

# SMALL BUSINESS MANAGEMENT

Using Lotus™ 1-2-3™



Terry S. Maness

Second Edition



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WESTERN

# **SMALL BUSINESS MANAGEMENT**

Using Lotus™ 1-2-3™

Second Edition

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**Terry S. Maness**  
Baylor University



COLLEGE DIVISION South-Western Publishing Co.

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## PREFACE

To minimize the learning curve often encountered when using a new edition of a program, we've made sure the second edition of *Small Business Management Using Lotus 1-2-3* follows the same basic system as the one developed in the first edition. However, in this second edition, we have made two major changes.

First, we've changed the introductory menu structure to make it easier for users who don't have the Longenecker/Moore textbook, by basing the menu choices on functional decision areas (such as Planning, Operations, Marketing, etc.) rather than on the unit and chapter headings in the Longenecker/Moore textbook, as we did in the first edition.

Second, we've added two new worksheets: a Business Plan worksheet, which helps you develop the financial plan portion of a business plan in greater detail than was possible in the first edition; and an Aging-Schedule Analysis worksheet. The Business Plan worksheet generates monthly financial projections for the first twelve months of operation, and annual projections for five years. You can use this worksheet to assess the short-run aspects as well as the long-run aspects of a financial plan. This worksheet allows you to enter information for up to two product lines, each offering different market prices, unit demand, cost structures, payables terms, and credit terms.

The second new worksheet is an Aging-Schedule Analysis worksheet. Because managing cash flow is crucial to the success of a small business, you will find this worksheet useful for monitoring customer account receivables.

Finally, this second edition includes a new Save menu option. You can use this option in two of the worksheets—the Financial Statement Analysis worksheet and the Business Plan worksheet—to save your data.

If you are familiar with the first edition of this program, you should feel at home with the second edition. After you become familiar with the changes to the introductory menu used for choosing the desired worksheet, you will find that the current and previous systems work almost exactly the same. Specifically, the menu structure for each worksheet in the second edition works exactly as it did in the first edition. If, however, you have not used either system before, you can use this edition as a stand-alone product for exposing students to small business computer applications, or you can use it as a complementary supplement to the Longenecker/Moore textbook, *Small Business Management*, 8th edition.



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# CHAPTER 1

## SMALL BUSINESS MANAGEMENT AND THE MICROCOMPUTER

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### CHAPTER OUTLINE

**THE ROLE OF THE COMPUTER IN SMALL BUSINESS MANAGEMENT**  
**HOW THIS WORKBOOK IS ORGANIZED**  
**ABOUT THE SMALL BUSINESS MANAGEMENT SYSTEM DISK**  
**GETTING STARTED**

We live in a world of constant change. And as someone once said, the only thing we can count on is that things will change. This workbook is a reflection of a dramatic change that has affected the way small businesses are managed—the advent of the microcomputer. Not long ago, computers were used only by large businesses, usually for data processing. Today, computers can be found on the desktops of most managers, in classrooms, and even in the home.

In the past, the computer was used primarily to track business transactions. Today, it can also be used to process decision-making models; models that can be used both for routine decisions that require tedious calculations, and for highly complex decisions that involve complicated interrelationship of data.

This workbook and the accompanying disk are an excellent supplement to the textbook *Small Business Management*, 8th Edition, by Longenecker and Moore. You can use the workbook and disk to create your own versions of the models discussed in the textbook. In addition, you can work through the problems at the end of each chapter to expand your understanding of some of the many complicated managerial problems facing today's managers and entrepreneurs. For example, one model that appears in Chapter 5 of the workbook shows you how to create a worksheet that you can use to develop a business plan for a new venture. This worksheet allows you to develop financial projections for the first twelve months of the first year, and annual projections for five years. Computerizing this tedious and rather complex set of financial relationships makes it easy for you to "try out" several different managerial strategies and quickly assess and evaluate the financial impact of each strategy. Generally, each model presented in the workbook will allow you to work the problem with one set of numbers and then resolve the problem by altering some of the numbers to see how the solution changes. By going through these exercises, you will gain a better grasp of the problem area being discussed.

Even if you are not using the Longenecker/Moore book, this workbook will still be a useful supplement for a wide range of small business textbooks.

### THE ROLE OF THE COMPUTER IN SMALL BUSINESS MANAGEMENT

The role of the computer as a business tool is changing rapidly. No longer are computers used only for data processing, and no longer are they run only by specialists. The introduction of the microcomputer and "user-friendly" software has brought the power of the computer within the grasp of virtually anyone



who wishes to take advantage of it. The computer has become a vital tool for day-to-day management and strategic planning.

One important ingredient in the acceptance of computers in business has been the development of user-friendly software, especially spreadsheet software such as Lotus 1-2-3<sup>1</sup>, which has made the capabilities of the computer accessible to everyone. With the declining price of computer hardware and the development of user-friendly software, it is not surprising that the computer has now found its way into small businesses.

In Chapter 22 of the Longenecker/Moore, textbook there is a discussion of the way computers can and are being used by entrepreneurs. As discussed in that chapter, the computer can serve a vital role in the operation and management of all types of businesses, including small businesses, not only for word processing and for bookkeeping, but for facilitating planning and decision-making.

## HOW THIS WORKBOOK IS ORGANIZED

This workbook has 14 chapters. If you are using the textbook *Small Business Management*, 8th Edition, by Longenecker and Moore, you'll want to refer to the table below, which keys each workbook chapter to a corresponding chapter in the textbook. If you are not using the textbook, the chapter titles are general enough that you can easily relate them to appropriate chapters in other small business management textbooks.

Textbook Chapter	Chapter Title	Workbook Chapter
	Small Business Management and the Microcomputer	1
	Using the Small Business Management System Disk	2
3	Valuing a Business	3
6-10	The Basics of a Business Plan	4
6-10	Preparing a Business Plan	5
9	Supplemental Planning Tools	6
12	Break-Even Pricing	7
12	Accounts Receivable Aging Analysis	8
19	Managing and Valuing Inventory	9
21	Cash Discount Analysis	10
21	Capital Budgeting	11
20	Financial Statement Ratio Analysis	12
21	Managing Cash Flow: Using the Cash Budget	13
	Creating Your Own Worksheets Using Lotus 1-2-3	14

In each chapter in the workbook, you are shown how to retrieve the related worksheet from the Small Business Management System disk that is packaged with the workbook, and you are presented with an overview of the problem area to be discussed. You are then led, step-by-step, through an example problem showing you how to enter data and interpret the results of the worksheet. At the end of each workbook chapter is a set of sample problems that you can solve using the worksheet.

## ABOUT THE SMALL BUSINESS MANAGEMENT SYSTEM DISK

This workbook is designed to be used with the accompanying Small Business Management System disk (often referred to in this workbook as the SBM System disk). The SBM System disk is made up of worksheets written in the Lotus 1-2-3 format. These worksheets are designed to be used in conjunction with Lotus

1. Lotus® and 1-2-3® are registered trademarks of the Lotus Development Corporation. Any reference to Lotus or 1-2-3 refers to this footnote.

1-2-3. Your instructor will inform you how you can check out or obtain the Lotus 1-2-3 System disk.

The SBM System disk offers a Main Menu worksheet from which you can choose the worksheet or decision model you want to work with. The SBM System is fully menu driven, and the menu structure for all the worksheets is similar, which reduces the amount of learning time. Once you learn how to use the menu structure for one worksheet, you can quickly learn how to use the other worksheets.

The equipment you need to follow along with the workbook and SBM System disk includes:

- An IBM PC, XT, AT, PS/2, or compatible computer.
- 256K of RAM.
- Two floppy disk drives, or one floppy drive and one hard drive.
- A Lotus 1-2-3 System disk.
- A bootable DOS disk, or a copy of DOS on your hard drive.

A printer may be useful, but is not necessary.

## GETTING STARTED

To use this workbook, you should start by reading Chapter 2 while sitting at your computer. Chapter 2 will familiarize you with your computer, Lotus 1-2-3, and the Small Business Management System disk. It teaches you just enough about your computer and the Lotus 1-2-3 software to enable you to use the SBM software even if you are not familiar with computers. Chapter 14 of this workbook provides additional instruction about the Lotus 1-2-3 software.

At this point, a true entrepreneur would be hard to restrain. So why not grab a computer, switch it on, and dive into Chapter 2.



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# **CHAPTER 2**

## **USING THE SMALL BUSINESS MANAGEMENT SYSTEM DISK**

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### **CHAPTER OUTLINE**

#### **PARTS OF THE COMPUTER**

The Central Processing Unit (CPU)

The Keyboard

    The Typewriter Keys

    The Function Keys

    The Arrow Keys

    The Special-Purpose Keys

The Disk Drives (Storage Devices)

The Monitor and Printer (Output Devices)

#### **LOADING LOTUS 1-2-3**

#### **THE LOTUS ACCESS SYSTEM MENU**

#### **THE WORKSHEET STRUCTURE**

    The Control Panel

    Activating the Menu System

    The Mode Indicator

    Other Indicators

    Error Messages

#### **LOADING THE SBM SYSTEM DISK**

#### **USING THE SBM SYSTEM MAIN MENU**

#### **SUMMARY**

This chapter introduces the IBM PC or compatible computer, the Lotus 1-2-3 software, and the Small Business Management (SBM) System disk. You will learn how to load the SBM System into your computer, how to use the main menu to select the small business management decision-making model you want, and how to get the information you need to start making informed decisions.

### **PARTS OF THE COMPUTER**

The SBM System is designed for use with the IBM PC, XT, AT, PS/2, or compatible computer, which consists of four basic parts:

- The CPU (the central processing unit where the processing is done and internal memory resides).
- An input device (such as a keyboard).
- A storage device (such as a floppy disk and floppy or hard disk drive).
- An output device (such as a monitor or printer).

Before using the SBM System disk, it is important to understand the relationship between these four basic parts.

## The Central Processing Unit (CPU)

When the computer is first powered up, or booted, the CPU attempts to access the IBM disk operating system (DOS) in Drive A. (Drive A is generally the left disk drive or, if the disk drives are stacked, it is the top drive.) An operating system is a program that tells the computer how to read information from the keyboard or disk drives, how to process information, and how to output information to the monitor, printer, or disk drives. *If you have a two-floppy disk system*, your operating system disk will be in Drive A. Your instructor will provide you with a bootable DOS disk, or show you how to create one. *If you have a hard drive*, chances are that you have a copy of DOS on your hard drive and that you boot directly from the hard drive.

When you open a worksheet in Lotus 1-2-3, it is loaded directly into the internal memory of the CPU. This internal memory is referred to as RAM (Random Access Memory). RAM is active only as long as the computer is powered up. If you turn off the power, then the information that was stored in RAM is destroyed or lost, unless you have previously saved to disk the file or worksheet containing the information.

## The Keyboard

The keyboard is one of the most popular input devices used with computers. Other input devices include a mouse, a light pen, and a joy stick. To effectively use the computer, you must become familiar with the keyboard. Some keyboards have the various keys discussed below in slightly different locations. So find the location of the keys discussed for your specific keyboard. Exhibit 2-1 is a photograph of an IBM PC keyboard. It consists of four basic parts:

- The typewriter keys.
- The function keys.
- The arrow keys.
- The special-purpose keys.

### ***The typewriter keys***

This section essentially consists of the middle part of the keyboard. It contains the basic alphanumeric keys, which allow you to enter numbers as well as alphabetic characters.

### ***The function keys***

These keys are located in two columns on the left-hand side of the keyboard. They are shaded a medium gray color and are labeled F1 through F10. Many programs, including Lotus 1-2-3, have preprogrammed instructions related to specific function keys. For example, the F1 key in Lotus calls up a Help menu of instructions for using the Lotus software.

### ***The arrow keys***

There are four arrow keys located on the right-hand side of the keyboard (also known as the *numeric keypad*). These arrow keys are used to move the *cursor*. The cursor is generally a *dash* or a *highlighted bar* that appears on the screen indicating the current position for inputting data. Lotus 1-2-3 uses the highlighted bar (called a *menu pointer* or a *cell pointer*) rather than a dash. The arrow keys are used to position the cursor so that data can be entered in various locations on the screen. The Up-Arrow key is the 8 key, the Right-Arrow key is the 6 key, the Down-Arrow key is the 2 key, and the Left-Arrow key is the 4 key.

### ***The special-purpose keys***

There are also special-purpose keys located on both sides of the keyboard. The basic special-purpose keys, their locations, and their functions are:

Esc	Left side	Clears or undoes a current action
←	Right side	Backspace key
↵	Right side	Enter key

Although there are other special-purpose keys, these are the most frequently used.

## The Disk Drives (Storage Devices)

In most two-floppy disk drive systems, the disk drive on the left is referred to as *Drive A*, and the drive on the right is *Drive B*. If the system you are working on is not configured this way, please see your instructor for additional information. The disk drives work much like a tape recorder, but they contain read/write "heads" that read or write information on  $5\frac{1}{4}$  inch or  $3\frac{1}{2}$  inch floppy disks rather than tape.

You may be using a computer that has only one floppy disk drive and an internal hard disk drive. The internal hard disk works just like a large floppy drive.

## The Monitor and Printer (Output Devices)

The device most often used for outputting information is the monitor. As you work on the computer, the computer program displays information typed in by you on your monitor, as well as messages and prompts from the program you're using (in this case from Lotus 1-2-3). Monitors, however, can display information only temporarily. The information disappears when you quit the program or turn off your computer.

To obtain a "hard copy" (or paper copy) of the results from the program, you'll need a printer. When you are hooked up to a printer, you simply key in the appropriate instructions, and the program directs the desired output to the printer where the results are printed on paper.

## LOADING LOTUS 1-2-3

If you are using Lotus 1-2-3 Version 1A, follow these steps:

1. Put the Lotus 1-2-3 disk into Drive A (the left-hand disk drive), and close the drive door.
2. Turn on the computer using the power switch. (On the IBM PC, it is located on the right-hand side.)
3. Follow the directions displayed on screen. Use the keyboard to input requested data.

After you have performed steps 1 and 2, the screen prompts you to enter the current date and/or time. If you desire, you may respond simply by pressing Enter. (Remember, Enter is the key with the broken arrow on it.) Press Enter until you see the Lotus Access System Menu (shown in Exhibit 2-2) displayed on the screen.

To enter the current date and time, type your response in the following format, and press Enter after each response:

9-01-90     (represents September 1, 1990)  
16:10       (represents 4:10 pm)

The advantage of entering the current date and time is that you then know when you worked on a particular file (or worksheet).

If you are using the Student Edition, follow these steps to load Lotus 1-2-3:

1. **If you are using a two-floppy drive setup:** Insert a bootable DOS disk in Drive A (the left-hand disk drive), and close the drive door.  
Your instructor will provide you with a bootable DOS disk or tell you how to make one. This disk contains the operating system that runs the computer.  
**If you are using a hard drive setup:** Your hard drive already has an operating system, so you won't need a bootable floppy disk. Skip to step 2.
2. Turn on the computer using the power switch. (On the IBM PC, it is located on the right-hand side.)
3. After you have performed steps 1 and 2, the screen will prompt you to enter the current date and/or time. Type your response in the following format, and press Enter after each response:

9-01-1990   (represents September 1, 1990)  
16:10       (represents 4:10 pm)



Be sure to take the time to enter the correct date and time. This information is recorded when you save a file (or worksheet) and helps you to identify the most recent version.

4. **If you are using a two-floppy drive setup:** When the A> prompt appears, remove the DOS disk from Drive A, and insert the Lotus 1-2-3 System disk. Insert the SBM System disk in Drive B.

**If you are using a hard drive setup:** If this is the first time you have worked on the hard drive, you will need to copy all the worksheet files on the SBM System disk to your hard drive. When the C> prompt appears, put the SBM System disk in Drive A. At the C> prompt, type *Copy A:\*.\* C:*, and press Enter. This copies all the files on the SBM System disk to the root directory of your hard drive. When you see the message *14 File(s) copied*, remove the disk from Drive A, and insert the Lotus 1-2-3 System disk. Type A:, and press Enter.

5. At the A> prompt, type *123*, and press Enter.

The Lotus 1-2-3 opening screen appears. It stays on your screen for a moment as the program loads into memory. Next, a blank worksheet appears.

6. **If you are using a two-floppy drive setup:** If this is the first time you have used the Lotus 1-2-3 System disk, you need to make sure that Lotus 1-2-3 looks in the correct place for the SBM System disk. Type */W G D D* (for Worksheet Global Default Directory). At the top of the screen, you should see *Directory at startup: B:\*. If another drive letter is shown, press the Esc key, type *B:\*, and press Enter. Next, type *U* (for Update) and *Q* (for Quit).

**If you are using a hard drive setup:** Follow the instructions for a two-floppy drive setup, but substitute Drive C for Drive B.

## THE LOTUS ACCESS SYSTEM MENU

If you are using Version 1A of Lotus 1-2-3, you should read this section. If you are using the Student Edition, skip to the next section.

Once the Lotus Access System Menu is displayed on the screen, you are in the Lotus 1-2-3 system. The Lotus Access System Menu allows you to choose various Lotus applications, including the following:

- To enter the Lotus 1-2-3 spreadsheet system, choose 1-2-3.
- To manage files, choose File-Manager.
- To manage your disk, choose Disk-Manager.
- To print a graph, choose PrintGraph.
- To translate files, choose Translate.
- To return to the IBM operating system, choose Exit.

As the prompt at the bottom of the screen indicates (see Exhibit 2-2), use the arrow keys (right and left) to move the menu pointer over the desired menu choice, and press Enter. (If you press either the Up-Arrow key or the Down-Arrow key, the computer will beep, indicating that you have pressed a key whose instructions it cannot process.) Because you want to enter the Lotus 1-2-3 worksheet system, be sure the menu pointer highlights the 1-2-3 menu choice, and press Enter. A Lotus copyright screen appears next, as shown in Exhibit 2-3.

To continue, press Enter. At this point, a blank worksheet is displayed on screen, as shown in Exhibit 2-4. (If you respond to the prompt on the screen that says, *Press any key to continue*, the WAIT mode will appear on the screen momentarily before you see Exhibit 2-4.)

## THE WORKSHEET STRUCTURE

A blank worksheet has a horizontal border across the top of the screen with the alphabetic column identifiers, and a vertical border on the left-hand side of the screen with the numerical row identifiers. The Student Edition of the Lotus 1-2-3 worksheet has a maximum of 64 columns and 256 rows, while Lotus 1-2-3 Version 1A has a maximum of 256 columns and 2,048 rows, depending on the amount of memory your computer has.

Try to visualize a grid of faint lines running vertically and horizontally on the worksheet. The intersections of the vertical and horizontal lines form *entry cells*. An entry cell, which is nine spaces wide, accepts up to nine alphabetic characters or eight numeric characters. (One space is reserved for the plus or minus sign.) The cell pointer, which fills the width of a cell, is initially located in Cell A1 (Column A and Row 1). You can use the arrow keys to reposition the cell pointer.

It is important for you to understand the structure of the worksheet, because Lotus 1-2-3 displays important information and messages in various locations on the worksheet.

## Control Panel

If you look above the top horizontal border of a worksheet you have already worked on, you'll see the Panel. (If you are working with a blank worksheet, you must press the slash (/) key to activate the Control Panel.) The Control Panel displays three lines of information:

- The top line: The left side of the top line indicates the cell address of the cell pointer followed by a colon (:), and the right side displays the mode indicator READY.
- The second line: This line displays menu options when a menu is active.
- The third line: The third line displays a brief explanation of the menu option highlighted by the menu pointer.

Let's look at the Control Panel in Exhibit 2-4. As indicated by the top line of the Control Panel, the cell pointer is located in Cell A1. If that cell had a special output format, it would have been displayed in parentheses. For example, if (F2) is displayed, it indicates that output in Cell A1 has a Fixed format with two decimal places. Next to (F2) you might see a U, indicating that the cell is unprotected. (When a cell is unprotected, it means that data can be entered in the cell.) Finally, the cell contents is displayed. In Exhibit 2-4, you know that Cell A1 is empty because no contents are displayed and there is no special format indication. Recall that the second line of the Control Panel displays menu options when a menu is active, and the third line displays a brief explanation of the menu option highlighted by the cell pointer. Because a menu has not been requested, the second and third lines are blank in Exhibit 2-4.

## Activating the Menu System

Try activating a Lotus 1-2-3 menu. Press the / key to display the Control Panel. Another example of the Control Panel is shown in Exhibit 2-5. Note that a different cursor, called a menu pointer, appears on the second line of the Control Panel, highlighting the word *Worksheet*. Try moving the cell pointer, using the Right-Arrow key, and watch how the third line of the Control Panel changes: a menu is displayed in the Control Panel. (Worksheet is a Lotus 1-2-3 command, and the third line lists options under the Worksheet command.) Notice that throughout this exercise the cell pointer *in the worksheet* remains fixed.

## The Mode Indicator

To understand the mode indicator, look at Exhibit 2-5. In this exhibit, the upper right-hand portion of the Control Panel shows the mode indicator MENU. This means that you have activated the Lotus menu system and may at this time make a menu choice. Listed below are a few of the Lotus mode indicators and their meanings:

READY	The Lotus system is ready for you to do something.
VALUE	You are typing a number, formula, or function.
LABEL	You are typing a label or alphabetic information.
MENU	You have activated the Lotus 1-2-3 menu system.
ERROR	1-2-3 doesn't like what you typed; look for errors.
WAIT	1-2-3 is processing; the keyboard is inoperative.

The only mode you as a user of preprogrammed worksheets need to be concerned with is the WAIT mode. This mode indicates that the system is processing an instruction you gave it. Do *not* press any keys on the keyboard while the system is in WAIT mode. Always wait for the WAIT mode indicator to quit flashing before entering any additional data or before processing additional instructions.

## Other Indicators

Another area that displays indicators is located in the lower right-hand corner of the worksheet. Two usual indicators in this area are:

CAPS	This appears if the CapsLock key has been toggled.
NUM	This appears if the NumLock key has been toggled.

The term *toggle* is used with computers to indicate that a particular function is turned on or off. For example, pressing the CapsLock key once activates the capital letters on the keyboard. Pressing the same key again, or toggling, activates the lowercase letters.

## Error Messages

Lotus displays its error messages in the lower left-hand corner of the worksheet. One typical error message is *Disk Drive Not Ready*. This message is displayed, for example, when you ask Lotus to load a worksheet from Drive B but have failed to put a disk in Drive B. To correct this mistake, insert the proper disk in Drive B, press Enter, and instruct Lotus again to load the worksheet.

## LOADING THE SBM SYSTEM DISK

The decision-making worksheets on the SBM System disk are sophisticated, preprogrammed decision-making models created as Lotus 1-2-3 worksheets. Remember, to use the SBM System, you must first load Lotus 1-2-3. When Lotus 1-2-3 is loaded, a blank worksheet will appear on your screen. You are now ready to load the SBM System into memory. This allows you to use the models with the Lotus 1-2-3 program. Note: Before proceeding, make sure that the SBM System disk is in Drive B.

To load the SBM System, if you have already pressed the / key to access the Lotus menu system, you now need to follow these steps:

1. Choose the File command. Note that you can choose a menu option in two ways: You can type the first letter of the menu choice—in this case, F; or you can move the menu pointer so that it highlights the desired menu choice—in this case, File—then press Enter.
2. The cell pointer should be highlighting the Retrieve option. Press Enter. On the second line of the Control Panel, the computer responds with the following request: *Name of file to retrieve:*. On the third line of the Control Panel, the computer displays all the files that reside on the SBM System disk.
3. In response to the computer's request in step 2, type *mainmenu*, and press Enter. (Alternatively, you can move the menu pointer, so that it highlights the file name MAINMENU, and then press Enter.)

The Mode indicator displays WAIT because the system is processing your instructions and is loading the preprogrammed worksheet named MAINMENU into the Lotus system. When the system is ready, the screen displayed in Exhibit 2-6 appears. The menu pointer in the Control Panel highlights the first menu option.

## USING THE SBM SYSTEM MAIN MENU

The SBM System's Main Menu consists of menu choices related to major small business management and planning topics. The menu choices are located on the second line of the Control Panel. For example, the first menu choice is Valuation. It opens a worksheet that can be used to value a small business using the income statement approach discussed in Chapter 3 of the Longenecker/Moore textbook. Each menu choice, such as Valuation, may open one or more decision-making models.

If you choose Valuation by pressing Enter when Valuation is highlighted by the menu pointer, you will see a submenu listing all the worksheets under that heading. As you move the menu pointer over each menu choice a description of the model worksheets (Worksheet 1, Worksheet 2, etc.) is displayed on the