How Cyclical Change Could Affect Me?
"Create what you need to create to succeed."

You have just learned that making a vulnerable request landed you a vital benefit... A corner driveway next to downtown on Saturday giving you an A+ location. In order to succeed you need more inventory raw. Then you must re-create your special recipe without variation and be prepared for a large sale.

You make a trip to the grocery store to visit Mr. Grocer and the store. How much of the ingredients can purchase? OMG SURPRISE!

A winter freeze has created a shortage of lemons therefore the price has risen substantially. Even worse, tariffs and taxes have increased the price of sugar! This is called CYCLICAL CHANGE.

You always have to be prepared for situations whereby the prices you pay change rapidly beyond your control. Some examples are the price(s) of: energy, gas, interest rates, raw materials, like copper, lumber or beef.

Our Grocer informs us of this exact bad news. The price of lemons has doubled, sugar is up 64% and limes are in very short supply. The good news is that he is willing to extend you credit based on your history, AND your relationship of being genuinely interested in his family. (Listening skills and asking caring questions are the key here)

The grocer agrees to allow you to purchase of $20.00 of groceries ***on credit and payable within 30 days***. This will be posted on your balance sheet as "ACCOUNTS PAYABLE" in Liabilities and record the $20.00 transaction there. To balance you must ALSO have a journal entry in assets as"INVENTORY RAW" and record the $20.00 transaction there.

You Mix up your super tasty Lemonade and now you are prepared to succeed at your new location. To post, you must now ***subtract*** the $20.00 from Inventory Raw and ***add*** $20.00 to Inventory Finished. This transfer from one journal entry to another does not affect the Liability or Equity on your balance sheet.

The new batch ingredients ***produce 100 glasses of lemonade at a cost of $20.00.*** Our new unit cost per glass of lemonade is perfectly calculated: You also will know your new COGS to the penny by the amount of glasss that are sold (a good inventory and reconcilliation double check).

Batch cost for finished inventory ☐

Amount of glasses created for sale ☐

Unit Cost (COGS) per Glass ☐

Your unit cost has gone up from .10 cents to .20 cents per glass. You will have other expenses too with the growth of the enterprise! Some examples are rent, advertizing, and payroll. You may also issue credit to friends to boost sales but at the risk of collection. If they don't pay is that an expense?

How much will you have to raise your price to cover these costs and maintain or increase margins? You already know that the COGS have doubled.

☐	☐
Old Price	***New Price (Suggested)***

Create what you need to create to Succeeed! Does your Balance Sheet look like the one below.

Cyclical Change Can Affect Costs $ Prices


LESSON 2: BALANCE SHEET
ASSETS $35.00
CASH
$14.00
INVENTORY
$20.00
AR ACCOUNTS RECEIVABLE
$0
FFE FURNITURE, FIXTURES AND EQUIPMENT
$1.00
LIABILITIES $24.00
NOTES SHORT TERM
$4.00
AP ACCOUNTS PAYABLE
$20.00
EQUITY $11.00
ORIGINAL INVESTMENT
$2.00
RETAINED EARNINGS
$9.00
REVENUES TO DATE
$0.00
I GOT THIS
ASSETS = LIABILITIES + EQUITY
$35.00
$24.00
$11.00