

LESSON 7 FINANCING THE ENTERPRISE

ACTIVITY 2-A

SAMANTHA'S DEBT OPTIONS - ANSWERS

Cost/Benefit Analysis: A process of examining the advantages (benefits) and disadvantages (costs) of each available alternative in arriving at a decision.

Directions: With your group, fill out the timeline, benefits, and costs for each of Samantha's debt repayment options. After you've completed the chart, decide as a group which option you'd choose if you were Samantha.

	Option #1: Pay Dad \$20 for each lawn mowed	Option #2: Pay Dad only \$10 for each lawn mowed, but 5% interest for each lawn mowed	Option #3: Pay Dad nothing but give father 25% of all future earnings
Time To Pay?	<i>Three lawn mowings (with only \$10 given on the last mowing)</i>	<i>Six lawn mowings (five jobs will pay off the original debt, but Samantha will need to mow one more lawn in order to cover the additional \$1 in interest per lawn mowed)</i>	<i>No time at all</i>
Benefits (Advantages)	<i>Be debt-free very quickly Samantha won't have to pay any additional money beyond the \$50</i>	<i>Be debt-free somewhat quickly For each lawn mowed, Samantha will have some money for personal or business expenses</i>	<i>Be debt-free instantly Samantha can spend all of the \$20 she earned mowing her first lawn, and she can spend all of her future earnings on personal or business expenses If her father is a part owner, he may continue to contribute money to cover business expenses</i>
Costs (Disadvantages)	<i>Samantha won't have any money for personal or business expenses for the first three lawn mowings</i>	<i>Does not get rid of debt as quickly as with Option #1 or Option #3 Will end up paying her father more money than she originally borrowed Cannot use all of her earnings from the mowings for personal and business expenses because she will be repaying her debt</i>	<i>Gives up 25% of future earnings—she will only get to keep \$15 per lawn mowed instead of \$20 Gives up full ownership. Samantha can't make all decisions about the business by herself.</i>

FINAL DECISION: If you were Samantha, which option would you choose? Why?