

Guidance Notes for Teachers

Profit and Loss Lesson

Lesson Objective: By the end of the lesson, pupils will understand the difference between making a profit and a loss. Pupils will also learn what a business has to do in order to make a profit.

Curriculum for Excellence Money Outcomes: MNU 2.09c - I can use the terms profit and loss in buying and selling activities and can make simple calculations for this.

Lesson Introduction

Companies sell products or services to the public or other businesses. A product might be something to eat, or to wear or to play. A service is doing something for someone for example, a hairdresser, a plumber or a childminder. Companies make money by selling their product or service for more money than it costs to make or deliver.

The extra money that they make is called a **PROFIT**.

When a company doesn't make as much money as it costs to make the product or service it is called a **LOSS**. Making a **LOSS** can lead to the company going out of business and people losing their jobs. Companies always try to make a **PROFIT** from everything that they sell.

It's not only companies that want to make a profit, events like school fetes and coffee mornings try to make a profit too, sometimes the money is for school funds or it might be raising money for charity.

Trying to make a **PROFIT** is a balancing act; events or companies have to find ways to keep their costs as low as possible, the cheaper it costs to make a product or deliver a service the bigger profit they can make when they sell it. But they also have to make sure that they don't charge too much money for the product as people won't buy something that they think is too expensive.

Discussion

Once the introduction has been completed with the class, the attached discussion notes sheet will assist you in initiating a discussion with the class to build an understanding of how a profit is achieved.

Worksheet - Pupil Activity

The discussion should ensure that the pupils understand the difference between making a **PROFIT** and a **LOSS**, and are aware of the factors which can affect the overall cost of a product or service. Pupils then can progress to a worked example.

The questions are set around a scenario using real life monetary amounts.

Plenary

This sheet summarises the learning and highlights the key points of the Making a Profit lesson.

Pamela Fraser

Discussion Notes

Making a Profit

Q1: What does the word expenditure mean ?

A: Expenditure is the word for all the costs that a business has to spend money on so that they are able to make the product or deliver the service.

Q2: Give 5 examples of expenditure.

A: Answers will vary. Possible answers may include,

Buildings/factory rent	Electricity
Wages	Equipment
Machinery	Tools
Advertising	Printing
Transport	etc ...

Q3: How does a business make a profit ?

A: Businesses make a profit by setting their selling price (cost for the public to buy it), for more than it cost them to make the product. The extra bit is the profit. They need to make the product as cheap as they can and sell it for as much as they can.

Q4: What does it mean when a business makes a loss ?

A: It means that the business has lost money. In other words the money made from selling the products was less than the amount it cost to make them.

Q5: What is meant by the selling price ?

A: The selling price is the amount of money the shopper has to pay to buy the product. It is the price that we pay for a product in the shop or online.

Q6: What factors does a business need to consider when setting the selling price ?

A: They need to set the price high enough to meet all costs and generate a profit, but not too high so that people won't buy the item. They might need to compare the prices of other companies selling similar items to make sure they are competitive.

Supplementary Questions

Q7: Write down at least one example of a small business and one example of a large business ?

Answers will vary but examples of a small business should be focussed on sole traders or partnership businesses such as a joiner, hairdresser, electrician or childminder. Large business answers should focus on large multinational companies or stores such as Apple, Microsoft or Sainsbury.

Q8: What are the implications of a business making a loss ?

The implications could be that the company has to :-

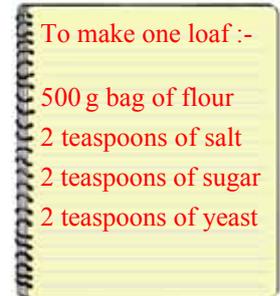
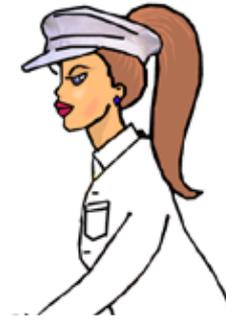
- a** Re-price the product i.e. change the selling price
- b** Stop making the product
- c** Cutback on costs, people could lose jobs, or have to work less hours per week
- d** Find cheaper ways to make product
- e** Worst case scenario the company goes bankrupt.

Discuss the implications for each answer in Q8.

Profit & Loss Worksheet

Sophie works as a manager in a small bakery which has to make 50 loaves of bread every day for a market stall.

The ingredients to make one loaf are shown.



- Sophie can buy a 1 kg (1000 g) bag of flour at the supermarket, which costs £1.37.
How many bags of flour will she need to buy ?
 - How much does it cost to buy all the flour she will need ?
- It might be cheaper for Sophie to buy her flour at the wholesaler "Cutscoast" as they sell larger bags. A 12 kg (12 000 g) costs £10.45.
 - How many bags of flour would Sophie need to buy to make all the loaves ?
 - How much would this amount of flour cost ?
 - What problems might there be for Sophie in buying the flour in this way ?
- What option is the cheaper way for Sophie to buy the flour that she needs ?
- Sophie buys a tub of salt for £0.84, a bag of sugar for £1.49 and 3 tubs of yeast costing £1.28 each.
Assuming that she bought the cheaper flour, how much did she spend in total on the ingredients ?
- Another cost that Sophie has in order to make the bread is electricity.
The cost of electricity is £0.13 per hour used and a daily service charge of £0.38.
Sophie can bake 4 loaves at a time and it takes 30 mins for the loaves to bake.
 - How many hours of electricity will she use to bake the 50 loaves ?
 - How much does it cost Sophie to bake the bread ?
- Adding up the ingredients and the electricity costs, what is the total cost to make the bread ?
- How much does it cost to make each loaf of bread ?
- Assuming Sophie has been selling all her loaves at £1.05 each, how much profit did she make every :-
 - day
 - week ?
- Sophie feels that she really needs to make £25.00 profit each day for it to be worthwhile. How much will this mean that she has to sell each loaf for now ?
- On one particular day Sophie only manages to sell 30 loaves at this new price.
 - How much profit does she make on that day ?
 - Give an example of what Sophie could have done to try to sell the remaining 20 loaves ?
- Give 3 examples of things that might affect Sophie making her target profit of £25 each day.



Profit & Loss Worksheet - Answers

1. a Sophie will need 25 bags of flour to make the loaves.
b It will cost £34.25 for the flour.

2. a Sophie would need 3 bags of flour.
b It would cost £31.35 for the flour.
c Problems in buying the flour in this way could be :-

Storage - as they are big bags,

Transport - to get bags home as they are very heavy,

Potential wastage - from any leftover flour, which would also mean wasting money.



3. The cheaper option would be to buy the flour in the larger bags from the wholesaler.

4. Sophie spent £37.52 on the total ingredients.

5. a Sophie will take 6 1/2 hours to bake all the loaves.
b It costs Sophie £1.23 for the electricity to bake the loaves.

6. It costs £38.75 in total to make the loaves.

7. It cost £0.78 (£0.775) to make each loaf of bread.

8. a £13.50 (£13.75) b £94.50 (£96.25).

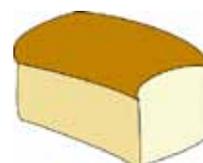
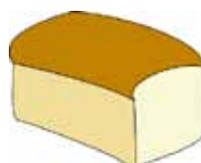
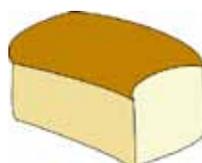
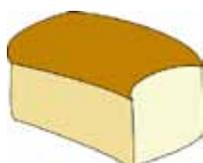
9. Sophie will have to sell her loaves for £1.28 each.

10. a Sophie doesn't make a profit she makes a loss of £0.35.

- b Answers will vary but should include :- selling the loaves at a reduced price, offering a special offer for example buy one get one half price, offer a tasting to encourage people to buy, etc.

11. Answers will vary but may include :-

- The weather - people unlikely to go to market in bad weather,
- Competition - may be another baker offering different or cheaper products,
- Economy - people may feel that her products are too expensive,
- Quality - if her products are not tasty or someone else can offer better bread,
- Lack of variety - people may not want wholemeal bread every week,
- Time of the year - market may not be as busy at certain times of the year e.g. summer holidays etc.



Summary/Plenary Sheet

The worksheet you have just completed teaches us about the difference between making a **PROFIT** and a **LOSS**. In business it is important to balance the cost of making a product with selling it at a price which people will be happy to buy it at.

In doing this, the company is more likely to make a **PROFIT**, but if people feel that the selling price is too expensive and not giving them value for money then they will not buy the item and the company is more likely to make a **LOSS**.

Questions to Assess Student Understanding

If Sophie wanted to make her business bigger and sell more loaves, what other costs may be involved ?

- Sophie may have to spend money on staff to help her,
- She might want to buy more cooking equipment,
- She might have to move out of her kitchen to a bigger building.
- She might have to buy a bigger oven,
- She might want to advertise her business,

Sophie failed to sell enough loaves and made a loss.

If she continued to make a loss what changes could she make to try to make a profit ?

Answers will vary but possible answers would be :-

- She could look at her costs and see if she could buy the ingredients cheaper, then reduce the price they sell for,
- She could make different varieties of loaf - try new flavours,
- She could sell her bread at more markets, advertise with posters or flyers,
- She could introduce special offers.

Why do you think businesses make a loss ?

Answers will vary but possible answers would be :-

- The product is too expensive,
- The product is sold for less than it costs to make,
- There are too many similar products already available,
- It costs too much money to make,
- The product is not wanted by shoppers,
- Poor advertising - people don't know about it.

Recap on Key Learning Points

- A **PROFIT** is achieved when a business sells their products for more money than it costs to make them.
- A **LOSS** occurs when a business doesn't sell enough products to meet the costs involved in making the products or the selling price is set too low.
- The **SELLING PRICE** is the amount that a company sells its product to the public for.
- To be successful and make a **PROFIT** a business has to make sure that the **SELLING PRICE** set for a product is more than the cost to make, but not so expensive that people will not want to buy it.

Extended Learning

For teachers wishing to further the lesson by issuing homework or extended learning opportunities to pupils the following are suggested activities :-

- Relate learning to real life practice by allowing pupils to run school snack shop, (including setting the pricing structure).
- As a class, compare prices in a cafe of a product sold e.g. soup or sandwich and the cost to buy the raw ingredients to discover the mark up and therefore the profit made on each item.