

CLASS XII
ENTREPRENEURSHIP (Code -066)
MARKING SCHEME 2018-19

Time allowed: 3 Hrs

Max Marks: 70

Part A

1 What is idea germination? 1

Ans. This is the seeding stage of a new idea. It is the stage where the entrepreneur recognizes that an opportunity exists which can be explored and exploited to its best potential.

2 Differentiate between Brand mark and Trademark. 1

Ans.

Brand mark	Trademark
A brand mark is that part of a brand which can be recognized but cannot be vocalized i.e. is non-utterable. It appears in the form of a symbol, design or distinct colour scheme.	A brand or part of a brand that is given legal protection against its use by other firms is called a trade mark. Thus, a trade mark is essentially a legal term, protecting the seller's exclusive right to use the brand name/mark.

3 Victory Ltd., set up their small manufacturing unit producing bucket seat covers in the name of 'Comfy'. The product was a great hit. After sometime, SMW- market leaders in luxury car manufacturing planned to join hands with Victory Ltd. Such a deal will allow SMW to obtain better pricing and control over the manufacturing process. 1

Identify this type of growth strategy.

Ans. Vertical merger

OR

Fitness Ltd., a leading manufacturer of athletic shoes decided to join together with Fizz Up, an energy drink manufacturing company especially for sports people. The new company, Fitness Up, would help the existing companies to extend their markets as goodwill of both would be encashed.

Identify this type of relationship.

Ans. Product extension merger 1

4 Name the two factors on which the accuracy of Cash Flow Projections depends upon. 1

Ans. a. Period b. Horizon 0.5 each

5 Patamadai, a small town resides along the banks of the Tamaraparani river, 20Kms away from Tirunelveli in Tamilnadu. This place is world famous for its silken mats woven from grass. The majority of mats made in here have cotton warps and korai wefts. The process of mat weaving is time consuming and painstaking. This handicraft industry has gone through a cycle of transition from being most coveted to the most ignored. Producers had changed the method of production but off late 1

many of them are reverting back to traditional methods of dyeing and processing the korai grass. Mass production now requires more finance. Which financial institution these producers should approach for help?

Ans. NABARD-National Bank for Agriculture and Rural Development

OR

Shillong is famous for its pristine beauty. Ariel Pvt. Ltd. wanted to build an ecofriendly amusement park which will not only be known for fun activities but will also educate the public about various sustainable development home projects. The company felt that it their duty to educate the present generation about Do-it-yourself projects. This will bring awareness about saving our environment for a better future. The company estimated the project to cost around 15 crore. Which financial institution should they approach?

Ans. TFCI- Tourism Finance Corporation of India

1

Part B

6 Enlist the elements of Innovation process.

2

Ans. a. Analytical planning: Carefully identifying the product or service features, design as well as the resources that will be needed. 0.5 each

b. Resource organization: Obtaining the required resources, materials, technology, human or capital resources.

c. Implementation: Applying the resources in order to accomplish the plans and delivering results.

d. Commercial application: The provision of value to customers, reward employees, and satisfy the stake holders.

7 Amish has the habit of reading newspaper on a daily basis. The latest headlines caught his attention. The headlines read as follows' "Government plans to offer subsidy to manufacturers of solar panels". He had also heard from his friend that individual house owners are preferring to install solar panels to save electricity. He started to make connections that led him to a business idea of establishing a small scale industry manufacturing solar panels.

2

Identify and explain this way of identification by Amish which has helped him to understand the market and produce goods accordingly.

Ans. Think trends- An entrepreneur begins gathering information regularly through reading, hearing and observing. This helps them to eventually lead to business boosting insights.

OR

Dristi ltd. decided to manufacture mobile phones with a new feature. It will have an inbuilt button which when pressed will extend into a selfie stick enabling the customers to click selfies easily without the need to carry a separate selfie stick. Identify two PESTEL factors which enabled Dristi Ltd., to bring out this new feature.

Ans. Technological and Social

1 + 1

8 Why is SWOT analysis important in preparing the marketing plan?

2

Ans. a. It is important for an entrepreneur to identify his/her target market for the enterprise

1 + 1

- b. Marketing plan needs to consider strengths and weaknesses of the new venture to ensure its success.

- 9 'Kindercare' is a successful brand name in the field of playschool across the country. They decided to increase the number of branches all throughout the country. For this purpose they decided to give exclusive rights to individuals in return for a regular payment. The various conditions included were: 2
- Interested individuals need to have Minimum 2000 feet area and are ready to invest around 10,00,000.
 - Books and uniform to be procured from Kindercare headquarters only.
 - Content, technical and accounting assistance would be provided.
 - Teacher training for a month.

Identify and explain this type business opportunity offered by 'Kindercare'.

- Ans. Business format franchise opportunity- In this approach, a company provides a business owner with a proven method for operating using the name and trademark of the company. The company also provides significant amount of assistance.

OR

TCW is a leading cool drink manufacturing company headquartered in Delhi. They decided to allow various vendors the opportunity to manufacture and sell their products in various parts of the country. The company will provide the raw materials for manufacturing the cool drink. Identify and explain this type of business opportunity offered by 'TCW'.

- Ans. Manufacturing franchise opportunity: 1+ 1
- It provides an organization with the right to manufacture a product and sell it in the public, using the franchisor's name and trademark.

- 10 The agarbatti market in India is estimated at whopping Rs.3,500 crore annually and growing. Indian-made agarbattis are also making rapid inroads into foreign countries. 2

Agarbatti manufacturing is one of the small scale manufacturing businesses that show promise of exponential growth over coming years. Karnataka has been famous for Agarbatti manufacturing due to easy availability of raw materials. Identify and state any two objectives of the financial institution which will provide financial aid to this sector.

- Ans. SIDBI objectives 1
- Initiate steps for technological upgradation, and modernization of existing units. 0.5 + 0.5
 - expand channels for marketing of SSI sector products in India and abroad.
 - Promote employment - oriented industries
- (Any two)

Part C

- 11 "All ideas need not necessarily become sound business opportunities". In reference to this statement explain the first three steps in idea and opportunity assessment. 3

- Ans. 1. Product identification: An idea should lead the entrepreneur to a definite product/service which he can sell. So the first step is to obtain a concept of the product or service suggested by one idea. We should also see whether this product is already available in the market or not. If it is, then we should identify the reason 1 + 1 + 1

for introducing the same product or service in the market. For example, innovating a new pendrive especially for teachers which will have a built in antivirus and which can be worn like a watch so it minimises the problem of losing the pendrive.

2. Application and use: Ideas should be examined for their real life use and application. If it already exists in the market, we will have to find out its present use, then we may think of modifying it for better use. In the above mentioned example, we can clearly see that even though there are many companies manufacturing pendrives, the latest will be in consonance with the upcoming trends.

3. Level of operation: This is a crucial test for product/service identification. Depending on the use of the product/service the entrepreneur will produce it in a cottage industry or a small scale– industry or a large–scale industry.

12 Shobha is a small scale entrepreneur manufacturing chocolates in the name ‘Yummilicious’. She had started this venture in the year 2012. She attended various start-up meeting where several Angel Investors and Venture Capitalists shared their success story and mentored the new budding entrepreneurs. In one of these sessions she heard a mentor say that every entrepreneur should constantly and consistently aim to improve the products and services already existing in the market. Taking this cue, Shobha decided to introduce wafers, lollipop and hard candy under the same brand name.

Explain the benefits as to why Shobha is doing so?

Ans. She is bringing changes in the existing products. The benefits of doing so are: 1½ mark each

- a. Keeping up with the competition: The products or services in an industry are continuously changing and it is important to stay aware of the latest in industry trends so that we can keep up to the competition.
- b. Increase sales: the main reason people will improve or add to the product line is to take the company in a different direction by increasing sales.

OR

Harish, after finishing his degree wanted to start his own business. He was confused as to the kind of business he should start. He attended a start-up session. One of the speakers stated that ‘Creativity can be used to spot and harness opportunities, as well as be applied to develop new products and services’. State any three ways in which creative ideas can be generated.

Ans. There are basically five ways in which creative ideas can be generated:

1. Develop a new product or service.
2. Improve an existing product or service
3. Find a new process or resource for manufacturing a product.
4. Find new markets for existing products or services.
5. Find a new use for an existing product or service.

13 Subeer, a tech-entrepreneur and his friend Harish, an investment banker planned to start a business organization where they can exercise control over the business, manage it with limited liability and that its continuity is not affected by entry or exit of members. They intend to maintain the confidentiality of the business operations as well. 3

Identify the form of business organization best suited for them giving reasons for the choice?

Ans. Private Company

1 + 2

Reasons:

- a. Number of directors: Only two directors are required in case of a private company whereas a public company requires minimum three directors.
- b. Issue of prospectus: A private company does not invite the public to subscribe to its share capital. Hence, it doesn't issue a prospectus.
- c. Allotment of shares: Shares of a private company can easily be allotted without receiving a minimum subscription.
- d. The control and management is generally in the hands of the owners of capital which is not so in a public company.
- e. A non-member cannot inspect the copies of the P&L A/C filed with the Registrar.

(Any two)

14 Explain any three types of Intellectual property rights.

3

- Ans.
- a. Patents - it grants an inventor the right to exclude others from making, using, selling, offering to sell and importing an invention for a limited period of time, in exchange for the public disclosure of the invention.
 - b. Copyright- it gives the creator of original work exclusive rights to it, usually for a limited time. It means apply to a wide range of creative, intellectual or artistic forms of work. eg., poems, plays etc.,
 - c. Industrial design- it protects the visual design of objects that are not purely utilitarian. it can be two or three dimensional pattern used to produce a product, industrial commodity or handicraft.
 - d. Trademark- It is a recognizable sign, design or expression which distinguished products or services of a particular trade from the similar products or services of other traders.

1 mark
for each

(Any three)

15 The villagers of Jamawar have been known for ages for rearing cows. Farmers have been selling milk to nearby villages. Renu studied up to grade XII in the village school and when she passed her exams with flying colours her parents sent her to the nearby city for undergraduate course. While studying there she noticed that the food habits of people were changing and cheese was used in many products.

3

After finishing her degree she went back to her village and met the sarpanch. She explained to him the demand for cheese and if a small scale unit is established in the village to convert milk into cheese, it might benefit the entire community. Taking her advice the sarpanch found out the process of turning milk into cheese. Accordingly, they set up a unit in the village with help from the Government authorities. The farmers together decided to run the unit and use ecofriendly methods of production and packaging. They decided to brand their product by the name, "Organica Cheese". They also thought of setting aside 2% of the profits for the establishing health centers for villagers.

Keeping in mind the above facts, state the sentence from the case study and

explain the types of added value.

- Ans. a. Quality added value- 'Brand their product by the name, 'Organica Cheese'. 1 + 1 + 1
- It is basically adding convenience, ease of use or other desirable characteristics that customers value
b. Cause related value- 'setting aside 2 % of the profits for the health issues'- it is a social marketing strategy where business contributes part of the revenue for a cause.
c. Environmental added value- 'ecofriendly methods of production and packaging'- employ methods or systems that do not harm the society.

OR

Business add values to goods and services by modifying them in a particular way to create a new product for greater value to customers. Comment on the concept of value addition from financial and marketing perspective.

- Ans. Business add values to goods and services by modifying them in a particular way to create a new product of greater value to customers. 1+ 1 + 1

Added value, from a financial point of view, represents the difference between the value of goods and services that are used as inputs to a production process and the value of the outputs of that process.

Added value, from a marketing perspective, means adding value that turns a commodity into a branded product. Branded products and services can also have value added by enhancing their design, characteristics or range of features.

- 16 Iqbal runs an electrical shop in Lucknow. The most sold product in his shop is ceiling fans. The annual demand for fans is 32,000. The annual holding cost per unit is Rs.192. The cost incurred in placing an order is Rs.3000. Calculate the Economic Ordering Quantity of Ceiling fans. 3

Ans. Economic Ordering Quantity = $\sqrt{2DP/C}$

Where;

2 is constant

D= Annual demand

P= cost of placing the order

C= Inventory holding cost/ carrying cost

Thus as : annual demand(D)= 32,000

Order cost(P) = Rs. 3,000

Annual carrying cost of 1 unit(C) = Rs. 192

$$\begin{aligned} \text{EOQ} &= \sqrt{2 * 3,000 * 32,000 / 192} \\ &= \sqrt{1,92,00,00,00 / 192} \\ &= \sqrt{10,00,000} \end{aligned}$$

= 1000 Units

OR

The following figures are extracted from the balance sheet of Swadesha Ltd.

Net profit after tax: Rs. 2,00,000

Net profit before tax: Rs. 2,80,000

Total Investment(Owned + Borrowed): Rs. 4,00,000

Own funds: Rs.1,00,000

Calculate Return on Equity for Swadesha Ltd.

Ans. Return on Equity = $\frac{\text{Net profit after tax}}{\text{Equity}} \times 100$ 3
= $2,00,000/1,00,000 \times 100$
= 200 %

17 State the regulatory functions of NABARD. 3

Ans. Regulatory Functions 1 + 1 + 1
a. NABARD is empowered to undertake inspection of RRBs and Cooperative Banks, other than the Primary Cooperative Banks.
b. To open a new branch, a recommendation of NABARD is imperative by RRBs or Cooperative Banks to seek permission from RBI.
c. RRBs and Cooperative Banks, along with RBI, are required to file returns and documents with NABARD.

Part D

18 Entrepreneurship does not emerge and grow spontaneously. Rather, it is dependent upon several economic, social, political, legal and other factors. An entrepreneur has to carefully monitor the organization's internal and external environment for detecting early signs of opportunities and threats that may influence its current and future plans. Identifying the concept, justify its importance for an entrepreneur. 4

Ans. Concept- Environment Scanning 1 + 3
Importance-

In a rapidly changing environment, one rule of thumb applies: If you don't adapt, you don't endure. This is the core idea behind environmental scanning. It means that organizations should gather information on changing conditions and incorporate those observations into a process which will lead to success of the organisation.

The right information, combined with the right adaptations, can determine an organization's future viability.

If an entrepreneur is not aware of the environment surrounding his/her business, he/she is sure to fail.

OR

An entrepreneur identifies problems as roadblocks. They understand that they need to bring creative solutions to it. For this he needs to completely understand the

problem, identify the target group and find an acceptable solution. Justify as to how identifying a problem will help an entrepreneur.

- Ans. Uses of problem Identification: 1 mark each
1. It helps an entrepreneur to bring out new products in the market
 2. Understand the problems and needs of the market
 3. Helps the entrepreneur to be creative
 4. Increase in employment generation
 5. Increase in national income of the country
- (Any four)

- 19 What are the different types of acquisition? 4
- Ans. There are four types of acquisitions: 1 mark each
- a. Friendly acquisition: Both the companies approve of the acquisition under friendly terms. There is no forceful acquisition and the entire process is cordial.
 - b. Reverse acquisition: A private company takes over a public company.
 - c. Back flip acquisition: A very rare case of acquisition in which the purchasing company becomes a subsidiary of the purchased company.
 - d. Hostile acquisition: The entire process is done by force. The smaller company is either driven to such a condition that it has no option but to say yes to the acquisition to save its skin or the bigger company just buys off all its share, thereby establishing majority and hence initiating the acquisition.

- 20 “Writing a good business plan can’t guarantee success, but it can go a long way towards reducing the odds of failure”. Elucidate the importance of a business plan in this context. 4

- Ans. The business plan is valuable to the entrepreneur, potential investors, venture capitalists, banks, financial institutions, new personnel's suppliers, customers, advisors and others who are trying to familiarize themselves with the venture, its goals, and objectives. The business plan –
- a) helps in determining the viability of the venture in a designated market
 - b) helps in providing guidance to the entrepreneur in organizing his/her planning activities as such: i) identifying the resources required ii) enabling obtaining of licenses if required etc. iii) working out with legal requirements as desired by the government.
 - c) helps in satisfying the concerns, queries, and issues of each group of people interested in the venture.
 - d) provides room for self-assessment and self-evaluation, requiring entrepreneur to think through various scenarios and plan ways to avoid obstacles.
 - e) though not desirable, at times, business plan helps to realize the obstacles which cannot be avoided or overcome, suggesting to terminate the venture while still on paper without investing further time and money.
 - f) as the investors/lenders focus on the four Cs of credit : character, cash flow, collateral and equity contribution, it is the business plan which reflects the entrepreneur's credit history, the ability to meet debt and interest payments, and the amount of personal equity invested thus serving as an important tool in funds procurement.

OR

There is no fixed format for business plan presentation. It varies according to the

entrepreneur's goals and audience, especially for start-ups there are four formats that are followed for business plan presentation. Comment.

Ans. Formats of business plan:

4

The depth and detail in the business plan depend on the size and scope of the proposed new venture. There is no fixed content for a business plan as it varies according to the entrepreneur's goals and audience (i.e. who are being targeted). Thus, it is common for especially start-ups to have three or four formats as follows for the same business plan.

i) Elevator pitch: It is a three minute summary of the business plan's executive summary. This is often used as a teaser to awaken the interest of potential funders, customers, or strategic partners.

ii) A pitch deck with oral narrative : A hopeful, entertaining slide show and oral narrative that is meant to trigger discussion and interest potential investors in reading the written presentation, i.e. the executive summary and a few key graphs showing financial trends and key decision making benchmark.

iii) A written presentation for external stakeholders: A detailed, well written, and pleasingly formatted plan targeted at external stakeholders.

iv) An internal operational plan: A detailed plan describing planning details that are needed by management but may not be of interest to external stakeholders.

21 Explain any four importance of stock market from the viewpoint of investors.

4

Ans. a. Dissemination of useful information: Stock exchange publishes useful information regarding price lists, quotations, etc., of securities through newspapers and journals.

1 mark each

b. Ready market: Persons desirous of converting their shares into cash may easily do so through a member of stock exchange.

c. Investors' interests protected: Stock exchanges formulate rules and regulations so that members may not exploit the investors.

d. Genuine guidance about the securities listed: The investors can safely depend upon the information provided by the stock exchanges.

e. Barriers of distance removed: Stock exchange removes the barriers of distance with regard to securities listed there.

f. Knowledge of profit or loss on investments: The investors can estimate the profit or loss on the total amount of investments in securities, by comparing the original amount invested and the price of securities on a particular day.

(Any four)

Part E

22 Writing Instruments Ltd. is engaged in manufacturing and distribution of Ballpoint Pen, Sketch Pen and Gel Pen.

6

Product	Ballpoint Pen	Sketch Pen	Gel Pen
Sales price/unit	40	45	75
Variable cost/unit	20	30	40

The total fixed cost is Rs.75,000 per month. For the coming month, it expects the sale of three products in the ratio – 2:1:2.

Compute the break-even point of the company in Rupees for the coming month.

Ans. Step 1 :

	Ballpoint Pens	Sketch Pens	Gel Pens	
Sales price / unit	40	45	75	1 mark for each step
Less: Variable cost / unit	20	30	40	

Gross profit/margin	20	15	35	

Step 2 :

$20 \times 2/5 = 8$
$15 \times 1/5 = 3$
$35 \times 2/5 = 14$

Step 3 - Weighted Average = $8 + 3 + 14 = 25/-$

Step 4- Apply formula and calculate = Total fixed cost/ weighted contribution
 = $75,000/25$
 = 3000units

Step 5- Ballpoint Pens-1,200 units
 Sketch Pens -600 units
 Gel Pens- 1,200 units

Step 6: BEP in Rupees

Ballpoint Pens-1,200 units x 40 = Rs.48,000

Sketch Pens -600 units x 45 = Rs. 27,000

Gel Pens- 1,200 units x 75 = Rs.90,000

23 Arushi finished her graduation course on designing from a reputed university. She wanted to pursue higher studies from a foreign university. Her father felt that she should work for some time, gain some experience and then proceed to further study. Taking his advice she joined a top advertising firm 'Crypton Ltd'. 6

The company was very famous and they had several important clients. As her first assignment, Arushi had to design an advertisement for print media for one of their major clients 'Amoridilla Soaps'. They were introducing new ayurvedic soap and they wanted Crypton to design an advertisement which was unique.

Arushi started researching on the various rules of designing advertisement. She learnt that all good advertisements should elicit responses.

a. State the responses and rules to be followed while designing an advertisement.
 b. Also, Identify and explain the promotion strategy followed by 'Amoridilla Soaps'.

Ans. a. Good advertising elicits the following four responses: 2 + 2 +2

i. Attention: It catches the eye or ear and stands out amid the clutter of competing advertisements

ii. Interest: It arouses interest and delivers sufficient impact in the message or offering

iii. Desire: It creates a desire to learn more or crave ownership

iv. Action: It spurs an action which leads to achievement of the ad's original objective. It prompts the potential customer to buy the product.

The rules are:

- i. Aim: To understand the primary purpose of advertisement.
 - ii. Target: To create an advertisement for a specific target market who will be interested to buy the product.
 - iii. Media: Keeping in mind the target group, we have to carefully select the media through which the advertisement will reach the target audience.
 - iv. Competitors: Careful analysis of what the competitors are doing to advertise their products will help us choose our own medium of advertisement.
- b. Promotion strategy: Above the line- This type of promotion uses mass media methods and focuses on advertising to a large audience.

OR

'Blessy Ltd., decided to diversify into manufacturing vitamin enriched water apart from their original business of cold drinks. The finance and marketing department sat and decided to adopt either of these two pricing techniques - adding a certain percentage of profit to the cost of production or to sell at a lesser amount so as to capture huge market. They put forth their finding to the CEO.

Identify the technique and state one advantage and one disadvantage for each pricing method.

Ans. The two methods are - cost plus production and price penetration.

1 x 6 = 6
marks

Advantages of cost plus pricing

1. Biggest advantage of this is that company knows exactly the amount of expenditure that has incurred on making a product and therefore they can add profit margin accordingly which helps in achieving the desired revenue for a firm.
2. It is the simplest method to decide the price for a product because one has just to add up all the cost and then add profit which you want to earn which will give the price for a product.
3. Since company is using its own data for deciding cost which makes it easier for a company to evaluate the reasons for escalations in expenses and therefore it can take corrective action immediately. (Any one)

Disadvantages of cost plus pricing

1. This method does not take into account the future demand for a product which should be the base before deciding the price of a product and therefore a serious limitation of this method.
2. It also does not take into account the competitor actions and its effects on pricing of the product.
3. It can result in the company overestimating the price of a product because this method includes sunk cost and ignores opportunity cost also while calculating cost there is an element of personal bias while deciding the profit margin which is to be added for a product. (Any one)

The advantages of penetration pricing to the firm are:

1. It can result in fast diffusion and adoption. This can achieve high market rates quickly. This can take the competitors by surprise, not giving them time to react.
2. It can create goodwill among the early adopters segment. This can create more trade through word of mouth.
3. It creates cost control and cost reduction pressures from the start, leading to

greater efficiency.

4. It discourages the entry of competitors. Low prices act as a barrier to entry
5. It can create high stock turnover throughout the distribution channel
6. This can create critically important enthusiasm and support in the channel.

(Any one)

Disadvantages:

1. The main disadvantage with penetration pricing is that it establishes long-term price expectations for the product and image preconceptions for the brand and company. This makes it difficult to eventually raise prices.
2. Penetration pricing attracts only the switchers (bargain hunters), and that they will switch away as soon as the price rises.

(Any one)

- 24 Latha started her business of making dosa batter from her home during her free time and started selling the same to households in her area. The batter was a huge success as the quality was good and according to the taste of the target market. She decided to make it into a full time business. Her entire family supported the venture. She approached few family members and friends who lent her around Rs.2 lakh. With that money she purchased some machinery and took a small space on rent to start producing the batter. Her batter in the name of 'Home Taste' was a huge hit in the market. Within a span of few years her business grew double fold. 6

She was talking about her successful venture to her brother who is also a chartered accountant. He suggested her that she should improve her business model so that it will enable mass production. They analysed that they will have to make a list of all pros and cons of increasing the business. Keeping this in mind, her brother prepared a document which described formally the relevant external and internal elements involved in starting the venture on a large scale. This document comprised of various components. Explain in detail any six items which should be included in the component which gives a projection about the economic feasibility of the enterprise.

- Ans. The component is Financial plan of the Business Plan.
Major financial items that should be included in the financial plan are:

- a) Proforma investment decisions
- b) Proforma financing decisions
- c) Proforma income statements
- d) Proforma cash flow
- e) Proforma balance sheet
- f) Break-even analysis
- g) Economic and social variables

A) Proforma investment decisions:

This part of financial plan relates to how the enterprise's funds are invested in different assets so that the enterprise is able to earn the highest possible returns on investment. An estimate of various components of capital nature i.e. fixed assets and of working capital should be clearly mentioned in this part of business plan.

Carefully, clearly and sequentially the entrepreneur should mention investment required in for:

- i) Land and building
- ii) Machinery and plant

1 mark
for each
component

- iii) Installation cost
- iv) Preliminary expenses
- v) Margin for working capital
- vi) Expenses on research and development
- vii) Investment in short-term assets viz. raw material, level of cash, etc.

This part helps to understand the total amount of finance required by the entrepreneur.

Inadequate funds or excess funds, both have the capacity to severely damage the financial fortune of a business. Therefore, these decisions must be taken with utmost care.

B) Proforma financing decisions

This section summarizes all the projected sources of funds available to the venture to raise finance from, which you have already studied in previous class.

Typically, sources of funds are:

- i) owners i.e. Owner's funds
- ii) outsiders i.e. Borrowed funds

Entrepreneur's job is to ensure the selection of best overall mix of financing for the enterprise so that:

- a) the cost of capital and the financial risk stands minimized,
- b) return on investment and profitability stands maximized.

C) Proforma income statement

Proforma income statement is projected net profit calculated from projected revenue minus projected costs and expenses. Basically, it summarizes all the profit data during the first year of operations of the new enterprises.

In preparing the proforma income statement, 'sales by month' must be calculated first, making use of forecasting techniques as the basis. Following are the most commonly adopted techniques for forecasting:

- 1) Marketing research
- 2) Industry sales
- 3) Survey of buyers' intentions
- 4) Expert opinions
- 5) Financial data on similar start-ups
- 6) Some trial experience of self or others.

D) Proforma cash flow

Profit and cash flow are not same, when from sales we subtract expenses, the result is profit and when from cash receipts we subtract cash payments, the resultant figure is cash flow. Proforma cash flow reflects the projected cash available with the enterprise as a result of subtracting projected cash disbursements from projected cash accumulations. Cash flows only when actual payments are received or made. Mere sale which might be on credit, will not generate cash. Similarly all bills are not paid immediately by the enterprises.

E) Proforma balance sheet

This document helps the enterprise to reflect the position of the business at the end of its first year. A summary of the projected assets, liabilities and net worth of the

entrepreneur
is depicted through proforma balance sheet.

F) Break even point

Every firm wants to maximise its profits. The Breakeven point is that level of volume of production at which firm neither makes profit nor a loss. Here the total revenue is equal to the total cost of a firm, at the given level of capacity.

Thus, calculation of BEP is quite useful for the entrepreneur as it help in assessing:

- 1) Minimum level of output to be produced.
- 2) The effect of change in quantity of output upon the profits.
- 3) Selling price of the product.
- 4) Profitable options in line of production.

It helps to indicate the volume of sales needed to cover total variable and fixed expenses by the new enterprise.

G) Economic and social variables

In view of the social responsibility of business, the abatement costs, i.e. the cost of controlling the environmental damage should also be stated in the plan. It's always advisable to mention in the business plan, the socio-economic benefits expected to acquire from the proposed investment like:

- 1) Employment generation
- 2) Import substitution
- 3) Ancillarisation
- 4) Export promotion
- 5) Local resource utilization
- 6) Development of the area

Wherever, it is not possible to quantify the expected benefits, they should be analyzed and their importance emphasized.

(Any six points)

OR

Gauri started her business of manufacturing designer furniture in Lonavala. Her business was a huge success and she thought of starting a designer studio involving huge capital in Mumbai as well as in Pune. Her friends wanted to join hands with her and open the same. They approached a chartered accountant and he suggested them to form a private company as according to him this form of company is more desirable.

- a. State any six privileges of a private company that make it a more desirable than a public company.
- b. Why a company is called 'an artificial person having perpetual succession and a common seal'?

- Ans. a. A substantial number of entrepreneurs prefer to form a private company because of the following important privileges: 3+3
- 1) Only two members are required to form a private company.
 - 2) Only two directors are required to constitute the quorum to validate the proceedings of the meetings.
 - 3) Such company is not required to file prospectus or a statement in lieu of

prospectus with the Registrar of Companies.

4) It can commence its business immediately after incorporation.

5) Holding of a statutory meeting or filing of a statutory report is required by a private company.

6) A non-member cannot inspect the copies of the profit and loss A/c filed with the Registrar.

7) Limit on payment of maximum managerial remuneration does not apply to a private company.

8) Restrictions on appointment and reappointment of managing director do not apply.

9) Maintaining of index of members is not required by a private company.

10) Directors of the private company need not have qualification shares.

(Any 6 points)

b. Company is called an artificial person because it is creation of law. It can hold property, sue and be sued but cannot perform other life functions.

It has perpetual succession because coming and going of members does not affect the life of the company.

It has a common seal or stamp under which the execution of all its business is done.