}{3}\% \\ (\text{proof } \$30 \times 103 \frac{1}{3}\% &= \$30 \times 1.033 = \$11) \end{aligned}$$

Profit Margin Pricing This profit rate is expressed as a percentage of your full costs. Full cost is divided into the needed profit to get the percentage of profit margin:

$$\begin{aligned} \$11 \div \$50 &= 22\% \\ \text{Proof } \$50 \times 22\% &= \$11 \end{aligned}$$

Profit can also be figured as percentages of assets used on the job. This method is called **return-on-asset pricing**. Thus, full cost per job plus the needed profit (rate of profit times the amount of assets used per job) equals the job price: $\$50 + (\$80 \times 14\%) = \$50 + \$11 = \$61$.

One of the most widely used pricing methods for service oriented businesses is time and material pricing. Time is expressed as the labor cost per hour, calculated as 1) direct labor (DL) and payroll-benefits (see Direct Labor cost explanation), including 2) overhead (OH) costs not related to materials and 3) needed profit. Material cost is the direct material (DM) cost and overhead (OH) plus 30% for needed profit. (Note overhead has been allocated to labor and materials.)

Time:	DL \$5 per hr. X 2 hrs. =	\$10	
	OH \$7 per hr. X 2 hrs. =	<u>\$14</u>	
		24	
		7 needed profit	
			<u>\$31</u>

Material:	DM \$20		
	OH <u>3</u>		
	\$23 + (\$23 X 30%) =		
	\$23 + \$9 (profit) =		<u>\$30</u>
			<u>\$61</u>

In most small repair businesses, there is not a large amount of overhead cost associated with obtaining parts besides a telephone call to order them. Charging a large amount of overhead to parts may result in pricing yourself out of the market.

By all these methods you are deriving a selling price for your service. Sometimes however you start with the selling price already established — by competition or economic conditions. Then you must figure out the most cost you can incur and still earn your needed profit.

Summary

The total cost of producing a service is composed of direct material, direct labor, and overhead costs. This cost information is used as a basis for setting prices and profit. From alternative pricing methods you select one that earns a satisfactory profit and is easy for you to use. Given regulations, competition, and the economy, you must have a pricing strategy that keeps your service competitive and profitable. The more exactly you figure your costs and set prices, the greater your chances for continued and profitable business.

A Pricing Checklist for Small Retailers

U.S. Small Business Administration
Number 4.013

Summary

This Aid is a checklist for the owner-manager of a small retail business. These 52 questions probe the considerations—from markup to pricing strategy to adjustments—that lead to correct pricing decisions. You can use this checklist to establish prices in your new store, or you can use it to periodically review your established pricing policy.

A retailer's prices influence the quantities of various items that consumers will buy, which in turn affects total revenue and profit. Hence, correct pricing decisions are a key to successful retail management. With this in mind, the following checklist of 52 questions has been developed to assist small retailers in making systematic, informed decisions regarding pricing strategies and tactics.

This checklist should be especially useful to a new retailer who is making pricing decisions for the first time. However, established retailers, including successful ones, can also benefit from this Aid. They may use it as a reminder of all the individual pricing decisions they should review periodically. And, it may also be used in training new employees who will have pricing authority.

The Central Concept of Markup

A major step toward making a profit in retailing is selling merchandise for more than it cost you. This difference between cost of merchandise and retail price is called *markup* (or occasionally *markon*). From an arithmetic standpoint, markup is calculated as follows:

Dollar markup = Retail price - Cost of the merchandise

Percentage markup = $\frac{\text{Dollar markup}}{\text{Retail price}}$

If an item cost \$6.50 and you feel consumers will buy it at \$10.00, the dollar markup is \$3.50 (which is \$10.00 - \$6.50). Going one step further, the percentage markup is 35 percent (which is $\frac{\$3.50}{\$10.00}$). Anyone involved in retail pricing should be as knowledgeable about these two formulas as about the name and preferences of his or her best customer!

Two other key points about markup should be mentioned. First, the cost of merchandise used in calculating markup consists of the base invoice price for the merchandise plus any transportation charges minus any quantity and cash discounts given by the seller. Second,

retail price, rather than cost, is ordinarily used in calculating percentage markup. The reason for this is that when other operating figures such as wages, advertising expenses, and profits are expressed as a percentage, all are based on retail price rather than cost of the merchandise being sold.

Target Consumers and the Retailing Mix

In this section, your attention is directed to price as it relates to your potential customers. These questions examine your merchandise, location, promotion, and customer services that will be combined with price in attempting to satisfy shoppers and make a profit. After some questions, brief commentary is provided.

1. Is the relative price of this item very important to your target consumers? Yes No

The importance of price depends on the specific product and on the specific individual. Some shoppers are very price conscious. Others want convenience and knowledgeable sales personnel. Because of these variations, you need to learn about your customers' desires in relation to different products. Having sales personnel seek feedback from shoppers is a good starting point.

2. Are prices based on estimates of the number of units that consumers will demand at various price levels?

Demand-oriented pricing such as this is superior to cost-oriented pricing. In the cost approach, a predetermined amount is added to the cost of the merchandise, whereas the demand approach considers what consumers are willing to pay.

3. Have you established a price range for the product?

The cost of merchandise will be at one end of the price range and the level above which consumers will not buy the product at the other end.

4. Have you considered what price strategies would be compatible with your store's total retailing mix that includes merchandise, location, promotion, and services?

5. Will trade-ins be accepted as part of the purchase price on items such as appliances and television sets? Yes No

Supplier and Competitor Considerations

This set of questions looks outside your firm to two factors that you cannot directly control—suppliers and competitors.

6. Do you have final pricing authority? Yes No

With the repeal of fair trade laws, "yes" answers will be more common than in previous years. Still, a supplier can control retail prices by refusing to deal with non-conforming stores (a tactic which may be illegal) or by selling to you on consignment.

7. Do you know what direct competitors are doing price-wise? Yes No

8. Do you regularly review competitors' ads to obtain information on their prices? Yes No

9. Is your store large enough to employ either a full-time or part-time comparison shopper? Yes No

These three questions emphasize the point that you must watch competitors' prices so that your prices will not be far out of line—too high or too low—without good reason. Of course, there may be a good reason for out-of-the-ordinary prices, such as seeking a special price image.

A Price Level Strategy

Selecting a general level of prices in relation to competition is a key strategic decision, perhaps the most important.

10. Should your overall strategy be to sell at prevailing market price levels? Yes No

The other alternatives are an above-the-market strategy or a below-the-market strategy.

11. Should competitors' temporary price reductions ever be matched? Yes No

12. Could private-brand merchandise be obtained in order to avoid direct price competition? Yes No

Calculating Planned Initial Markup

In this section you will have to look inside your business, taking into account sales, expenses, and profits before setting prices. The point is that your initial markup must be large enough to cover anticipated expenses and reductions and still produce a satisfactory profit.

13. Have you estimated sales, operating expenses, and reductions for the next selling season? Yes No

14. Have you established a profit objective for the next selling season? Yes No

15. Given estimated sales, expenses, and reductions, have you planned initial markup? Yes No

This figure is calculated with the following formula:

$$\text{Initial markup percentage} = \frac{\text{operating expenses} + \text{reductions} + \text{profit}}{\text{Net sales} + \text{reductions}}$$

Reductions consist of markdowns, stock shortages, and employee and customer discounts. The following example uses dollar amounts, but the estimates can also be percentages, and if the retailer desires a \$4,000 profit, initial markup percentage can be calculated:

$$\text{Initial markup percentage} = \frac{\$34,000 + \$6,000 + \$4,000}{\$94,000 + \$6,000} = 44\%$$

The resulting figure, 44 percent in this example, indicates what size markup is needed on the average in order to make the desired profits.

16. Would it be appropriate to have different initial markup figures for various lines of merchandise or services? Yes No

You would seriously consider this when some lines have much different characteristics than other. For instance,

a clothing retailer might logically have different initial markup figures for suits, shirts, and pants, and accessories. (Various merchandise characteristics are covered in an upcoming section.) You may want those items with the highest turnover rates to carry the lowest initial markup.

Store Policies

Having calculated an initial markup figure, you could proceed to set prices on your merchandise. But an important decision such as this should not be rushed. Instead, you should consider additional factors which suggest what would be the best price.

17. Is your tentative price compatible with established store policies?

Yes No

Policies are written guidelines indicating appropriate methods or actions in different situations. If established with care, they can save you time in decision making and provide for consistent treatment of shoppers. Specific policy areas that you should consider are as follows:

18. Will a one-price system, under which the same price is charged every purchaser of a particular item, be used on all items?

The alternative is to negotiate price with consumers.

19. Will odd-ending prices such as \$1.98 and \$44.95, be more appealing to your customers than even-ending prices?

20. Will consumers buy more if multiple pricing, such as 2 for \$8.50, is used?

21. Should any leader offerings (selected products with quite low, less profitable prices) be used?

22. Have the characteristics of an effective leader offering been considered?

Ordinarily, a leader offering needs the following characteristics to accomplish its purpose of generating much shopper traffic: used by most people, bought fre-

quently, very familiar regular price, and not a large expenditure for consumers.

23. Will price lining, the practice of setting up distinct price points (such as \$5.00, \$7.50, and \$10.00) and then marking all related merchandise at these points, be used?

Yes No

24. Would price lining by means of zones (such as \$5.00 - \$7.50 and \$12.50 - \$15.00) be more appropriate than price points?

25. Will cent-off coupons be used in newspaper ads or mailed to selected consumers on any occasion?

26. Would periodic special sales, combining reduced prices and heavier advertising, be consistent with the store image you are seeking?

27. Do certain items have greater appeal than others when they are part of a special sale?

28. Has the impact of various sale items on profit been considered?

Sale prices may mean little or no profit on these items. Still, the special sale may contribute to total profits by bringing in shoppers who may also buy some regular-price (and profitable) merchandise and by attracting new customers. Also, you should avoid featuring items that require a large amount of labor, which in turn would reduce or erase profits. For instance, according to this criterion, shirts would be a better special sale item than men's suits that often require free alterations.

29. Will "rain checks" be issued to consumers who come in for special-sale merchandise that is temporarily out of stock?

You should give particular attention to this decision since rain checks are required in some situations. Your lawyer or the regional Federal Trade Commission office should be consulted for specific advice regarding whether rain checks are needed in the special sales you plan.

Nature of the Merchandise

In this section you will be considering how selected characteristics of particular merchandise affect planned initial markup.

30. Did you get a "good deal" on the wholesale price of this merchandise? Yes No
31. Is this item at the peak of its popularity?
32. Are handling and selling costs relatively great due to the product being bulky, having a low turnover rate, and requiring much personal selling, installation, or alterations?
33. Are relatively large levels of reductions expected due to markdowns, spoilage, breakage, or theft?

With respect to the preceding four questions, "Yes" answers suggest the possibility of or need for larger-than-normal initial markups. For example, very fashionable clothing often will carry a higher markup than basic clothing such as underwear because the particular fashion may suddenly lose its appeal to consumers.

34. Will customer services such as delivery, alterations, gift wrapping, and installation be free of charge to customers?

The alternative is to charge for some or all of these services.

Environmental Considerations

The questions in this section focus your attention on three factors outside your business, namely economic conditions, laws, and consumerism.

35. If your state has an unfair sales practices act that requires minimum markups on certain merchandise, do your prices comply with this statute?
36. Are economic conditions in your trading area abnormal?

Consumers tend to be more price-conscious when the economy is depressed, suggesting that lower-than-normal markups may be needed to be com-

petitive. On the other hand, shoppers are less price-conscious when the economy is booming, which would permit larger markups on a selective basis.

37. Are the ways in which prices are displayed and promoted compatible with consumerism, one part of which has been a call for more straightforward price information? Yes No
38. If yours is a grocery store, it is feasible to use unit pricing in which the item's cost per some standard measure is indicated?

Having asked (and hopefully answered) more than three dozen questions, you are indeed ready to establish retail prices. When you have decided on an appropriate percentage markup, 35 percent on a garden hose for example, the next step is to determine what percentage of the still unknown retail price is represented by the cost figure. The basic markup formula is simply rearranged to do this:

$$\text{Cost} = \text{Retail price} - \text{Markup}$$

$$\text{Cost} = 100\% - 35\% = 65\%$$

Then the dollar cost, say \$3.25 for the garden hose, is plugged into the following formula to arrive at the retail price:

$$\text{Retail price} = \frac{\text{Dollar cost}}{\text{Percentage cost}} = \frac{\$3.25}{65\% \text{ (or } .65)} = \$5.00$$

One other consideration is necessary:

39. Is the retail price consistent with your planned initial markups?

Adjustments

It would be ideal if all items sold at their original retail prices. But we know that things are not always ideal. Therefore, a section on price adjustments is necessary.

40. Are additional markups called for because wholesale prices have increased or because an item's low price causes consumers to question its quality?
41. Should employees be given purchase discounts?

42. Should any groups of customers, such as students or senior citizens, be given purchase discounts?

Yes No

43. When markdowns appear necessary, have you first considered other alternatives such as retaining price but changing another element of the retailing mix or storing the merchandise until the next selling season?

44. Has an attempt been made to identify causes of markdown so that steps can be taken to minimize the number of avoidable buying, selling, and pricing errors that cause markdowns?

45. Has the relationship between timing and size of markdowns been taken into account?

In general, markdowns taken early in the selling season or shortly after sales slow down can be smaller than late markdowns. Whether an early or late markdown would be more appropriate in a particular situation depends on how many consumers might still be interested in the product, the size of the initial markup, and the amount remaining in stock.

46. Would a schedule or automatic markdowns after merchandise has been in stock for specified intervals be appropriate?

47. Is the size of the markdown "just enough" to stimulate purchases?

This question stresses the point that you have to observe the effects of markdowns so that you can know what size markdowns are "just enough" for different kinds of merchandise.

48. Has a procedure been worked out for markdowns on price-lined merchandise?

49. Is the markdown price calculated from the off-retail percentage?

This question gets you into the arithmetic of markdowns. Usually, you

first tentatively decide on the percentage amount price must be marked down to excite consumers. For example, if you think a 25 percent markdown will be necessary to sell a lavender sofa, the dollar amount of the markdown is calculated as follows:

$$\text{Dollar markdown} = \text{Off-retail percentage} \times \text{Previous retail price}$$

$$\text{Dollar markdown} = 25\% \text{ (or } .25) \times \$500. = \$125.$$

Then the markdown price is obtained by subtracting the dollar markdown from the previous retail price. Hence, the sofa would be \$375.00 after taking the markdown.

50. Has cost of the merchandise been considered before setting the markdown price?

Yes No

This is not to say that a markdown price should never be lower than cost, on the contrary, a price that low may be your only hope of generating some revenue from the item. But cost should be considered to make sure that below-cost markdown prices are the exception in your store rather than being so common that your total profits are really hurt.

51. Have procedures for recording the dollar amounts, percentages, and probable causes of markdowns been set up?

Markdown analysis can provide information for assist in calculating planned initial markup, in decreasing errors that cause markdowns, and in evaluating suppliers.

52. Have you marked the calendar for a periodic review of your pricing decisions?

Rather than making careless pricing decisions, this checklist should help you lay a solid foundation of effective prices as you try to build retail profits.

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Goal 10.0 To understand financial management and planning

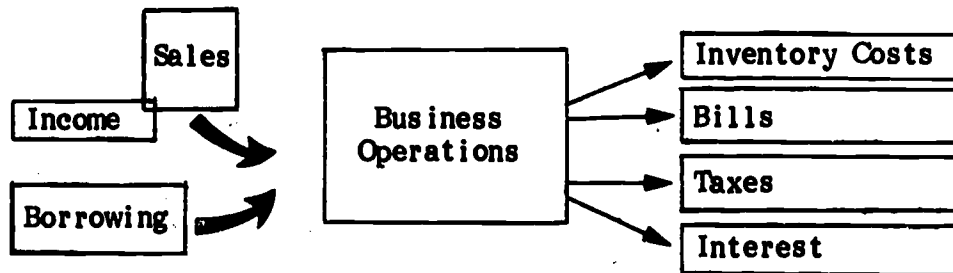
Competencies:

- 10.1 Plan cash flow to provide funds to meet expenses**
- 10.2 Use breakeven analysis for planning**
- 10.3 Invest excess funds**

Plan Cash Flow

Financial Planning

Financial planning is crucial for a successful business operation. You will need to consider the amount of money actually needed to start your business. Another very important component of planning and budgeting is the cash flow. Very simply stated, cash flow is the influx of money into your business from sales or borrowing to meet the expenses of operating your business, causing cash to flow out of it.



Information Planning

It may be at this point you will actively seek information offered through continuing education resources, your state's small business resources (most likely a part of the Department of Commerce) and the United States Small Business Administration.

You will get the information to fill out the daily cash sheet from some of your records--sales slips, customer account forms, and checking account records. On the left side of the form, you list the money coming into the business that day. The amount of cash is the money coming in from customers who pay for products or services at the same time they buy. The credit sale is the money coming in from a customer who charged the product or service and will pay for them at a later date.

On the right side of the form, list all the money going out of the business. This might include salaries, utilities, equipment, inventory, advertising, and other expenses.

By filling in a cash sheet every day, you can prepare business reports for yourself, the bank, and the government. You can look at your financial reports when you want to make an important business decision.

Other Ways of Keeping Track of Expenses

When you start your home-based business, you will need to keep a file of your unpaid business bills. File bills in order by the date that the bill needs to be paid; then when paying your bills write your checks in that order.

You may also want to keep a separate record or ledger for each type of payment being made. On this form you will record every time money is paid out. When you prepare yearly financial reports, you can easily add up all the figures on the page and determine the total amount spent on a certain item for the year.

A simple record keeping system is adequate for the beginning home entrepreneur; it is called a single-entry system. An office supply store should have a single-entry system available.

Cash Flow

Keeping your home-based business successful is a day-in, day-out job. Besides all the other things you should do to keep the business running smoothly, you have to keep your business successful by making sure you have enough cash, keeping your profits up and your costs down, and improving your products and services.

Many small businesses have "cash flow" problems at one time or another. A cash flow problem occurs when the cash is flowing out of the business faster than it is flowing in. In other words, the business owner has to pay bills promptly every month, but the customers are slow to pay the owner the money they owe.

The reason you will want to keep track of the cash on hand in your business is to be assured that you will have enough money to meet your business expenses. It is recommended that you estimate your cash flow at least a few months ahead. For larger business enterprises some experts recommend estimating the future business plans and expenses over a five year period. This may not be practical or feasible for the small business person or home entrepreneur. However, it might be worthwhile to make future predictions for your business, looking ahead at least one year.

If you project that you will have extra cash you may wish to invest in improving your business, or to put the extra cash in short-term investments to earn some interest.

Conversely, if your business is having cash flow problems, and your future projections indicate a cash shortage, you may have to borrow money to keep going. Paying interest on borrowed money is a significant business expense for the home entrepreneur.

The Cash Flow Statement

A good way to keep track of your cash flow is to use a cash flow statement. Follow the record of your business on a daily cash sheet. Figure out a cash flow statement for the past few months of your business operation. Estimate or project a cash flow statement for the coming months.

A projected cash flow statement follows. It shows the cash you expect to take in and pay out in the next three months.

To figure the amount of cash on hand at the end of the month, subtract the total expenses for the month from the total revenues for the month.

Cash on hand at the end of the month = total cash revenues - total expenses

		Date: _____					
		Cash Flow Statement					
		(projected for next three months)					
<u>Cash Revenues</u>		October		November		December	
Cash on hand from previous month		110	00	588	30	690	10
Revenues from customers		5110	00	5000	00	7500	00
Revenues from interest		18	50	17	00	30	00
	<u>Total Revenues</u>	5238	50	5605	30	8220	10
<u>Cash Payment</u>							
Salaries to employees		2540	20	2540	20	2540	20
Supplies		2000	00	2200	00	3200	00
Advertising		60	00	70	00	120	00
Building Expenses		0	00	0	00	0	00
Utilities		25	00	50	00	85	00
Other Expenses		25	00	55	00	100	00
	<u>Total Expenses</u>	4650	20	4915	20	6045	20
CASH ON HAND AT THE END OF THE MONTH		588	30	690	10	2174	90

Ways to Improve Cash Flow

To help solve cash flow problems you will find it necessary to look for ways to economize and lower your business operating expenses. You may consider raising prices as another way to increase revenues.

You will want to consider some alternative financing sources that are available to small businesses. If suppliers offer an extended time period for payment of bills, they are offering a form of credit that is really short term financing. When suppliers extend this kind of credit it is called "trade credit." Trade credit is one of the largest sources of small business financing available. Trade credit will only be continued as long as you maintain good relations with your supplier and pay your bills on time.

By negotiating with your supplier you may be able to arrange terms to repay in 30, 45, 60 or 90 days. If your supplier agrees not to charge interest if payment is made during the agreed time period, you have been extended short term financing that will be beneficial to your business during a cash flow crisis.

You may need to borrow money from a personal friend or relative. You may need to borrow from a lending institution such as a bank or commercial finance company.

There are several ways to solve a temporary cash flow problem to help avoid making a loan:

- Get customers to pay their bills more quickly.
- Limit credit extended to customers.
- Cut down on goods ordered for inventory or resale.
- Negotiate with suppliers for extended credit terms.
- Search for ways to cut operating expenses.
- Reduce your own salary.
- Use profits to reinvest in the business.

Simple Breakeven Analysis for Small Stores

U.S. Small Business Administration
Number 1.019

Summary

Break-even analysis is not a panacea. It doesn't tell you if your costs are out of line. It tells you only what sales volume you need to cover fixed costs.

It is, however, an excellent starting point for finding out where you are and, more importantly, where you can go. It's a good first step to planning.

This Aid, presented as a conversation between a business counsellor (C) and the owner-manager of a small store (O-M), discusses a simplified method of calculating the break-even point for a small retail operation. While this method is not appropriate for manufacturers or large retailers, it provides a financial planning takeoff point for small stores.

O-M: I'm ready to expand. I've just had a great fourth quarter. I've got a chance to move to a larger store in a good location. I really think I'm on my way. Still, though, I don't want to take any unnecessary chances and lose what I've built up these first three years. What do you think I should do?

C: Let me answer your question with a question: What's your break-even point now and what will it be if you assume the added expansion cost?

O-M: I'm not exactly sure, but after that last quarter I've got money in the bank and I'm paying all my bills on time.

What Bank Balances May Not Reveal

C: I'm glad to hear you're in good shape, but you can't make an intelligent expansion decision based on your bank balance at a given moment.

O-M: You ought to know, but why not?

C: Take your balance now, for example. It's a lot better than it was at the end of the first quarter, isn't it?

O-M: Sure, but the first quarter's usually slow. It's a fact of retail life.

C: And the fourth quarter is usually good, right?

O-M: Yes, that's a fact, too. But mine was outstanding—it was the best I've ever had.

C: I'm sure it was, but it can distort the picture. If you're relying on your bank balance for a feel for your break-even point, you may just be guessing. Many things influence your bank balance that may not necessarily have a direct bearing on the break-even point for your store. Seasonal fluctuation is just one of them.

O-M: There are more?

C: Sure, capital expenditures, extraordinary repairs, unusual outlays . . .

O-M: Okay, I get the point. My bank balance is meaningless. I shouldn't expand.

C: We don't know that yet. After we find out what sales volume you'll need to break even, then you'll tell me if you ought to expand or not.

O-M: Some counsellor. First you tell me I don't know what I'm doing and then you expect me to advise me on expansion.

Break-even Analysis Is Not a Substitute for Judgment

C: You're wrong on the first half of that; I know you know retailing. But, yes, you'll decide on the basis of your business knowledge and judgment whether or not expansion now makes sense.

O-M: I must be doing something right. I'm still in business.

C: Exactly. You've made it through some of the toughest business years, the first ones. And you're showing a fair profit. I think you've got a real flair for merchandising.

O-M: Please, you'll make me blush. What about this break-even thing?

What Break-even Means

C: Break-even is simply the point where costs equal what you're taking in—no profit, no

loss—over a relevant sales range. To calculate this point you must work with only two factors, fixed expenses (like insurance or rent) and variable costs (like cost of goods or sales commissions).

O-M: I sure wish my costs were fixed. Everything goes up for me. My insurance, for example, looks like it's going up 25 percent over last year.

Fixed and Variable Costs

C: Well, actually "fixed costs" is something of a misnomer. Sure, rents, property taxes, insurance, even the salary you pay yourself may fluctuate—but on a yearly basis and not in relation to sales. For the purpose of break-even analysis every cost that doesn't vary in relation to sales is called "fixed." Your rent, for instance, stays the same for the year whether you sell \$250,000 or \$2.50 worth of goods, though we know some rents are tied to volume and vary. The same is usually true of utilities, depreciation, and similar expense items.

O-M: I see the point. Variable costs, then, are basically my cost of sales? I have to buy more if I sell more. If I paid commissions, I'd be paying more for more sales, and that sort of thing.

C: That's right. There can be other variable costs, but we're simplifying. In addition, you'll probably find costs that seem to be part variable, part fixed.

O-M: You mean they're "semi-variable" or "semi-fixed?"

C: Yes, they're costs that remain fixed up to a certain sales volume and then jump as that volume is exceeded. For example, office costs, or delivery expenses may fit in this category.

O-M: How do I treat them?

C: Use your good business judgment and split them between fixed and variable costs in what you consider a reasonable proportion. The important thing to hold in mind for simple break-even analysis is to keep it simple. Oversimplicity is, of course, a drawback

of this method. But simple break-even analysis really helps you to see your way into a planning problem and to establish its perimeters.

O-M: I like the idea of simplicity, but I don't think break-even sounds simple so far.

C: I think you'll see how easy it is if we work through an example. Here, take a look at this hypothetical income or profit and loss statement for the B-E Retail Store.

B-E Retail Store Income Statement For the year ending December 31, 19____

Item	Amount	Percent
Sales	\$60,000	100
Cost of Sales	42,000	70
Gross Profit	18,000	30
Expenses:		
Rent	\$ 1,800	3
Wages	12,600	21
Utilities	2,400	4
Insurance	1,200	2
Taxes	600	1
All Other	600	1
Total Expenses	19,200	32
Loss for Period	(\$ 1,200)	(2)

O-M: B-E doesn't seem to have broken even.

C: Correct. Let's find out what kind of sales volume B-E needed to break even in that year. For simplicity (there's that word again) let's consider cost of sales (which is 70 percent of sales) as the total variable costs and the expense items of \$19,200 as the fixed costs. We calculate the break-even point by using an algebraic formula.

O-M: A simple one, I hope.

C: Of course. It's just $S = F + V$, where:
S - Sales at the break-even point,
F - Fixed expenses, and
V - Variable costs and expenses as a percent of sales.

M: All right, we know B-E's variable and fixed costs. How do we get sales?

C: Let's plug in the figures:
 $S = \$19,200 + .70S$
 $10S = \$192,000 + 7S$

O-M: Excuse me, 10S?

C: I multiplied the whole equation by 10 to get rid of the decimal fraction, because I think it's easier to work with whole numbers. Anyway, we get:
 $10S - 7S = \$192,000$
 $3S = \$192,000$
 $S = \$64,000$

O-M: B-E needed \$64,000 total sales to break even? Anything less, they'd have a loss; anything more they'd make a profit?

C: You've got it. Let's check it, though, just to confirm it:

Sales	\$64,000
Less Cost of Sales	-\$44,800 (70% of sales)
Gross Profit	\$19,200
Less Expenses	-\$19,200
Profit or Loss	\$0

O-M: Okay, so B-E has broken even. I think they'd like to make a profit. I know I do.

$3S = \$262,000$
 $S = \$94,000$

O-M: May I check the figures this time?

C: Certainly.

O-M: All right, let's see:

Sales	\$94,000	
Less Cost of Sales	-\$65,800	(70% of sales)
Gross Profit	\$28,200	
Less Expenses	-\$19,000	
Profit	\$ 9,000	

C: Convinced?

O-M: Yes, I can see how this formula can help you find how much you need to sell to break even or make a given profit, but what about my problem?

Break-even Analysis for Planning

C: Break-even analysis is just what you need. It's primarily a planning tool. I've looked at your Income Statement and divided it into fixed and variable costs. As I see it, your cost of sales, which we'll consider as your total variable costs, comes to about 60 percent of sales. Your fixed expenses ran about \$60,000. So for last year:
 $S = \$60,000 + .60S$
 $10S = \$600,000 + 6S$
 $4S = \$600,000$
 $S = \$150,000$
 You had to sell only \$150,000 worth of merchandise to break even.

O-M: As you can see, I sold \$200,000 worth, but I didn't make a \$50,000 profit.

C: Right, you made a \$20,000 profit just as the bottom line indicates. Remember, you still had those variable costs on sales even after all of your fixed expenses were covered at the \$150,000 level.

O-M: Oh, I see, it's like this:
 $S = F + V + \text{Profit}$
 $S = \$60,000 + .60S = \$20,000$
 $10S = \$600,000 + 6S + \$200,000$
 $4S = \$800,000$
 $S = \$200,000$

Calculating Break-even for a Given Profit

C: We can find out what kind of sales B-E needed to make a profit using the formula again. Leaving the other figures the same, let's put in a modest profit—say, \$9,000—and see what sales they needed. The formula now looks like this:
 $\text{Sales} = \text{Fixed Expenses} + \text{Variable Costs} + \text{Profit}$

O-M: You just add the desired amount of profit in?

Yes, really it affects the break-even point just like a fixed expense:
 $S = \$19,200 + .70S + \$9,000$ (desired profit)
 $10S = \$192,000 + 7S + \$90,000$ (multiplied by 10 to eliminate fraction)

C: Now you've got it. Let's consider your expansion question. How much will your rent increase?

O-M: Only \$5,000 more than I did last year? I can do that easily.

Using Break-even Analysis to Examine Expansion Feasibility

O-M: It would be about \$5,000 more. I figure the utilities for the larger space will be \$2,000 more than I paid last years. Taxes, the "fixed" ones, I expect to run about \$1,000 more and my insurance will increase about \$500. I also think I may need to hire another sales person.

C: Let's say you do. What do you plan to pay?

O-M: I'd pay an experienced sales clerk about \$9,000. I'm toying with the idea of instituting a 2 percent commission on sales as an incentive, too.

C: All right. We know it's not as simple as we'll lay it out, but I think the analysis will give you an idea of whether or not to explore the expansion idea more carefully and in greater detail.

O-M: Fine.

C: Your fixed expenses will rise by \$17,500, if you include hiring another employee. That brings them to \$77,500, assuming no other increases from last year's \$60,000. For simplicity's sake let's assume your cost of sales (your variable costs) will increase only by the 2 percent commission. That means 62 percent of sales for variable costs. So:
 $S = \$77,500 + .62S$
 $100S = \$7,774,000 + 62S$ (multiplied by 100 to eliminate fraction)
 $38S = \$7,775,000$
 $S = \$205,000$ (approximately)

C: And be \$20,000 in profits worse off than last year. Let's put last year's \$20,000 profit in—in an expansion you still might want to do at least as well:

$$S = \$77,500 + .62S + \$20,000$$

$$100S = \$7,750,000 + 62S + \$2,000,000$$

$$38S = \$9,750,000$$

$$S = \$257,000$$
 (approximately)

O-M: Hm, that's approximately a 25 percent sales increase just to make the same profit as last year.

Business Judgment Still Necessary

C: Do you think you can boost sales by that much? Perhaps you see long range benefits from expansion that justify sacrificing some profit for the short run.

O-M: I'm not sure. I'll have to give it more thought, look at the trends in my business and in this area. My pricing policy may need adjustment. Maybe I can cut some costs. But now at least I've got a starting point, a dollar figure I can work with and from. Most importantly of all, I have a technique to help me attack my problem and help point me toward a rational decision.

C: That's what break-even analysis is all about.

Invest Excess Funds

Introduction

A business should create wealth. One way to do this is through investment. There are three basic categories of financial investments. They are:

1. portfolio investments,
2. real estate investments, and
3. investment in business.

A business must look at all its choices. It then chooses the best one or ones to meet its needs and goals at that time. A business might make an investment one year that it would not choose another year. Investment in human resources is also discussed.

Portfolio Investments

In business, the term "paper" means a pledge to pay. The pledge or paper can be sold or traded, making it negotiable. For example, a check is a type of "paper" because it promises to pay with money that is in your bank account. It is negotiable because it can be traded to someone else for cash or for something of equal value.

A business portfolio consists of its "paper" investments. A portfolio can include both short-term and long-term investments. Short-term investments usually mean from one to five years. Long-term investments mean more than five years.

There are eight kinds of investments which involve "paper." They are:

- | | | |
|---|---|------------------------------------|
| 1. share accounts | } | Fixed-Income
Paper Investments |
| 2. U.S. Treasury bills and obligations | | |
| 3. federal agency notes | | |
| 4. bank time deposits and certificates of deposit | | |
| 5. commercial paper | } | Growth-Income
Paper Investments |
| 6. bonds | | |
| 7. common stock | | |
| 8. mutual funds | | |

Portfolio: Fixed-Income Paper Investments

Fixed-income paper investments are investments that have an expected yield or rate of return. These terms refer to the interest earned for a one-year period from a paper investment. It is expressed as a percentage of the investment amount. For example, the rate of return of a savings account at a bank may be five percent a year.

Advantages of fixed-income investments are: a) they will produce dividends or interest; b) they are relatively easy to turn into cash; c) they produce return in a relatively short time; d) they require little or no management; and e) they are generally low-risk. Let us take a closer look at the six kinds of fixed-income paper investments.

1. Share Account. A business can always invest in a credit union share account. This means a business deposits money into a credit union account. In banks, it is called a bank account; in credit unions, it is called a share account. These accounts are insured by the Federal Government (in case the credit union fails or the money is stolen) and they pay interest. The amount of interest paid by a credit union is the business's opportunity rate of return or the largest amount of income that can be produced from a risk-free investment. It becomes the standard by which all other business investments are judged. If a share account pays seven percent, then all other investments must pay seven percent or more. Seven percent is that business's opportunity rate of return.

2. U.S. Treasury Bills and Other Obligations. U.S. Treasury bills are sold for less than the amount that is shown on the face. This is called being sold at a discount. When the bill matures, in three, six, nine months, one year, etc., it can be turned in for the face amount. The difference between the amount you paid and the face amount is the profit on the investment. These are very safe investments and have a high liquidity. That means they can be easily changed into cash if needed.

The U.S. Treasury also issues other kinds of paper investments:

- a. Bonds--these mature in more than seven years and cost \$25 or more;
- b. Notes--these mature in less than seven years and are sold in thousand dollar amounts;
- c. Certificates of indebtedness--these mature in a year or less and cost all different amounts.

U.S. Treasury paper is considered to be the most conservative investment possible when it is held till maturity.

3. Federal Agency Notes. These are like Treasury paper because they are safe and highly liquid. Examples of federal agency notes are: Federal Home Loan bank notes and Tennessee Valley Authority notes.

4. Bank Time Certificates of Deposit. A business can deposit money in a bank for a certain length of time. The bank pays interest on the deposit. This is called a Time Certificate of Deposit, or TCD. It is non-negotiable and has a fixed maturity date. Banks also issue negotiable certificates. These are just like TCDs, except they usually require much larger deposits.

5. Commercial Paper. These are notes issued by major finance and industrial companies. They are issued for short periods of time to raise working capital.

6. **Bonds.** A bond is a type of loan made by a) the federal government; b) state or local government; and c) private business corporations. State and local government bonds can be tax exempt, but usually pay lower interest than private corporate bonds. Most bonds are considered to be relatively low-risk investments. Bonds have a fixed rate of return over a specific period of time. When they mature (in 1 to 30 years) they can be cashed in for their face value.

All of the first six examples of paper investments produce the best yield of low-risk investments. More information about them can be obtained from an investment banker.

The chart below shows what the rate of return was on several types of fixed-income paper investments for the year 1977.

WHAT YOU CAN GET FOR YOUR DOLLAR	
If you had put your money in:	Your yield would have been: %
U.S. Treasury Bills (90 days)	5.20
U.S. Treasury Bills (180 days)	5.50
Canadian Treasury Bills (90 days)	5.20
TCDs (less than 90 days)	5.38-5.63
TCDs (more than 90 days)	5.75-6.0
Government bonds-short term	5.80
Government bonds-long term	7.40
Municipal bonds-long term	5.71
Corporate bonds	8.47
Utility bonds	7.20

Source: Continental Bank, Wright Investors' Service.

Portfolio: Growth-Income Paper Investments

1. **Common Stocks.** Shares of ownership in a business or corporation are known as common stock and are one of the major factors in the American economy. They are the usual means of raising money for a corporation. Investment in common stocks makes money in two ways. The board of directors can declare a dividend. This is paid to stockholders. Second, the value of stock can increase, so it is worth more than the original price. For these reasons, the investment in common stock paper can grow and is called a growth-income paper investment. This is different from the first six kinds of paper which produce a fixed rate of return.

There are two major disadvantages to common stock. a) There is no assurance that the money invested will be paid back. It is a higher risk investment than the first six kinds of paper. Investments in common stock should be limited to the amount of money a person or corporation can afford to lose if the business fails. b) The stock market changes daily, so the value of stock changes daily. The value of common stock will go up and down, on a daily basis, but eventually be worth more if the business grows.

2. **Mutual Funds.** Many investors buy shares in a professional investment company or "mutual fund." The investment company then buys and sells stock in other companies. Mutual funds have several advantages, even for the smaller investor.

- a. The investment company spreads its investments around by buying into several companies. This cuts down on the risk of loss by any one investment.
- b. Mutual fund stock is highly liquid. It can be bought and sold like common stocks.
- c. Professional management, rather than each investor, determines what the mutual fund will invest in and how the investment will be managed.

Real Estate Investments

Real estate investment is the investment of money into industrial, commercial or residential type lands and buildings with the idea of earning more money. Real estate investments create profits for the investor in two ways:

- income from rents and leases (this is commonly called the annual income flow);
- increase in value of property so it can be sold for more than its cost.

Income from rents and leases. While these can go up or down, they are usually fixed for a certain time period by a contract. This is predictable income.

Increase in value. The increase in value of something is called appreciation. Just like paper investments, a business should know when it can expect to make some money from its investments in real estate. There are two values to consider when selling a real estate investment. One is the book value. The other is the market value.

Book value is the amount paid less the depreciation. Buildings and equipment wear out as they get older. They depreciate.

Market value is what the investment is worth on the market. That is, what someone will pay to buy it. While the book value usually goes down due to depreciation, the market value usually goes up. This increase is called capital appreciation.

Property taxes. It must be remembered that as the value of real estate increases, the property tax on it also increases. An investment in real estate should produce enough income to cover this additional cost.

Mortgaging real estate. If the business owns real estate and needs some money faster than it could get by selling its property, it can mortgage it at a bank or credit union. To mortgage means that the bank or credit union loans money on the value of the property and then "owns" the property until the debt is paid off. If the debt is not paid off when due, the lender keeps the property. As the value of the real estate increases, more money can be borrowed against it. Mortgaging is a good way to get cash quickly and still have full use of your property.

Investment in Business

Like all other investments, a business venture must produce profits for the business. A decision to invest in business must take many factors into consideration. Possible business investments include:

construction companies	fishnet company	trucking company
security company	timber industry	bank
general store	fuel oil distributorship	fishing cannery
trailer sales	fishing fleet	hardware store
barge line	theater	boat charters
airline	bowling alley	air freight line

Investment in Human Resources

A few words also need to be said about a fourth kind of investment--investment in human resources. This is not investment in the strict financial sense. A business needs financial profits, but it also might want to improve the welfare of its people. To do this, the business could decide to invest some of its capital in human resources.

The most common investments in human resources are training programs and education. There is no guaranteed financial rate of return on these investments. But the "yield" might be high in terms of peoples' well-being. Also, a business could be more successful in the future if it has adequately educated and trained its employees in the present. Also, business money donated to a nonprofit organization such as an educational or training center, would be tax-exempt. For these reasons, investment in human resources is a subject worth consideration.

from Investment Decision Making, Cooperative Extension Service, University of Alaska, Fairbanks, AK 99701. Publication #A-3-051.

**Goal 11.0 To understand how to design the space
needed for the business**

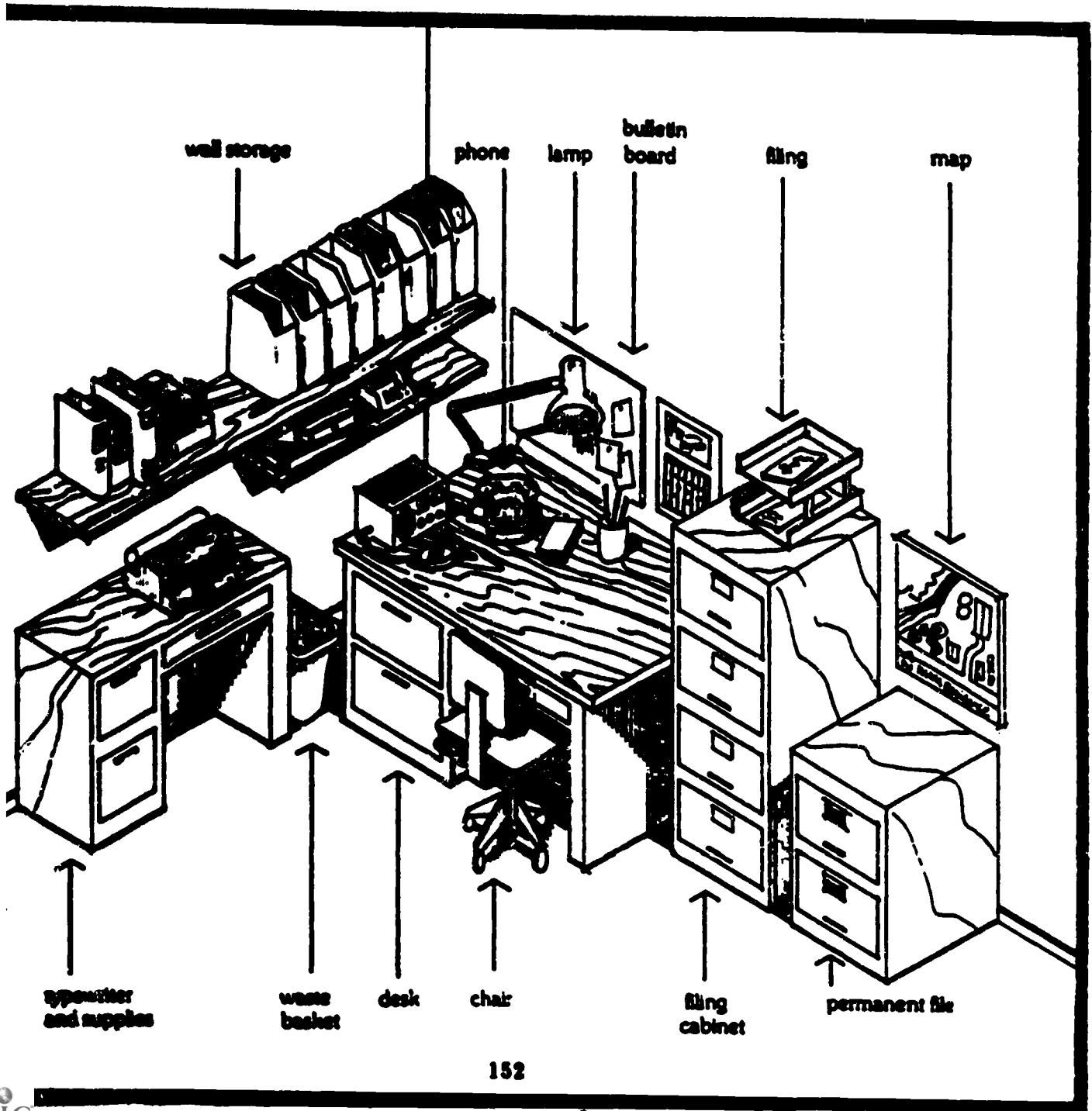
Competencies:

- 11.1 List all of the items needed to start the business**
- 11.2 Make a diagram showing how work area is to be
arranged, including equipment, storage, display, and
customer areas**

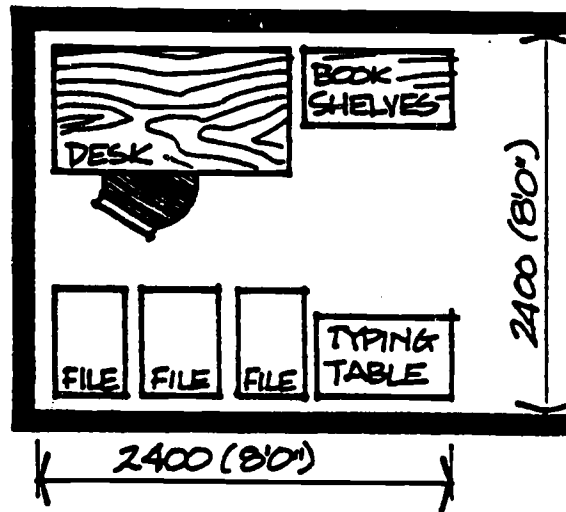
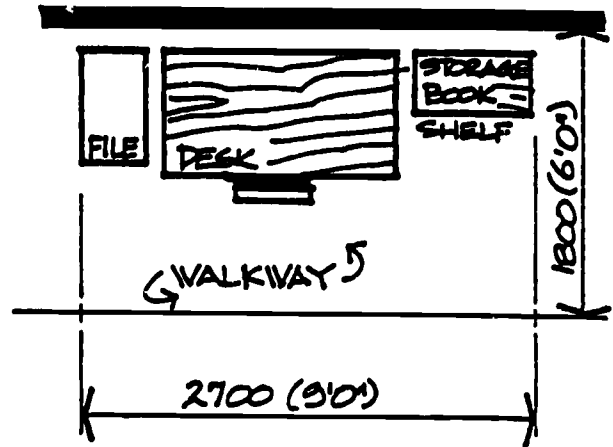
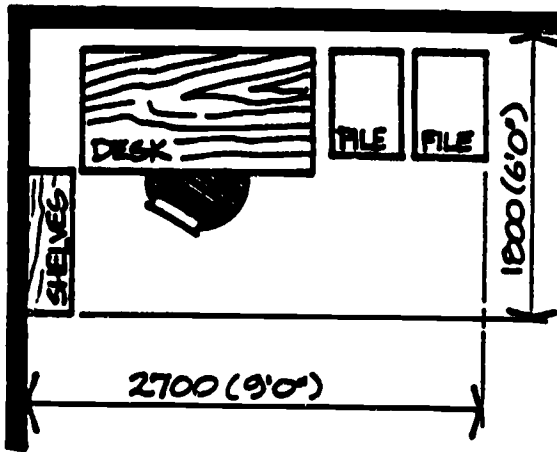
What Makes a Good Office

Your office furnishings will have to be geared to the space you make available for an office. Costs can be kept down if you buy used office furnishings or buy unfinished wood furniture and finish it yourself. Some desks and other furnishings can be easily made or converted if you are handy with tools. Measure the space available and sketch a plan before making any purchases.

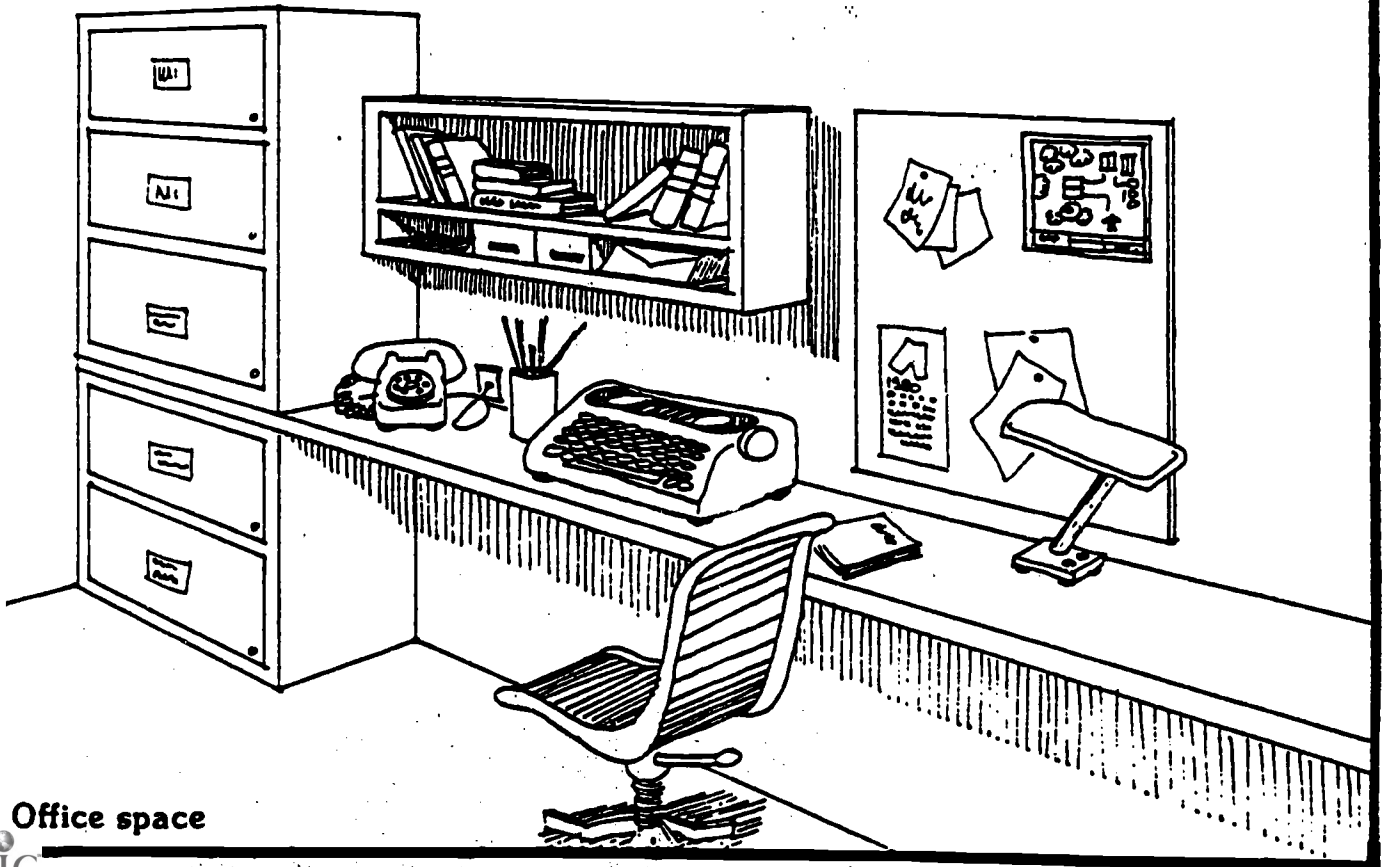
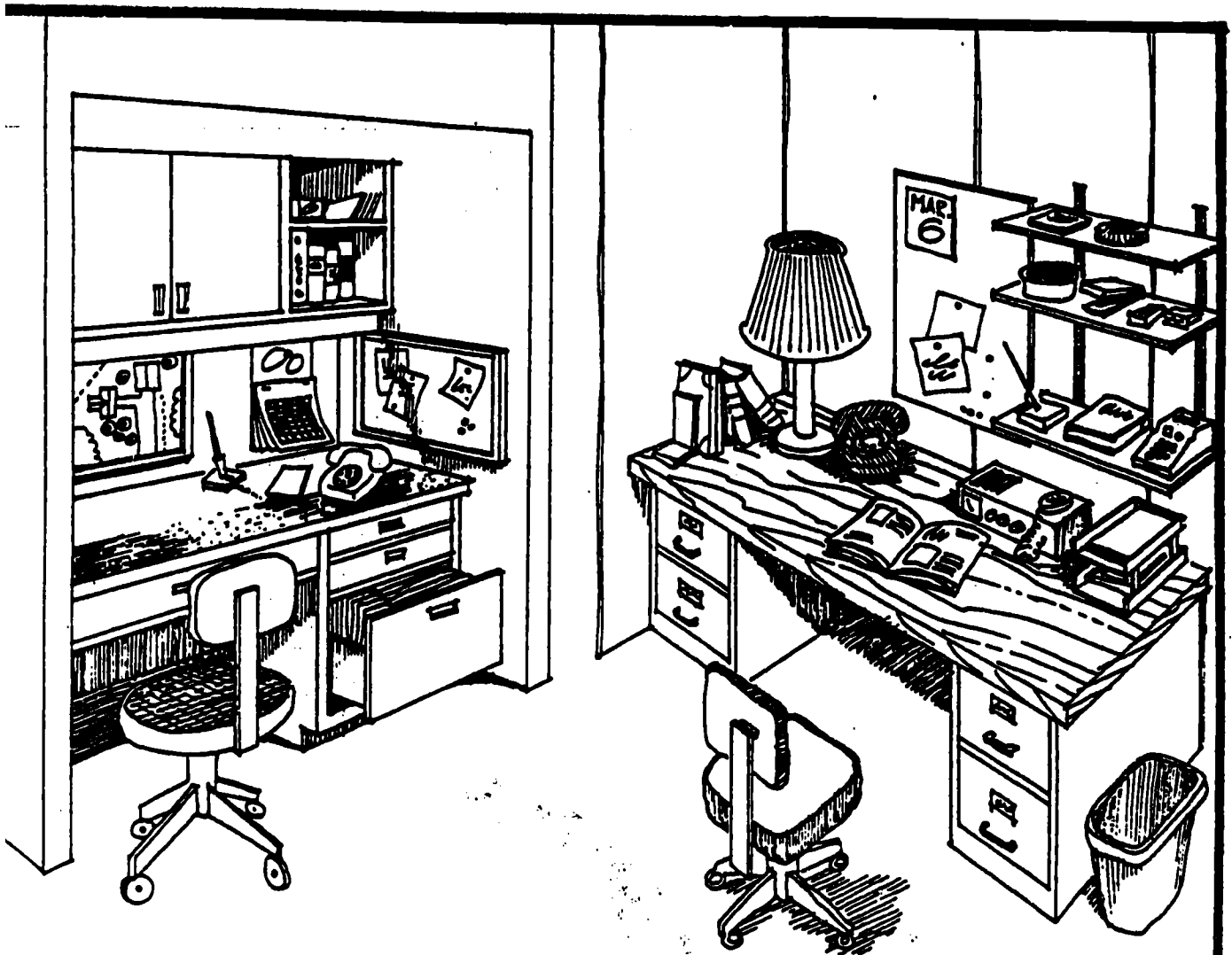
If an office is worth having, it's worth setting up in a comfortable style. Here's a checklist of what's needed for an efficient office.



Ideas for Setting Up a Home Business Center



166



Office space

**Goal 12.0 To understand computerized programs
available for recordkeeping**

Competencies:

**12.1 Identify computer programs that can be used for
recordkeeping for home-based businesses**

Identify Computer Programs

The following information outlines software available to help the home entrepreneur in record keeping.

Title: Accounts Payable

Source: Continental Software

Cost: \$250 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, 48K, 2 disk drives, printer

Description: Continental's Accounts Payable is one of a set of related accounting programs, each sold under the title The Computer Programmed Accountant (CPA). Although this package is fully capable of stand-alone use, in the set each package can interact with all the others in sharing data. This package accepts invoice data from the user and maintains all the standard files: vendor lists, cash requirements, discounts, payment due dates, aging data, a list of open invoices, and a transaction register. The user directs the program to pay selected invoices, or to pay specified categories of invoices. The computer then prints required checks and enters the data in the check register.

* * * * *

Title: Accounts Payable

Source: Peachtree Software

Cost: \$595 (as of 12/1/83)

Hardware Requirements: IBM PC, 2 disk drives, printer

Description: As a part of a larger, integrated accounting system for the IBM PC, Peachtree's Accounts Payable provides the small business manager with many valuable tools. Included are vendor records, payment due dates, discount amounts and dates, and cash requirements. The package contains fifteen separate programs that accept input, create further data, prepare reports, and instruct the user as to what further information is needed. Available reports include cash requirements, open invoices, transaction register, aging report, and a vendor file. Once the user directs the computer to pay an invoice, it prints the check and updates the internal check register. The system is menu driven for simplicity of operation.

* * * * *

Title: Accounts Payable

Source: Radio Shack

Cost: \$499 for Model 11 and 12; \$599 for Model 16 (as of 12/1/83)

Hardware Requirements: TRS-80 Model 11, 12 or 16, 2 disk drives or hard disk, 15: tractor printer

Description: This program is part of a complete accounting package, all of which can interact with mutually usable files. This is an accrual system that provides: vendor file, alphabetical vendor list, accounts payable transaction register, aging report, cash requirements, precheck writing accounts, check register, general ledger distribution, and manufacturer analysis.

*** * * * ***

Title: Accounts Receivable

Source: Continental Software

Cost: \$250 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, 48K, 2 disk drives, printer

Description: This program is one component of the Computer Programmed Accountant (CPA) by Continental. It can be used as a stand-alone system. Accounts Receivable allows for printing invoices or statement billing on purchases. The vendor sells preprinted invoice forms or the user can use regular computer paper. Reports include current receivables, aging receivables, monthly sales, year-to-date sales, customer lists, mailing labels, and general ledger posting reports. The detailed aging report includes customer phone number for quick follow-up.

*** * * * ***

Title: Accounts Receivable

Source: Peachtree Software

Cost: \$595 (as of 12/1/83)

Hardware Requirements: IBM PC, 64K, 2 disk drives, printer

Description: This program is designed to interface with the General Ledger System by Peachtree; however, either package can operate alone. This is a complete invoicing and statement-generating package that is fully menu driven for simplicity of use. Customer records, including credit information and payment records, are maintained automatically. The program provides current accounts receivable as well as three periods of aged receivables. It can also handle customer credit limits, overpayments, prepayments, credits to accounts, and multiple transactions to open accounts.

*** * * * ***

Title: Accounts Receivable

Source: Radio Shack

Cost: \$499 Models 11 and 12; \$599 for Model III (as of 12/1/83)

Hardware Requirements: TRS-80 Models 11 and 12 require 2 disk drives or hard disk, 15" tractor printer

Description: Part of a fully integrated accounting system, Accounts Receivable allows for open item or balance forward operation that provides for invoicing either at sale or statement billing; current receivables as well as aging reports, with or without details; customer accounts details such as payment record, discounts, balances, and amount due at any given time; and customer sales tax variations based on tax codes, figuring of commissions, and discounts in computing net amounts due.

* * * * *

Title: AMOS

Source: Computer Software International

Cost: \$1,850 (as of 12/1/83)

Hardware Requirements: IBM PC, 64K, 2 disk drives, printer

Description: AMOS is a medical database management system that can be used to serve only one doctor or a multidocor office, or can be used on a networking basis to serve multiple offices. It features medical data and history collection using the national AMA format that lets doctors collect directly from Medicare, Medicaid, Blue Cross/Blue Shield, and EMC. Charges can be specified to patient accounts, statements are generated, mailing labels are printed, and payments are recorded and credited. Appointment scheduling is maintained and the doctor's free time is indicated.

* * * * *

Title: AppleWriter II

Source: Apple Computer

Cost: \$195 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe with 80-column card, 48K, printer

Description: This is a much improved version of Apple's original AppleWriter. It is a good word processing system for the money and quite adequate for most home and small business applications. It provides a tutorial section in the appendix, which leads the beginner through simple commands. This is not a menu-driven system, so the user must memorize a large number of CTRL keys and special commands. It does, however, have a very complete help subprogram that can be viewed at any time without losing any text in the computer. One advantage of this program is its efficiency. Relatively little memory space is occupied by AppleWriter II at any time, thus allowing for much larger test files than many other word processing packages.

Title: Autoshop

Source: Dale-Data Data Processing Service

Cost: \$865 & up (as of 12/1/83)

Hardware Requirements: IBM PC, 64K, 2 disk drives, printer

Description: This package solves day-to-day problems associated with the management of an auto repair shop; maintains customer repair orders, customer order invoicing, supplier lists, and mailing lists; and provides profit reports by single mobs or by time frame. It includes a payroll system for employees using any one of four methods to figure gross pay.

* * * * *

Title: Business Graphics Analysis Pak

Source: Radio Shack

Cost: \$174.95 (as of 12/1/83)

Hardware Requirements: TRS-80 Model III, 48K, disk drive, graphics printer or multipen plotter

Description: The user supplies the types of graphic required, the number of elements, labels, and item values. The program does the rest. Disk files, such as VisiCalc, can be used to provide the data. TRS-80's excellent color graphic printer produces high-quality reproductions of the graphics as seen on the screen.

* * * * *

Title: Client Billing System

Source: High Technology Software Products

Cost: \$100 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, 49K, 132 column printer, 1 or 2 disk drives

Description: Client Billing System keeps track of customer/client transactions using either an hourly or a fixed rate charge. The system will accommodate up to five hundred different rates. Menu driven, the package handles job cost analysis, payments, and charges.

* * * * *

Title: Computerized Farm Records

Source: Micro LearningWare

Cost: \$99 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, 48K, TRS-80, 32K, disk drive, printer

Description: This package provides a very simple general ledger system, tailored specifically for farm operation. It accepts expense, receipts, and enterprise records. Transactions can be taken directly from the checkbook and deposit slips. It provides reports showing cash receipts and disbursements on a month-to-date and a year-to-date basis either by enterprise or in total. Also available are capital purchase status reports, financial statements, and an income statement. Noncash transactions can be accommodated. The program is fully menu driven. While more expensive packages provide more sophisticated capabilities, this package performs many functions for a relatively low price.

* * * * *

Title: Discounted Cash Flow Analysis

Source: Isaac Software

Cost: \$35 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, 48K, disk drive, printer

Description: This package discounts or accumulates cash flow at specified interest rates or solves for yield. Cash flow data can be entered for any day in a year from 1950 to 2049. It includes extensive editing and data handling capabilities. Files can be updated or merged as needed.

* * * * *

Title: EZEntry

Source: Systemics

Cost: \$99.95 (as of 12/1/83)

Hardware Requirements: IBM PC, 64K, 2 disk drives, printer

Description: EZEntry is an order-entry program that stores up to two hundred product codes and can handle up to five hundred orders per storage diskette. It accepts order entries and computes costs, tax, discounts, and wholesale and retail price. It also prints customized invoices. For the user with some computer experience, the files can be interfaced with accounting software; however, this package does not offer that capability.

* * * * *

Title: General Ledger

Source: BPI Systems

Cost: \$395 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, 48K, 2 disk drives, printer

Description: General Ledger by BPI is well respected in the industry. It can be used as a stand-alone system or it can function as a part of the integrated general accounting system by BPI. The very thorough documentation is designed for the nonexpert and a simulated business is set up on diskette to illustrate the program for the beginner. It works from a general journal that interfaces with all other subsidiary ledgers in the system. This system allows for the creation of up to four hundred general ledger accounts, one hundred payroll ledgers, five hundred accounts receivable ledgers, two hundred accounts payable ledgers, two hundred cash disbursements records, and an invoice register. The BPI system includes accounting functions that must be purchased separately in many other systems.

*** * * * ***

Title: General Ledger

Source: Peachtree Software

Cost: \$595 (as of 12/1/83)

Hardware Requirements: IBM PC, 2 disk drives, 64K, IBM PC DOS and disk BASIC extension.

Description: IBM considers this package to be the "heart" of its total accounting system. It can stand alone or interact with an integrated series of general accounting programs by the same vendor. It maintains a detailed account of all financial transactions and produces balance sheets and income statements. A transaction register is generated by account number, source, entry session, or department, at the user's discretion. It allows for comparison of prior-year records to budget amount for the current year. Repeating entries are made automatically. The system contains a depreciation-schedule-generating function.

*** * * * ***

Title: General Ledger

Source: Radio Shack

Cost: \$499 for Model 11 and 12; \$599 for Model 16 (as of 12/1/83)

Hardware Requirements: TRS-80 Model 11, 12 or 16, 2 disk drives or hard drive, 15" printer with tractor drive

Description: This program is designed to stand alone or to interact with the complete accounting system marketed by Radio Shack. It allows for establishment of accounts payable, accounts receivable, and payroll ledgers. The system generates the following reports: income statement, balance sheet, supporting schedules, accounts chart, financial statements, a register of general ledger transactions, trial balance work sheets, and cash flow statements.

* * * * *

Title: Infotory

Source: SSR

Cost: \$425 for IBM; \$295 for Apple (versions are not interchangeable) (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, 48K, IBM PC, 64K, 2 disk drives, printer

Description: Infotory is a complete inventory management system on Apple with DOS 3.3 and can maintain about 1,200 inventory items; DOS 3.2.1 can handle about 1,000 different items. On IBM, single-sided drives can maintain records on 2,600 different items; double sided drives can handle about 5,000. Documentation is quite complete and the package is menu driven. Infotory allows the user to make entries and inquiries on individual terms at will. Inventory reports, sales analyses, cost analyses, and price lists can be obtained, as well as on-hand and on-order cost and numbers for individual items. The program includes a reorder reminder when items are running low in stock and provides a reorder list on command.

* * * * *

Title: Insure

Source: The Software Terminal

Cost: \$250 (as of 12/1/83)

Hardware Requirements: IBM PC, 128K, 2 disk drives, printer

Description: This package is designed to assist in the management of a small-to medium-sized insurance agency. It stores client records of almost forty items in the client master file. Also included are separate files on policies and paid and pending business. Mailing lists and labels are available on demand.

* * * * *

Title: Inventory Control

Source: BPI Systems

Cost: \$425 (as of 12/1/883)

Hardware Requirements: Apple II, II+, IIe, IBM PC, 2 disk drives, printer

Description: The BPI Inventory Control package is designed to operate alone or in conjunction with the General Accounting System that includes a total of five applications packages: payroll, general ledger, accounts receivable, accounts payable, and inventory control. This highly automated system is fully menu driven and includes tutorial materials in the documentation to teach the beginning user. Each inventory record includes fifteen items of information. The program takes orders, inquiries, updates, purchases, credit memos, and other user input; produces shipping orders, routing slips, purchase orders, invoices, customer lists, and vendor lists; and provides numerous management reports such as inventory control general ledger, profit and loss statements, trial balances, order lists, and cash receipts, among many others. This is a very complete and versatile system.

*** * * * ***

Title: Inventory Control System

Source: Radio Shack

Cost: \$299 for Model 11; \$399 for Model 11 and 16 (as of 12/1/83)

Hardware Requirements: TRS-80 Model 11 with floppy or hard disk, Model 16 with hard disk

Description: The program assists in cycle counting, ordering, and report generation. As purchases are made, the program posts receipts, prints mailing labels, and fully maintains files on listed items. Inventories are updated as purchases are made and reorder lists and company purchase orders are prepared as inventories are depleted.

*** * * * ***

Title: KYC (Know Your Client)

Source: Executive Microcomputing Software

Cost: \$124.95 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, IBM PC, 48K, disk drive, printer optional

Description: KYC is a client-prospecting and follow-up system. It maintains information on client name, title, address, phone, company name, and data on last contact; keeps track of "callback request"; and provides lists of clients who have not been contacted in the last thirty and sixty days. Mailing lists and mailing labels can be generated.

*** * * * ***

Title: Lazy Writer

Source: AlphaBit Communications

Cost: under \$50 (as of 12/1/83)

Hardware Requirements: TRS-80, 32K, disk drive, printer

Description: Using this standard word processing package, the operator can produce letters, forms, memoranda, mail labels and lists, manuscripts, and other written material of any length. Features are fairly standard. Included are boldface and underlining, which are not contained in many word processing packages.

* * * * *

Title: Money Decisions, Vol. I, Vol. II

Source: Eagle Software Publishers

Cost: \$199 for Vol. I: \$299 for Vol. II: \$399 for Vol. I and II (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, IBM PC, TRS-80 (TRS-80 uses CP/M), disk drive, printer

Description: This is a sophisticated set of programs that facilitates management decisions. It allows such comparisons as lease versus buy and provides analyses of break-even points. Trend analysis and projection and pricing and production decisions are handled as well as capital budgeting. In addition, the program has extensive graphics capability for graphic analysis and additional applications for accounting, banking, manufacturing, medicine, construction, civil engineering, and equipment leasing. Vol. I consists of thirty-four programs, Vol. II has thirty-six programs.

* * * * *

Title: Multiplan

Source: MicroSoft

Cost: \$250 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, IBM PC, TRS-80 Model 1, 11, 111, disk drive, printer

Description: Multiplan is an electronic spreadsheet with up to 255 rows and up to 63 columns. Each cell in the matrix starts out blank, but the user can enter numbers, labels, or formulas as desired. No knowledge of programming is required; however, effective use of such programs requires that the user learn the package and its commands thoroughly. Tutorial examples are included in the documentation for this purpose. Multiplan allows the user to "link" up to eight different files on the diskette for more complex analyses. This feature allows the user to make an entry on one spreadsheet and have all of the cells that are affected in the other sheets automatically updated. Electronic spreadsheets are ideal for financial projections, comparison of management alternatives, and answering "what if" questions using budget data or production data. Like other spreadsheets, Multiplan can be used in such "modeling" or simulation roles.

*** * * * ***

Title: Order Entry/ICS

Source: Radio Shack

Cost: \$499 for Model 11; \$599 for Model 16 (as of 12/1/83)

Hardware Requirements: TRS-80 Model 11 and 12 with 4 disk drives or hard disk, Model 16 with 3 disk drives or hard disk, 15" wide printer

Description: This package is one part of a complete accounting system marketed by Radio Shack. It requires and interacts with the Accounts Receivable package and feeds information to the Sales Analysis Program. Orders are entered and edited as needed. The program provides the following reports: item receipt register, billing register, picking tickets, order list, price list, item stock status report, and a purchasing advice report. The program allows either single-pass invoicing or a two pass order with separate billing.

*** * * * ***

Title: The Order Scheduler

Source: High Technology Software Products

Cost: \$150 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, printer, 2 disk drives

Description: The Order Scheduler accepts purchase order entries from the user and maintains them on a first-in, first-out basis until they are shipped. It prints a complete daily shipping list, maintains a current inventory of shipped items, and deletes items from inventory as they are purchased. Purchases that are to be filled repeatedly can be entered once and reactivated at the specified interval. The system can handle up to five hundred separate purchase orders at a time.

• • • • •

Title: P.A.C.E. (Prompt Accurate Cost Estimator)

Source: High Technology Software Products

Cost: \$395 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, III, IBM PC, 64K, 2 or 3 disk drives, 132-column printer

Description: P.A.C.E. is a general purpose cost estimation system that accepts detailed budgetary input from the user. As in all spreadsheet-type programs, it is not a substitute for accurate budgeting and record keeping on the part of the user. It provides a detailed statement of estimated cost, including a list of resources needed and time requirements. When prices or estimated data change, the program automatically recalculates and updates throughout the system.

• • • • •

Title: Payroll

Source: Continental Software

Cost: \$350 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, 48K, 2 disk drives, printer

Description: Continental Software has assembled a complete four-module accounting system, of which Payroll is one part. Complete personnel files are maintained on each employee to include: time worked, wage or salary, earnings, withholdings, vacation time earned and used, sick leave time earned and used, and more. The program includes current federal income tax and FICA tables that can be updated by the user as they change. The program calculates the payroll, prints the checks, and updates the payroll account automatically. For an additional fifty dollars yearly, Continental will supply updated tax data disks.

• • • • •

Title: Payroll

Source: Radio Shack

Cost: \$599 for Model 11 and 12; \$699 for Model 16 (as of 12/1/83)

Hardware Requirements: TRS-80 Model 11, 12, or 16 with 2 disk drives or hard disk, 15" printer with tractor drive

Description: This is a complete payroll system that accepts wage or salary data, computes payroll, and prints checks. It then interfaces with the general ledger system to update the payroll account contained there. It handles hourly or salaried employees and allows up to seven different payroll frequencies. Vacation, sick leave, and recall information are maintained, and up to one year of detailed pay history can be recalled. The package computes deductions for taxes and prints out W-2 forms at the end of the year.

* * * * *

Title: PFS:File

Source: Software Publishing

Cost: \$125 for Apple; \$140 for IBM (as of 12/1/83)

Hardware Requirements: IBM PC with 64K, Apple II, II+, IIe with 48K, 1 disk drive required, 2 disk drives preferred, printer

Description: A very sophisticated data management system, PFS:File has excellent documentation and is easy to learn and simple to use. It allows the user to develop virtually any data format required. The screen shows exactly what the printed matter will look like to facilitate form design. Item lengths are completely open up to the maximum length of a given form. This feature allows for descriptive material or remarks sections to be included. The current version includes numerical or alphabetic searches and sorts: keyword, greater than, less than, between, and "not" searches. Updating of existing entries, addition of new entries, and reformatting of existing formats can be accomplished without loss of data previously entered. Mailing labels, checks, and forms of almost any kind can be printed. Only one type of form can be maintained per disk, which seems a bit wasteful of disk space; however, this cuts down on the likelihood of errors. The programs can search any combination of fields at one time. If the form is developed with sorting in mind, the program can sort more than one field at a time.

* * * * *

Title: PFS:Graph

Source: Software Publishing

Cost: \$175 ((as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, 64K, 2 disk drives, graphics capable printer with graphics interface, color monitor preferred but not required for monochrome display

Description: PFS:Graph produces line, bar, and pie graphs in monochrome or color. While true text is not available, the high-resolution graphics text generator provides a labeling capability for this program. Data stored on PFS:File can be used to generate graphs, or data can be specified separately. Pictures are saved as binary files that can be "dumped" onto graphics-capable printers.

* * * * *

Title: Property Listings Comparables

Source: Realty Software

Cost: \$325 (as 12/1/83)

Hardware Requirements: IBM PC, disk drive, printer

Description: This package provides a system for the maintenance of property listings and comparable recent sales. It allows for the selection of appropriate listings by price range, number of bedrooms, number of units, city, and zone. One characteristic or a combination of characteristics can be specified by the prospect and the program selects all appropriate listings. Performance selections can be made based on a maximum gross factor, maximum price per square foot of improvements, and minimum cash flow required, in any combination.

* * * * *

Title: The Prospector

Source: Executive Data Systems

Cost: \$300 (as of 12/1/83)

Hardware Requirements: IBM PC, 128K, disk drive, printer

Description: This is a sales prospect and follow-up organizer. It supports sales efforts using personal sales calls, keeps a file on customers, assists in direct mail advertising by printing mailing lists, separates regular clients from prospects, maintains supplier lists, and prints mailing labels. All lists can be broken down into subsets based on user-specified criteria.

* * * * *

Title: Restaurant Inventory Control and Cost Analysis Program

Source: Advanced Analytical Computer Systems

Cost: Contact vendor for quote

Hardware Requirements: IEM PC, 128K, 2 disk drives, 132-column printer

Description: This program maintains a perpetual inventory and supply reorder list and provides the capability to conduct a food cost analysis, menu item analysis, sales mix analysis, and a current menu item cost analysis. As the inventory control detects an upcoming shortage, a list of food item reorders is generated along with printed purchases orders. This program can be used in all types of restaurants and bars. Vendor/supplier lists are maintained and can be updated as needed.

* * * * *

Title: Sales Analysis

Source: Micro Business Software

Cost: \$1,000 for source code: \$200 for object code (as of 12/1/83)

Hardware Requirements: Apple II, II+, and IIE with CP/M only with 4 disk drives, IEM PC 64K using PC DOS with 4 single-sided or 2 double-sided disk drives, printer

Description: This package is designed for use with the vendor's Accounts Receivable and Order Entry/Inventory Control packages. For that reason, it is not a stand-alone system. This system produces the sales analysis reports by customer, customer category, state, item, item category, sales person, and for total sales.

* * * * *

Title: Sales Analysis

Source: Radio Shack

Cost: \$299 for Model 11 and 12: \$399 for Model 111 (as of 12/1/83)

Hardware Requirements: TR-80 Model 11 or 12 with 4 disk drives or hard disk, Model 16 with 3 disk drives or hard disk, 15" printer with tractor feed

Description: This is the final component in the complete accounting system from Radio Shack. It takes data from the customer file of the Accounts Receivable package or the item file of the Order Entry/ICS program. Analyses include sales activity by customer, sales activity by type of customer (determined by user), sales volume by customer, sales volume by salesperson, summary by state, summary by item or item category, and total sales volume.

* * * * *

Title: Scripsit

Source: Radio Shack

Cost: \$399 (as of 12/1/83)

Hardware Requirements: TRS-80 Model 11 or 12, disk drive, printer

Description: Scripsit is Radio Shack's answer to AppleWriter II and IBM's EasyWriter. It is a very good general purpose word processing system and includes all of the expected features. In addition, this program allows for underlining, subscripts, superscripts, and boldface type. Scripsit is a screen-oriented system, which means that the printed material will be essentially identical to the screen version, with the exception that formatting of printed copy can be done by means of commands embedded in the text itself.

* * * * *

Title: The Store Manager

Source: High Technology Software Products

Cost: \$250 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, 48K, 2 or 3 disk drives

Description: The Store Manager accepts order entries and maintains continually updated inventory on a maximum of 1,160 different items. It provides up-to-the-minute sales totals for the entire store or by item. In addition, it prints customer invoices, price quotations, receiving reports, packing slips, purchase orders, and expense vouchers. The program is menu driven and uses plain English to communicate with the user. Also available on command are inventory reports, reorder lists, item movement report, item turnover report, alphabetized listings, and presorted mailing lists.

* * * * *

Title: Tax Decisions

Source: Eagle Software Publishers

Cost: \$299 for IBM; under \$200 for Apple and TRS-80 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, TRS-80 Model 1, 11, 111 using CP/M, IBM PC, printer

Description: Tax Decisions was developed by tax professionals to be used by members of the profession. It performs most routine tax number crunching to allow the tax planner to concentrate on tax planning instead of computation. As with any tax program, the user should make sure the program version is the current one and conforms to present tax laws and regulations.

* * * * *

Title: Time Manager

Source: Image Computer Products

Cost: \$150 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, 48K, printer (an internal clock and 80-column board are optional)

Description: Time Manager provides a personal or professional desk calendar. It generates daily agenda and "to do" lists. Uncompleted items move to the next day. Items are given priority according to a user-assigned code. Permanent dates such as holidays need to be entered only for the first year; they will appear each year thereafter.

* * * * *

Title: Time Manager

Source: IBM

Cost: \$100 (as of 12/1/83)

Hardware Requirements: IBM PC with 64K, 1 or 2 disk drives, printer

Description: A simple-to-use program, Time Manager provides the user with a computerized desk calendar. Not only does it maintain a schedule of appointments, it provides daily agenda, a daily "to do" list, and an automatic reminder of important deadlines. It tracks events and expenses individually or by category; data can later be collected in several categories to support, for instance, tax records.

* * * * *

Title: Time Manager

Source: Radio Shack

Cost: \$99.95 (as of 12/1/83)

Hardware Requirements: TRS-80 Model 1 and 111, 48K, disk drive, printer optional

Description: This relatively simple program maintains a personal or professional appointment calendar and provides a reminder for scheduled meetings and deadlines. In addition, Time Manager provides a permanent record, daily "to do" lists and agenda, and uncompleted items are automatically transferred to the next day's list.

* * * * *

Title: VersaPayroll

Source: H&E Computronics

Cost: \$99.95 (as of 12/1/83)

Hardware Requirements: IBM PC, 2 disk drives, printer, 48K

Description: This is one component of the complete five-program VersaBusiness System, but can be operated as a stand-alone system. It maintains complete payroll and financial data on all employees of a small business. It includes current tax tables that can be manually updated as the rates change. The program computes payroll, prints the checks, updates the payroll accounts, and prints out employee data sheets and quarterly reports. At year-end, W-2 forms are provided. A thirty-day money-back guarantee is included with the purchase.

* * * * *

Title: VisiCalc

Source: VisiCorp

Cost: \$200 for IBM; \$250 for Apple; \$299 for TSR-80 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIE, IBM PC, TRS-80 Model I, II, III, disk drive, printer

Description: The all time best seller among electronic spreadsheets, VisiCalc provides a maximum of 254 rows by 63 columns. Each cell can accept a number, label, or a formula that automatically calculates a numerical entry for the user. Formulas can be specified for individual cells or replicated easy for segments or complete rows or columns. The excellent documentation includes tutorial materials to help the user learn the package's features and commands, which do tend to be a bit cryptic and confusing at times. Electronic spreadsheets are very useful for making economic projections, alternative comparisons, and answering "what if" questions using budget or production data. Routine calculations and recalculations resulting from additions or changes in any data cell are done automatically, resulting in greater accuracy and less work than manual spreadsheet work.

* * * * *

Title: VisiDex

Source: VisiCorp

Cost: \$250 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIE with 48K, IBM PC with 64K, disk drive, printer

Description: VisiDex is a data and time management system. It allows the user to organize business or personal information and provides a file maintenance system. Names, addresses, phone numbers, dates, "to do" lists, records of decisions and meetings, highlights of reports, tax information, and stock can be maintained. The program allows unlimited cross-referencing. A daily calendar is provided for maintaining appointments and for keeping track of upcoming events.

Title: VisiSchedule

Source: VisiCorp

Cost: \$300 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe with 48K, IBM PC with 64K, at least 2 disk drives, printer

Description: Complex project planning and scheduling are done with relative ease using VisiCorp's new VisiSchedule. Critical time paths are determined, automatically based on input characteristics. It allocates time, costs, specifies start and end time, vacation days, intermediate deadlines, and project slack time for machines and workers. This is a powerful simulation-modeling tool for decision making as well, because the user can address "what if" questions simply by changing input characteristics.

* * * * *

Title: VisiTrend/Plot

Source: VisiCorp

Cost: \$300 (as of 12/1/83)

Hardware Requirements: IBM PC, 128K, disk drive, color graphics monitor adapter, color monitor, printer with graphics capability and graphics dump interface

Description: VisiTrend/Plot produces professional quality graphic displays of line, bar, pie, and hi-low charts, with IBM's superior graphics and mixed text capability. It accepts data manually or from VisiCalc files. Linear multiple regression projections are calculated from VisiCalc data and the projections are graphically presented. Trend projection is done with straight line, smoothing, or moving averages.

* * * * *

Title: WordStar

Source: MicroPro International

Cost: \$495 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, with CP/M capability and 80-column card, IBM PC, 48K, 1 or 2 disk drives, printer

Description: This is generally regarded as one of the better commercial quality word processing systems, although somewhat complicated to master. WordStar is a screen-oriented system, which means that the text will appear on paper as it appears on the screen. While this decreases the amount of text that can be stored as a single file, the advantages of this system are obvious. WordStar is the single most popular word processing system for the Apple.

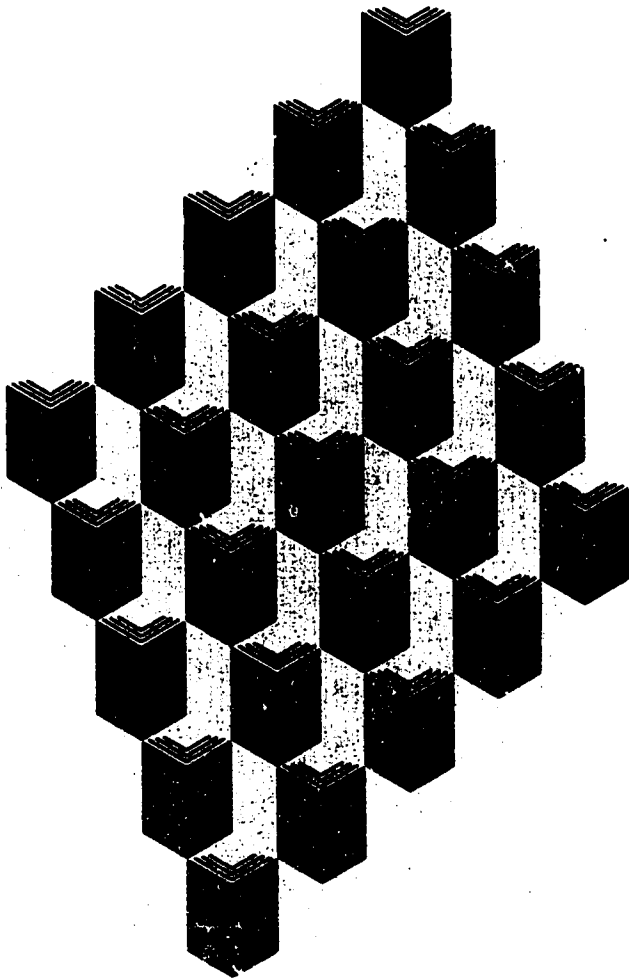
from Microcomputers in Small Business Management, The National Center for Research in Vocational Education, The Ohio State University, 1960 Kenny Road, Columbus, OH 43210, 1984, 186

Goal 13.0 To understand new products, procedures,
and equipment

Competencies:

13.1 Secure information to keep current on new products,
procedures, and equipment

SBA Business Development Pamphlets



Management Aids (MAs)*

Financial Management and Analysis

- MA 1.001 The ABC's of Borrowing
- MA 1.002 What Is the Best Selling Price?
- MA 1.003 Keep Pointed Toward Profit
- MA 1.004 Basic Budgets for Profit Planning
- MA 1.005 Pricing for Small Manufacturers
- MA 1.006 Cash Flow in a Small Plant
- MA 1.007 Credit and Collections
- MA 1.008 Attacking Business Decision Problems With Breakeven Analysis
- MA 1.009 A Venture Capital Primer for Small Business
- MA 1.010 Accounting Services for Small Service Firms
- MA 1.011 Analyze Your Records to Reduce Costs
- MA 1.012 Profit by Your Wholesalers' Services
- MA 1.013 Steps in Meeting Your Tax Obligations
- MA 1.014 Getting the Facts for Income Tax Reporting
- MA 1.015 Budgeting in a Small Business Firm
- MA 1.016 Sound Cash Management and Borrowing
- MA 1.017 Keeping Records in Small Business
- MA 1.018 Checklist for Profit Watching
- MA 1.019 Simple Breakeven Analysis for Small Stores
- MA 1.020 Profit Pricing and Costing for Services

Planning

- MA 2.002 Locating or Relocating Your Business
- MA 2.004 Problems in Managing a Family-Owned Business
- MA 2.005 The Equipment Replacement Decision
- MA 2.006 Finding a New Product for Your Company
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- MA 2.008 Business Plan for Small Construction Firms
- MA 2.009 Business Life Insurance
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- MA 2.011 Fixing Production Mistakes
- MA 2.012 Setting Up a Quality Control System
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- MA 2.016 Checklist for Going Into Business
- MA 2.017 Factors in Considering a Shopping Center Location
- MA 2.018 Insurance Checklist for Small Business
- MA 2.020 Business Plan for Retailers
- MA 2.021 Using a Traffic Study to Select a Retail Site
- MA 2.022 Business Plan for Small Service Firms
- MA 2.024 Store Location "Little Things" Mean a Lot
- MA 2.025 Thinking About Going Into Business?
- MA 2.026 Feasibility Checklist for Starting a Small Business of Your Own
- MA 2.027 How to Get Started With a Small Business Computer

* 1 to 24 pages
* 1 to 5 pages

General Management and Administration

- .. MA 3.001 Delegating Work and Responsibility
- .. MA 3.002 Management Checklist for a Family Business
- .. MA 3.004 Preventing Retail Theft
- .. MA 3.005 Stock Control for Small Stores
- .. MA 3.006 Reducing Shoplifting Losses
- .. MA 3.007 Preventing Burglary and Robbery Loss
- .. MA 3.008 Outwitting Bad-Check Passers
- .. MA 3.009 Preventing Embezzlement
- .. MA 3.010 Techniques for Problem Solving

Marketing

- .. MA 4.001 Understanding Your Customer
- .. MA 4.002 Creative Selling: The Competitive Edge
- .. MA 4.003 Measuring Sales Force Performance
- .. MA 4.005 Is the Independent Sales Agent for You?
- .. MA 4.007 Selling Products on Consignment
- .. MA 4.008 Tips on Getting More for Your Marketing Dollar
- .. MA 4.010 Developing New Accounts
- .. MA 4.012 Marketing Checklist for Small Retailers
- .. MA 4.013 A Pricing Checklist for Small Retailers
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- .. MA 4.019 Learning About Your Market
- .. MA 4.020 Do You Know the Results of Your Advertising?
- .. MA 4.021 Specialty Advertising for Small Business
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- .. MA 5.007 Staffing Your Store
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- .. MA 5.009 Techniques for Productivity Improvement

Legal and Governmental Affairs

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- .. MA 6.004 Selecting the Legal Structure for Your Business
- .. MA 6.005 Introduction to Patents

Miscellaneous

- .. MA 7.002 Association Services for Small Business
- .. MA 7.003 Market Overseas With U.S. Government Help
- .. MA 7.007 Evaluating Franchise Opportunities
- .. SBIR-F1 Proposal Preparation for Small Business Innovation Research (SBIR)
- .. MA7 Women's Handbook

Small Business Bibliographies (SBBs)

- .. 1. Handicrafts
- .. 2. Home Businesses
- .. 3. Selling By Mail Order
- .. 9. Marketing Research Procedures
- .. 10. Retailing
- .. 12. Statistics and Maps for National Market Analysis
- .. 13. National Directories for Use in Marketing
- .. 15. Recordkeeping Systems—Small Store and Service
- .. 18. Basic Business Reference Sources
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- .. 31. Retail Credit and Collection
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- .. 0134 Roofing Contractors
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- .. 0137 The Bookstore
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- .. 0142 Ice Cream
- .. 0145 Sewing Centers
- .. 0148 Personnel Referral Service
- .. 0149 Selling By Mail Order
- .. 0150 Solar Energy
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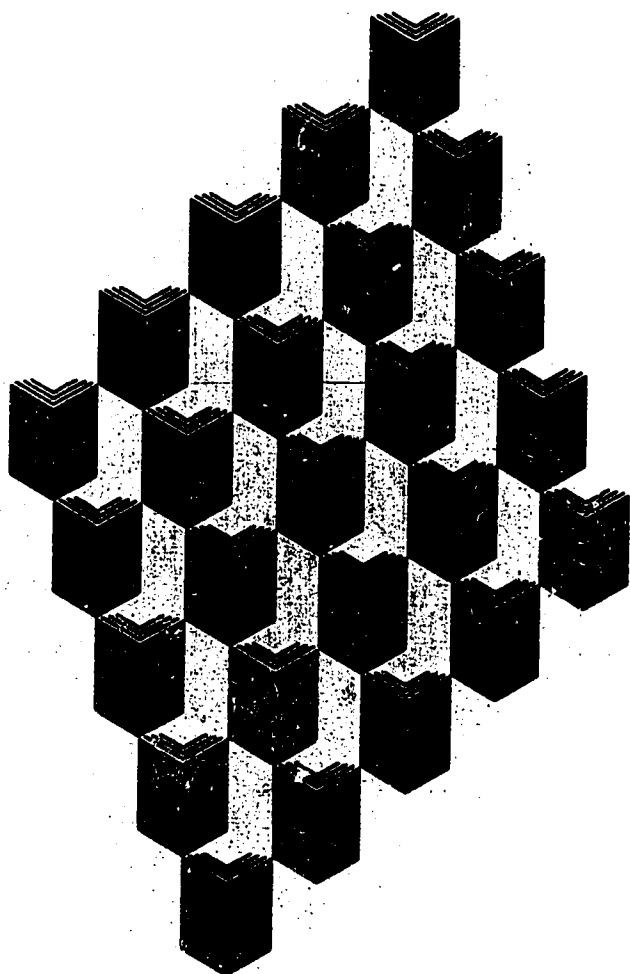
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Additional Resources

Alaska Business Monthly, Alaska Publishing Co., Inc. P.O. Box 102696, Anchorage, AK 99510, 276-4373. \$21.95 for 1-year subscription; \$37.95 for 2-year subscription; \$44.95 for 3-year subscription.

Contains articles on:

Trends in Alaska business

Personalities in Alaska business

Alaskan businesses

Advice oriented columns written by Alaskan business people

At Home in the Office: A Guide for the Home Worker, Office for Research in High Technology Education, University of Tennessee, 428 Claxton Addition, College of Education, Knoxville, TN 37996, December, 1984.

Contains information on:

Psychological and economic issues related to home-based business

Laws and agencies affecting the home worker

Hardware and software that could be used in home-based business

Arranging work space

Basic Skills for the Trades, Alaska Department of Education, University of Alaska, and the Job Training Partnership Education Consortium, 1985. Available from Vocational Materials Library, Office of Adult and Vocational Education, Box F, Juneau, AK 99811, (907) 465-2980.

The series of instructional modules contain information on:

Communications

Human Relations

Trade Math

Safety

Enterprising Women, Artemis Enterprises, Inc. 525 West End Avenue, New York, NY 10024.

This monthly magazine addresses women's roles in the economy and professions, and contains information on:

- Taxes
- Insurance
- Personal finances
- Management issues

Establishing a Business in Alaska, Alaska Department of Commerce and Economic Development, Office of Enterprise, Box D, Juneau, AK 99811, 1986.

This handbook contains information on:

- Planning and establishing a business in Alaska
- Agencies to contact for assistance

Home Entrepreneurship: Instructional Materials in the Operation of a Small Business from the Home, Susan F. Weis and Kay S. O'Brien, The Pennsylvania State University, Pennsylvania Department of Education, Bureau of Vocational Education, Harrisburg, PA, June, 1983.

Contains information on:

- Exploring a home-based home economics business
- Planning the business
- Legal considerations
- Sources of money
- Purchasing materials
- Setting prices
- Record keeping
- Advertising and selling

Format lists objectives, information, suggested activities, and references.

Home-Based Entrepreneur Newsletter, J. Esters-Brown Publications, 5505 S. Everett, Chicago, IL 60637.

This newsletter contains information of interest to the home-based business person.

Inc. Magazine, Inc. Publishing Corporation, P.O. Box 2538, Boulder, CO 80322. \$24 for 1-year subscription.

This monthly magazine contains management tools and techniques for small growing companies and business people.

Investment and Business Opportunity News, Sutton Place Publications, P.O. Box 610097, North Miami, FL 33161. \$10 for 1-year subscription.

This bi-monthly magazine contains information on business and investment opportunities including franchises and distributorship.

Journal of Small Business Management, West Virginia University, Bureau of Business Research, Morgantown, WV 26506. \$10 for 1-year subscription.

This quarterly magazine on small business management contains information on:

- Advertising
- Public relations
- Minority business
- Accounting
- Franchising

Microcomputers in Small Business Management, The National Center for Research in Vocational Education, The Ohio State University, 1960 Kenny Road, Columbus, OH 43210, 1984.

Contains information on:

- Applications of microcomputers in small business
- Business software reviews
- Instructional software reviews
- Evaluation criteria for software
- Software evaluations
- Business software sources' addresses

Mind Your Own Business at Home, Coralee Smith Kern, P.O. Box 14850, Chicago, IL 60614.

This bi-monthly newsletter contains current information on operating a home-based business.

Operating a Home Business in Washington State, Small Business Development Center, Small Business Administration, and Washington State Office of Small Business. Available from Department of Commerce and Economic Development, 101 General Administration Building AX-13, Olympia, WA 98504, (206) 753-5614, July, 1984.

Contains information on:

- Deciding to start a home-based business
- Business planning
- Selecting the right business structure
- Record keeping
- Selling techniques

Owning and Operating a Small Business: Strategies for Teaching Small Business Ownership and Management, Illinois Office of Education, Department of Adult, Vocational and Technical Education, Professional and Curriculum Development Section, 100 North First Street, Springfield, IL 62777, June, 1976.

Contains information on:

- Determining product and market
- Obtaining initial capital
- Choosing the legal form of organization
- Record keeping
- Insurance

Format lists unit objectives, student objectives, case studies, and discussion questions.

Planning Your Own Home Business, Coralee Smith Kern and Tamara Hoffman Wolfgram, VGM Career Horizons, 4255 West Touhy Avenue, Lincolnwood, IL 60646, 1986.

This book contains information on:

- Setting up and operating your own business
- Using accounting, banking, marketing, and other professional services

Pre-Employment Competencies Resource Guide, Alaska Department of Education, 1985. Available from Vocational Materials Library, Office of Adult and Vocational Education, Box F, Juneau, AK 99811 (907) 465-2980.

This resource guide was developed to assist educators in implementing pre-employment competencies as a focused portion of the vocational education curriculum.

Program for Acquiring Competence in Entrepreneurship (PACE), The National Center for Research in Vocational Education, The Ohio State University, 1960 Kenny Road, Columbus, OH 43210, 1983.

This series includes instructional units on all aspects of starting and operating a small business, as well as instructors' guides and resource guides. Materials are available at three levels:

level 1 helps students understand the creation and operation of a business

level 2 prepares students to plan a business in the future

level 3 guides students in starting and managing their own businesses

Regional Minority and Women-Owned Business Directories, (Western Edition), Business Research Services, Inc., 2 East 22nd Street, Suite 308, Lombard, IL (312) 495-8787 (\$95.00)

This regional directory contains minority and women-owned business information for local and regional areas. The Directory categorizes and provides descriptions of businesses.

Retail Merchandising, Wingate-Samson, Southwestern Publishing Co., 8th Edition, 1975.

This textbook contains good information on:

Selling techniques

Processing the purchase transaction

Insurance

Retailing methods

Succeeding in the World of Work, Kimbrell-Vineyard, McKnight and McKnight Publishing Co., First Edition, 1970.

This textbook contains good information on the use of checking accounts.

Where to Find Business Information: A World-Wide Guide for Everyone Who Needs The Answers to Business Questions, David M. Brownstone and Gordon Carruth, The Hudson Group, Inc., Pleasantville, NY, John Wiley and Sons, Inc., 1979.

This guide provides a comprehensive list for finding resources in all areas of business.

Women in Business, American Business Women's Association, 9100 Ward Parkway, Kansas City, MO 64114.

This magazine, issued nine times a year, provides information on:

- Legislation
- Finance
- Business Technology
- Communications
- Taxes

Women Working Home: The Home-Based Business Guide and Directory, Marion Behr and Wendy Lazar, WH Press, Second Edition, 1983.

This resource book includes practical advice for anyone planning a home-based business, and includes information on:

- Simplified recordkeeping
- Computer systems
- Setting prices
- Successful marketing

Working for Yourself: Career Planning Information, Oregon Career Information System, University of Oregon, 1787 Agate Street, Eugene, OR 97403, (503) 686-3872, October, 1985.

Contains information on:

- Self-employment options
- Traits of entrepreneurs
- Deciding to go into business
- Making a business succeed

Resource Agencies

Alaska Small Business Assistance Center, 2217 N. Jordan Avenue, Juneau, AK 99801, 789-3660 (Carolyn Mackey), 143 E. 9th Street, Anchorage, AK 99501, 279-7427.

Fee: \$10/hour

Services include economic veritability reviews; preparation of business plans and loan packages; bookkeeping system design; market research and preparation of marketing plans; review of business practices; assistance with business certification; bonding, bidding and estimating assistance in construction-related jobs.

Alaska State Chamber of Commerce, 301 2nd Street, Juneau, AK 99801, 586-2323.

Promotes Alaska industry and commerce.

Alaska Women's Commission, 3501 C Street, Suite 742, Anchorage, AK 99503.

Research and advocacy to improve status of women in employment, health, education, homemaking, civil and legal rights. Offers seminars, workshops, and conferences around state. Publishes materials on women's issues.

Economic Development Administration, U.S. Department of Commerce, 701 C Street, Box 10, Anchorage, AK 99513, 271-5857.

Provides grants and loans to job producing enterprises.

Home-Based Businesswoman's Network, 5 Cedar Hill Road, Salem, MA 01970.

National Alliance of Home-Based Businesswomen, P.O. Box 95HB, Norwood, NJ 07648.

Office of Enterprise, Alaska Department of Commerce and Economic Development, Pouch D, Juneau, AK 99811, 465-2018.

Informational publications and hands-on business assistance to service industries, retail and wholesale trades, manufacturers, transportation companies, finance, insurance and real estate firms.

Small Business Administration, 701 C Street, Box 67, Anchorage, AK 99513, 271-4022.

Information and federally-guaranteed business loans (limit \$500,000); assistance information and publications on marketing and management for new and existing small businesses.