

Mentor Handbook

Managing Micro Enterprises

MODULE

03



DAY-NRLM
Ministry of Rural Development
Government of India



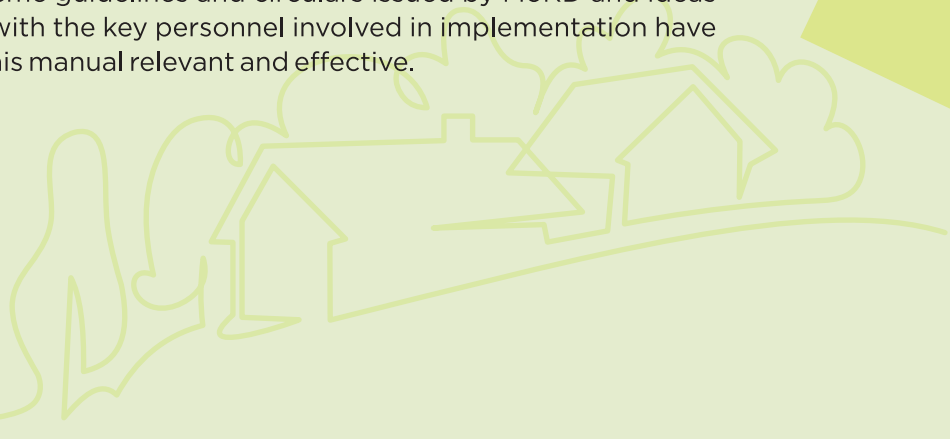
**Entrepreneurship
Development Institute of India,**
Ahmedabad.

Preface

Start-up Village Entrepreneurship Programme (SVEP), the sub-scheme under the Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY-NRLM) of the Ministry of Rural Development, Government of India. The Scheme is being implemented across India by various State Rural Livelihoods Missions with support from National Resource organisations (NROs) which have been instrumental in conceptualizing this program. SVEP focus is to create a complete enterprise ecosystem for village level enterprises to enhance their viability, market linkages and credit -worthiness. This program has great emphasis on Training and capacity building of stakeholders at the local level. SVEP Mentors and Community Resource Persons (CRP-EP) are key human Resource which drive this program at the identified geographical Location.

Presented here is a Manual developed to be used primarily by SVEP Mentors & Block Program Managers (BPMs). This is a practitioner's guide and tool to instil entrepreneurial skills to first generation rural entrepreneurs as well as to those who are keen to scale up their enterprises. It provides Mentors/trainers with detailed guidelines on how to conduct entrepreneurial skills training workshop. It is also a reference guide for conducting entrepreneurship Development Programs and skill training workshop wherein the participants acquire skills to start, manage and upscale their enterprises.

This manual has been developed specifically keeping in mind the rural context. The content is the outcome of EDIIs rich experience and learning's in the domain of Microenterprise promotion administered across varied geographies and target audience. Learning acquired as part of the SVEP implementation have also be integrated so as to make it more relevant and suited for the practitioners engaged in Rural Micro Enterprise Promotion. Review of extant scheme guidelines and circulars issued by MoRD and ideas emerging out of the discussions with the key personnel involved in implementation have also been incorporated to make this manual relevant and effective.



Acknowledgement

The Start-Up Village Entrepreneurship Program (SVEP), a program under DAY- National Rural Livelihoods Mission of Ministry of Rural Development has been under implementation since its launch in 2016 and is currently being implemented 153 blocks in 23 states with support from National Resource Organizations (NROs) & Project Implementing Agencies (PIAs) in association with various State Rural Livelihoods Missions. EDII as one of the NRO has been instrumental in conceptualizing this program and engaged in implementing SVEP with support of respective SRLMs since inception.

Harnessing upon the learning gathered during the implementing of the SVEP, we have constantly tried to attempt integrate the learning into the implementation to make the program more effective and successful. Training Manual development has been undertaken as part of our endeavour to improve implementation more effective. Presented here is a Manual developed to be used primarily by SVEP Mentors & Block Program Managers (BPMs). This is a practitioner's guide and tool to instil entrepreneurial skills to first generation rural entrepreneurs as well as to those who are keen to scale up their enterprises.

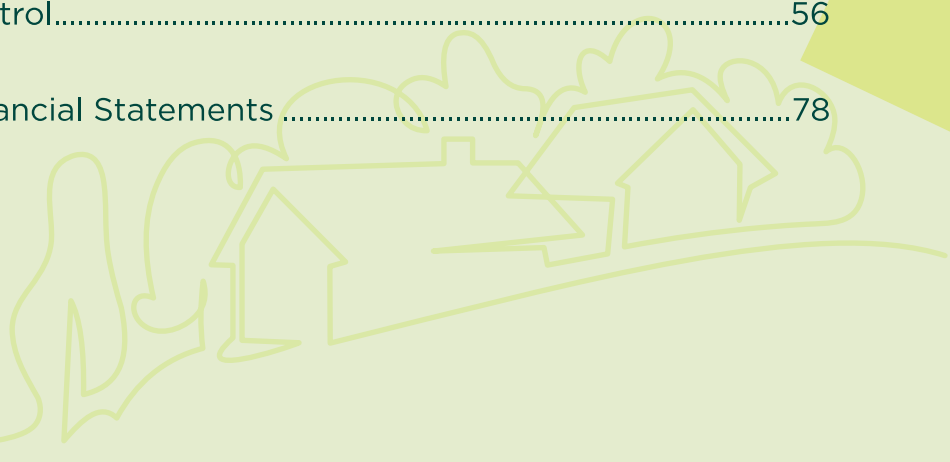
All associated with this program, the team at NMMU & EDII SVEP secretariat and the Field teams have contributed in their own special way. We take this opportunity to express our immense pride and heartfelt thanks to the Ministry of Rural Development; Govt. of India for providing us this opportunity to be part of this program which has immense potential to positively impact the lives of rural economically disadvantaged.

We express our earnest gratitude to Shri Charanjit Singh, Joint Secretary (RL-I), NRLM for his invaluable and meticulous counsel, persistent encouragement and unflinching determination which has motivated us to give our best. We are also extremely thankful to NMMU team have been our guiding force.



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Chapter I

Business Opportunity Identification and Selection



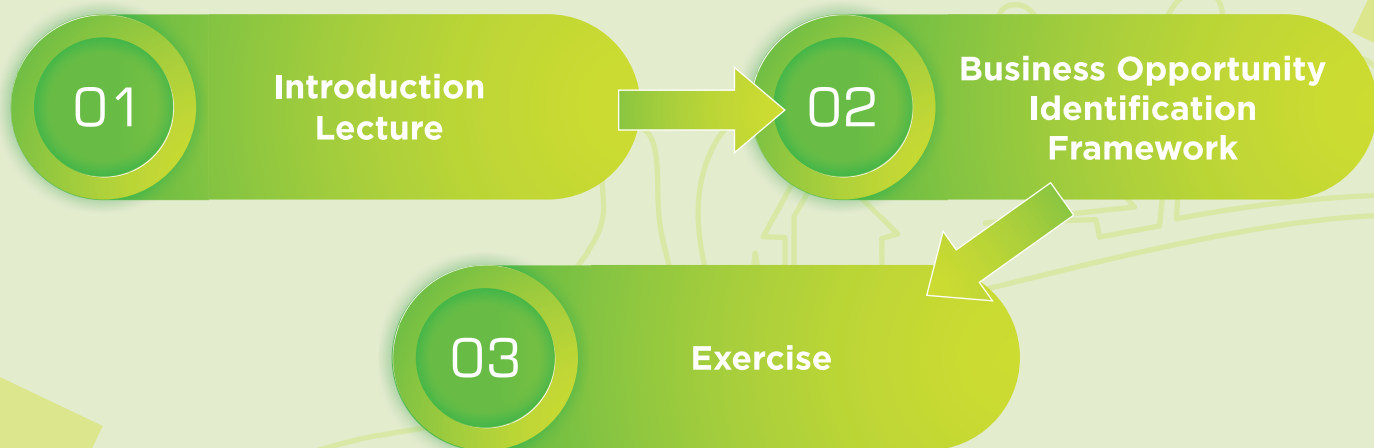
Learning Objectives

- To explore and identify business opportunities in a structured manner
- To select the area of potential for a successful enterprise

Methodology

- a. Lectures
- b. Group Activity

Session Plan



Resource:

- Handout, Duster, Marker

Business Opportunity Identification (BOI) and Selection

Business identification and enterprise selection is the first and foremost step to be carefully undertaken for starting a new business. Besides, it is a start off for assessing the resourced and funds required for the venture.

Selection of an enterprise is done by the entrepreneurs on the basis of the evaluation of various parameters, such as educational qualification, knowledge and experience, confidence level, prospects in the field, accessibility to raw materials, demand for the envisaged product or service, business prospects created by government policies and conducive business climate. The decision to change the business at a later stage is very tough.

Project Identification

It means choosing a suitable business on the basis of several factors such as work experience, technical and business know-how, family and societal background, hobbies, and interest. This ensures a greater chance of success.

- i. Ramesh has been employed for several years at a Kirana shop. He has the experience of managing the Kirana business and learned how to develop the business network. He is considering starting his own Kirana shop in his locality.
- ii. Gagan was employed at a construction hardware store. He has developed expertise, brand and quality familiarity of the construction material. Last year, when restoring his house, he noticed the absence of such a similar shop in his locality. This gave him an idea to start such a shop, to sell construction material, like pipes, cement, bricks, tiles, sand, paint, etc. He loves meeting people and recommending them on a variety of construction products.



Business Opportunity Identification Framework

- Preparing a personal profile
- Description of business Idea and its completion
- Assessment of its present and future competition
- Human resources requirement and availability

Steps needed (including Finance and Infrastructure) to provide shape to this business idea

- Pre-feasibility Study

I. Preparing Personal Profile

An entrepreneur is the core of the entire process of business opportunity identification. A list of personal factors that describe the entrepreneur should be clearly listed. The list may include items such as the entrepreneur's own ideas, qualifications, experiences, personality traits, goals, investment capabilities and risk-taking abilities. This helps in exploring business opportunities that match the entrepreneur's choice and aptitude. This also enables the person in taking decisions on finalising the enterprise location and planning for the investment required.

Identifying business field and type

A review list will help you to recognize the business segment that entrepreneurs could choose. It could be prepared using the following response sheet. An open and frank expression helps in getting the right fit between enterprise and entrepreneur.

Possible business fields :

1. List of hobbies and interests – Activities the person enjoys:

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2. Experience – Work experience or education of the entrepreneur (Make a record of employment, training and your other work experience):

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Possible Venture Types:

1. Entrepreneur's business network

A list of people (along with their status) known to the entrepreneur in business is prepared. It includes all those who can help with information and advice as well as funding – friends, relatives, traders, producers, etc.

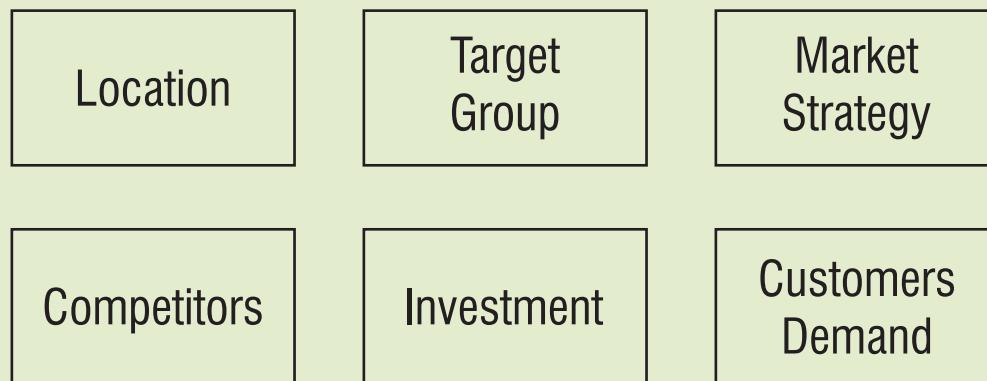
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II. Description of Business/Venture Idea and its completion

A business idea is explained as a brief and specific depiction of the proposed business process. Before starting a business or venture, one needs to have clarity of the type of venture to operate. This clarity on your business or venture idea tells about:

- Which specific need of the customers would the venture satisfy and what kind of clients will it appeal to?
- What is the good or service the business or venture proposes to sell?
- To whom will the business sell to?
- How does the business or venture propose to sell its goods or services?
- How much will the business harness the natural resources available nearby?
- How much will it impact the environment?

1. What is business Idea?



Factors to Consider While Looking for Business Ideas

How to identify suitable business/venture ideas?

Every business/venture idea emerges out of market knowledge and market needs. The market consists of customers who live in the geographic region, the way they live and products or services they consume. The first goal is to visualise as many possible business opportunities with an open mind and list them. Then examine the list and shortlist the idea(s) on the basis of feasibility and profitability.

There are many methods of generating business ideas. The information obtained from one method would complement other methods and help in clearly defining the business ideas.

i. Learn from successful business owners

A lot can be learned from another person's business experience from a similar business. Very useful information could be gathered from them. An illustrative list is given below:

- What kind of idea did these businesses commence with?

- Where did the ideas generate from?
- How did they develop and convert their ideas into successful businesses?
- How does the business profit motive fit into the local environment?
- Where did they get the funding to start their business?

ii. Draw from experience

a. Entrepreneur's Own experience

From past experience can you derive any possible business ideas? Give thought to every type of experience. What has been personal experience as a client or consumer in the market place? Have ever experienced searching all day for some things that could not find in any store in your locality? Think about the products and services have wanted at different times but had difficulty in finding them in your area.

b. Other people's experiences

The people around are prospective customers. A survey of schools, community groups, colleges can give an understanding of the market potential. It is important to understand exactly what they need and their knowledge in trying to find the availability of goods and services in their area. Attention to prospective customers' shopping knowledge would reveal many opportunities. So would the inquiry from family and friends about the products and services they want but are not available locally. Social knowledge by speaking to diverse people from diverse age groups and social classes give a good understanding.

c. Survey local business area

A different way of evolving a business idea is to study the local community. Survey of the type of businesses already operating in the surrounding area helps in identifying any gaps in the market. Otherwise, the preferred business fields and types can be identified as described can make this process easier with a business partner or a friend.

iii. Scanning the environment

Find more business ideas in your area. For this record all existing local industries and service providers in region. It would be also worthwhile to think about business ideas by considering all the resources and institutions in the region. Consider the following:

- Natural resources
- Waste products
- Trade fairs and exhibitions
- Characteristics and skills of people in the local community
- Import substitution
- Publications

Entrepreneurs would shortlist the natural resources abundantly available for many years in the future in their regions that have the potential to be converted into useful products without threatening the environment. Natural resources include supplies from the soil, agriculture, forest, mineral, water, etc. For example, the availability of good clay soil in a region is useful for making products like pots, clay utensils, bricks, tiles, cups or plates. Hence it may be used for setting up businesses making such products.

Business opportunities can also be generated by using materials that have been previously used by households and businesses. There are enough possibilities for using recyclable waste products for producing marketable products. Most companies are enthusiastic to work with entrepreneurs who have ideas to turn their waste materials into commercially saleable products.

Attending trade fairs for goods or services in the area of interest will increase exposure to several new business ideas not previously conceived or considered.

Brainstorming

Brainstorming means keeping your mind open to new and different ideas. The process could be initiated by beginning with a word or a theme, writing down all that occurred in relation to it, even seemingly irrelevant or odd.

Brainstorming work should be done within the relevant groups and individuals. It helps develop more ideas by writing whatever is heard on the topic.

For example, Satish asked his colleague and two brothers to brainstorm with him to generate a business idea. Girish his colleague has worked as a polisher in a furniture-making factory for several years. Hence he started the brainstorming session with the word “wood”. Initially, the ideas for ventures related to wood came slowly but gradually they had brainstormed several choices.

Brainstorming exercise : Divide the trainees into groups of 4 members per group. Give each group a word like wood, NTFP, Rice etc.	
Group 1	(List of products)
Group 2	
Group 3	
Group n	

Entrepreneurs have to be a keen observer with sharp skills to sense a business prospect. They may probe the Economic prospects (such as state of the local economy, customer spending pattern and the level of disposable income), Social prospects (like demographic changes, socio-cultural changes/ preferences,) and Technological prospects (i.e new technologies and emerging technologies and new uses of old technologies). This opportunity analysis can identify some business opportunity gap, which can, in turn, lead to Business (product or service) ideas.

Existing/Anticipated Industries

The existing industries in the region of operation can provide the following opportunities for launching similar industries. Such as providing raw materials to existing industries, further processing the output of existing industries and meeting the service needs of the existing industry

Local demand for products/services

The demand-supply gap for products/services consumed in the villages can be explored for setting up new businesses. For example, if all the villagers are relying on a flour mill located 10km away from the village because there is no flour mill in the village, then there is an opportunity to set up a flour mill in the village.

Government schemes

The potential entrepreneurs can explore business opportunities through tie-ups with existing government programs in their area of operation. For example, if in the block PMAY (Pradhan Mantri Awas Yojana) scheme is operational, then a potential entrepreneur can explore possibilities for setting up a supply construction material business for houses being constructed under PMAY.

Extension/modification of present work/occupation

An entrepreneur can explore the potential in the field of his present work experience.

Identifying a market gap

Identifying a gap in the market is considered to be one of the best methods for Business Idea generation. One can use methods like focused group discussions or key-people survey approach to determine the needs of the local people.

Solving a problem/ issue in the region

As discussed earlier, an entrepreneur has to have a very open and inquisitive mind. Sometimes the entrepreneur is forced to explore for an alternative business opportunity when the existing business is under threat from some disruptive technological innovations. The entrepreneur may identify a problem/ issue in an area to be addressed. One very relevant example is the initiation of Swachhha Bharat Abhiyan by the government which all of a sudden highlighted the severe shortage of toilets in rural areas. Certain entrepreneurs grabbed this opportunity and entered into the new business of toilet construction. Certain entrepreneurs expanded their existing business for toilet construction or providing labor and materials for constructing it.

III. Assessment of competition (Present and future)

It is imperative that the entrepreneur anticipates the future of the proposed business on a short-term as well as long-term basis. The person may assess the competition for his/her product or service in the light of existing and potential competitors. There may be a new technological innovation that motivates newer entrepreneurs to enter the market. The first innovator is obviously at an advantage of making the early profits but also at a disadvantage when not being able to make the most efficient use of the innovation. Our history has witnessed several instances like as the case of technology-promoted enterprises. We all are aware that Google was neither the first search engine nor WhatsApp, was the first social media platform. Both these companies learned from the weaknesses of existing players. Therefore, learning from existing case studies an Entrepreneur has to factor in the entry of new entrepreneurs in the market space while taking decisions on long-term investment in technology and human resources.

IV. Human Resources Requirement and Availability

Human resources are the most important input for producing any product or service. The entrepreneur needs to make sure the availability of suitably educated, skilled and experienced workforce for running the Enterprise. Therefore an entrepreneur needs to determine the main skills required to run the Enterprise.

V. Stages involved (including Finance and Infrastructure) to give business shape to this idea

As discussed earlier, an entrepreneur has to have a very open inquisitive mind. He/she may identify a problem/ issue in an area, which he can have a solution to. Then embark on thinking to procure finances and infrastructure to set-up his enterprise. Hence it is necessary to undertake a pre-feasibility study for his proposed venture. This would be desirable with an experienced mentor or a faculty from the institutions like Entrepreneurship Development Institute (EDII).

VI. Pre-Feasibility Study

A pre-feasibility study provides an opportunity for screening, shortlisting and eliminating ideas that are unlikely to succeed. A good pre-feasibility cover all facets of the business project like concept development, production, marketing, finance, and human resource management. It helps to determine whether the entrepreneur's resources in terms of money, time and effort will fetch the desired outcomes. It leads to discussions on all alternatives, issues, bottlenecks, challenges and helps to evolve the best options for implementation. A pre-feasibility study is very important for a new entrant or minimally, undocumented rural project. This study helps to bring out the best practices and industry standards that become a guiding factor for the new entrant for setting and running a business.

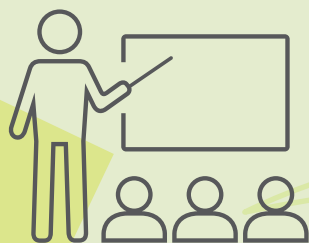
VII. Project Selection

Project selection is the most critical point in the Business Opportunity Identification process. So far it was exploration, information gathering, analysis of facts and strengths and weaknesses while making a final selection of business ideas.

Conclusion

Business opportunity identification and selection are the most critical decisions in starting an enterprise. The entrepreneur has to be knowledgeable and informed of all the aspects of his proposed venture along with the risks and opportunities and unforeseen challenges.

Delivery



1. Lecture Session (3 hours)
Explain the various steps in the process of business opportunity identification to the participants.

Exercise

1. Describe major factors to consider while looking for business ideas.

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2. Describe natural resource component in generating business idea.

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3. Describe briefly pre-feasibility study.

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4. Describe 4 potential waste products for enterprise development of your area.

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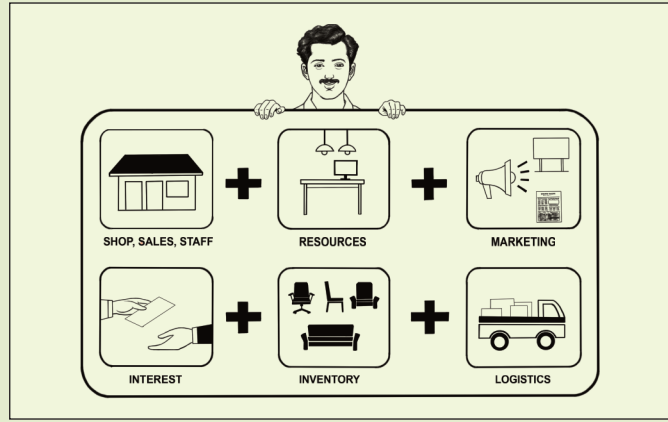
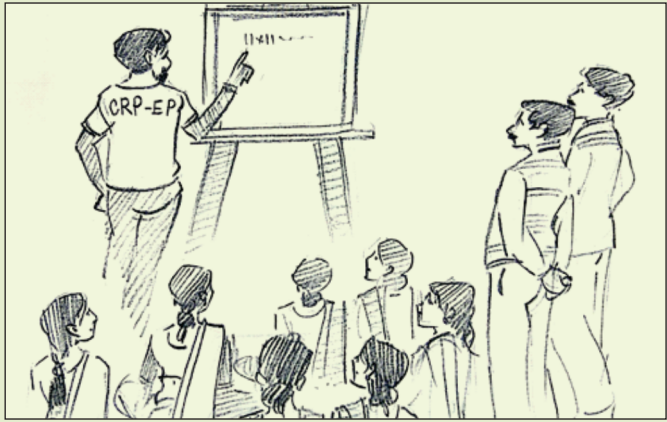
5. How can natural resources be used for enterprise development.

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Chapter II

Business Plan



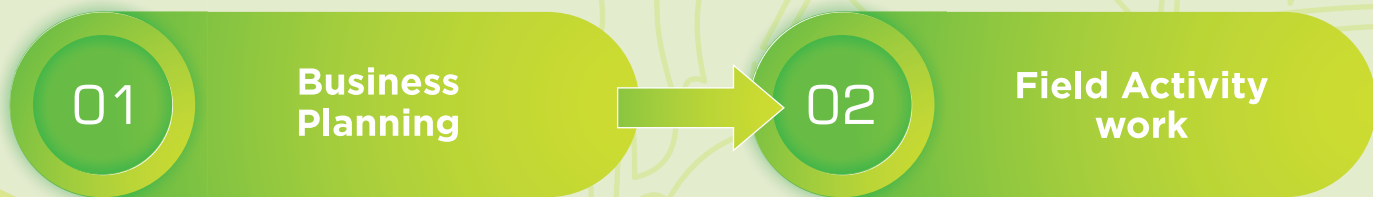
Learning Objectives

- To understand the components of a business plan.
- To apply the learning of the previous chapters to come up with a business plan

Methodology

- a. Lecture
- b. Individual Assignment
- c. Field Work

Session Plan



Resource:

Presentation Slides, Chart Papers, Blackboard, chalk and duster

Business Plan

A business plan is a guide to your business that outlines the goals, and the detailed process of achieving those goals. They are an important framework for starting as well as running a business, especially for entrepreneurs as their stakes are the highest.

Existing businesses should also prepare a business plan when they are thinking of diversification, expansion or modernization. To support their plans, they must provide details of their performance for at least the last two years.

Every business forms its long-term and short-term objectives, sales targets, and expense budgets. A person who wants to convert ideas into a business or wants to diversify and grow his existing business must have a business plan. It is necessary for a clear understanding of the business, to give direction to the business and its operations. A business plan is an important document for the people behind the project as their future is at stake. It also helps the investor/financier to judge its viability and take appropriate decisions. It also acts a communication tool.

Start-Ups as a first-generation entrepreneur have to completely internalise the business idea before putting it on paper. Ideally the entrepreneur must personally collect information and have interactions with experts, suppliers, and competitors to have a first-hand feel about reality. Having thoroughly understood the business proposition, he/she can then start with the implementation.

Being the first business venture, its planning has to be done with the utmost care. In situations of doubt, advice from experts, friends, relatives, etc. must be sought. A proper mechanism to tackle untoward incidents or exigencies must be put in place.

Existing businesses use business plans to manage and direct the business. Business plans are used to meet market changes and capitalize on new opportunities. The plans are used to boost strategies, track results to achieve goals, plan resources like cash flow. Business plans of existing businesses must also reflect on their past performance as it becomes a launching pad for future plans. Future planning has to be in line with past performance.

A business plan, whether for a start-up business or an existing one, is a dynamic document which must be referred to, and corrected, as and when needed. It cannot be treated as a document to be shelved after implementation. Changes affecting the business environment are bound to have an impact on your plans. Therefore, a business plan is not a static document.

Components of a Business Plan

The business plan acts as a guiding document for executing the business idea and provides the entrepreneur clarity on the following business components:

Entrepreneur and Enterprise Overview : In a nutshell, it provides information to the business legal structure, ownership pattern, history, and location. It provides the complete resume of each promoter, with emphasis on relevant education and/or experience and financial capabilities.

Business Description : Business description is all about explaining the business idea, the business process and activities and its core purpose. The product to be sold is explained in detail like stating its application, quantity and quality, end-users, etc.

Target Market : Proper identification and complete understanding of your target market is

significant to formulating the marketing plan, which consists of pricing, quantity to be sold, credit period to be offered, publicity campaigns, etc.

Operational Plan : The operational plan of any business primarily focuses on the day-to-day activities with regards to procurement of materials, production, (if applicable), manpower planning, sales and marketing, and financial planning. It essentially describes how the business plan will be implemented to achieve the anticipated targets. Therefore, it must be prepared carefully, after taking into consideration all practical aspects of daily operations. The plan can be prepared initially on a monthly basis so that timely corrective actions can be taken. It can then be consolidated on a quarterly, half-yearly and annual basis.

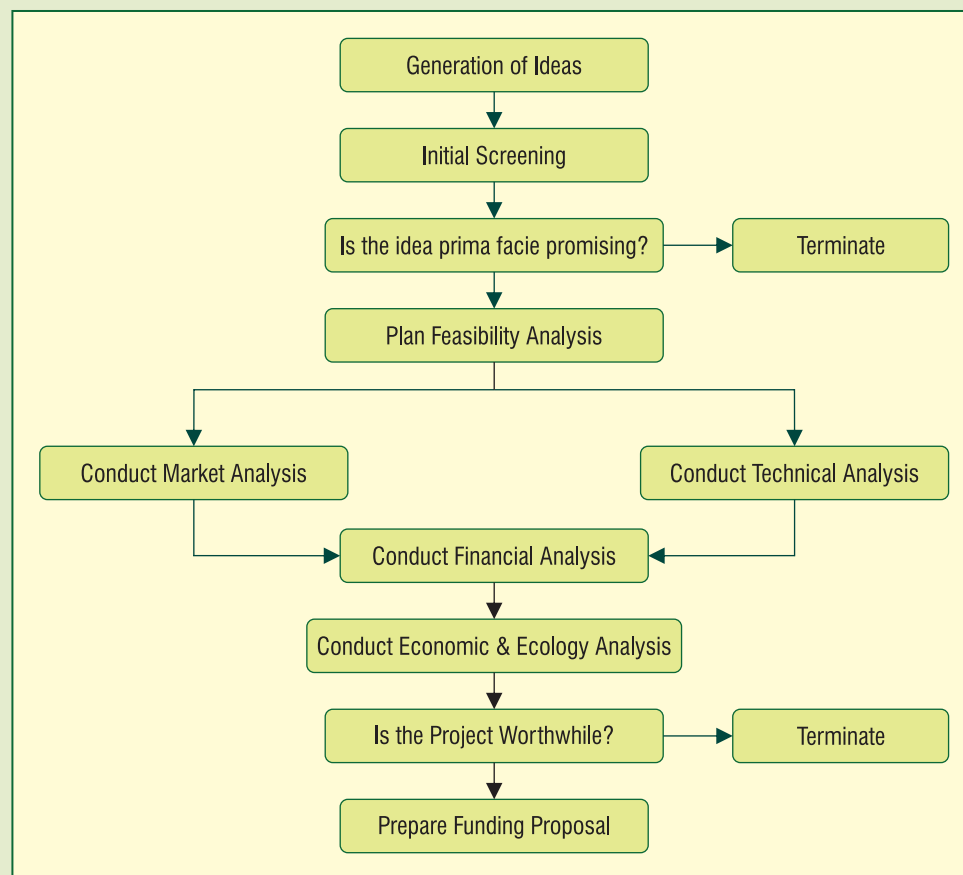


Figure 1 Business Plan – A Schematic Diagram

Manpower and Infrastructure Needs : Infrastructure is a primary need for any business, and herein aspects like own or rented premise, electricity connection, adequate transportation, and storage, need to be kept in mind. To begin with, most of the small businesses are run by promoters and their family members. However, in certain cases, some outside or specialized help is needed. Hence, the availability of such persons at comparable wages has to be ensured.

Technical Aspects and Technology : Certain specialised businesses like a fabrication unit, videography, mobile repairing, and garage for two-wheelers, tailoring, food processing, etc. need special technical skills for which hands-on-training is advisable. For such ventures, where the promoters feel that they either need technical training support or suitably competent persons, a plan should clearly spell out the arrangements needed or made.

Financial Plan : Operating a successful business means closely monitoring how much money you are bringing in, and how much money you are spending. A good financial plan goes a long way in helping determine when to buy inputs, hire services/employees or buy a new piece of equipment. It also clearly brings out the financial viability of a business venture, and its capability to repay loans with interest without affecting the day-to-day operations.

Legal and Documentation Requirements : Borrowing from institutions, will require some legal documentation. Similarly, permission has to be sought under the Shops and Establishment Act, from the local civic authority for construction and any other license/permission.

Overview of the aspects of Business Plan

<p>Financial aspects</p> <ul style="list-style-type: none"> • Capital of the owner • Projected cash flow • Access to other resources • Investment requirement • Legal & documentation requirement • Profitability • Risk 	<p>Physical aspects</p> <ul style="list-style-type: none"> • Building • Machinery • Location • Transport facility • Infrastructure & utilities
<p>Management & Operations competencies</p> <ul style="list-style-type: none"> • Managerial capability • Age • Relevant experience • Relevant skill availability • Technical knowledge • Net work • Salesmanship of owner • Personnel management 	<p>Market Profile</p> <ul style="list-style-type: none"> • Target market description • Competitor's market strategy • Share in market • Quality of product • State of Market (Expanding, contracting / stagnant market) • Demand and supply analysis
<p>Information</p> <ul style="list-style-type: none"> • Availability of necessary information • Availability of timely information for decision making 	<p>Supply of raw material & technical knowhow</p> <ul style="list-style-type: none"> • Availability in terms of price, quality and quantity. • Will they continue to be adequate? • Availability of new material/technology which would be useful to the enterprise

Social environment	Production process
<ul style="list-style-type: none"> • Acceptance of the product • Likes or dislikes for the product 	<ul style="list-style-type: none"> • The scale of production • Is it labour intensive? • Is it job work or continuous production?

**Business Plan as per SVEP Project:
(A) Entrepreneur Details**

Business Plan Detail of Vijaya Kumari		
Entrepreneur Details		
ENTERPRISE INFORMATION		
1.0 Information of Enterprise		
Name of Unit : Bhawani Photocopy Shop	State : GUJARAT	District : Panchmahals
Block : GHOGHAMBA	Gram Panchayat : XYZ	Village : XYZ
Address of Unit : koottickal	Pincode : 686514	Type : Service
Sector : Electrical & Electronics	Product/Item : Internet, Xerox/Printer	Ownership Structure : Individual
Govt. License Available : Not Applicable	Enterprise Type : New	

PRODUCTION PROGRAMME AND SALES REVENUE											
2.0 Production & Revenue Planning											
No.	Product /Item	Working Duration Per Year	Per Dura. Produ.	Total Produ.	Utili. (%)	Per Dura. Utilization Produ.	Total Utilization Produ.	Sales Price Per Unit	Amt. (Sales Revenue /Yearly	Cost Price Biil of Material	Total Cost of Goods Used
1	Photostat Copy	12 Months	3,000	36,000	99	2,970	35,640	2	71,280	1	35,640
2	Data Entry	12 Months	100	1,200	100	100	1,200	40	48,000	5	6,000
3	Print out	12 Months	500	6,000	100	500	6,000	5	30,000	2	12,000
4	Marriage Certificate	12 Months	5	60	100	5	60	100	6,000	20	1,200
5	Income Certificate	12 Months	30	360	100	30	360	40	14,400	5	1,800
Total in Rs.											56,640

2.1 Other Income From This Enterprise		
No.	Other Income Description	Amount Yearly
1	Print out	10,000
Total in Rs.		10,000

EXPENDITURE (YEARLY)					
3.0 Pre-operative and Preliminary Expenditure					
No.	Market Survey Exp	Stationary Exp	Legal Exp	Establishment Exp	Other
1	200	500	100	500	500
Total in Rs.					1,800

3.1 Land and Building Exp			
No.	Land/Building	Ownership	Amount
1	Land	Own	0
2	Building	Own	0
Total in Rs.			0

3.2 Plant / Machinery / Equipment												
No.	Particulars	Nos	Per Unit	Amount	Purchase Date	Exp. Life	Scrap Value	Depre.	Bk Val.	Supplier's Name and Address	Tax, Trans., Insur.	Electrical Expenses
1	Photocopy Machine	1	45000	45,000	10-Jul-19	5	5,000	8,000	45,000	bismi bhonti	500	2,000
2	Laptop	2	25,000	50,000	11-Jul-19	5	10,000	8,000	50,000	bismi	200	0.
3	Printer	1	12,500	12,500	11-Jul-19	5	2,500	2,000	12,500	bismi	100	100
4	Lamination Machine	1	6,000	6,000	11-Jul-19	5	500	1,100	6,000	bismi	100	0
Total in Rs.											1,13,500	

3.3 Furniture											
No.	Particulars	Nos	Per Unit	Amount	Purchase Date	Exp. Life	Scrap Value	Depre.	Bk Val.	Supplier's Name and Address	
1	Table	3	1,000	3,000	11-Jul-19	5	500	500	3,000	bismi	
2	Chairs	2	1,500	3,000	11-Jul-19	5	50	590	3,000	bismi	
Total in Rs.										6,000	

3.4 Raw Material					
No.	Item	No of Times/Year	Quantity (Unit)	Unit Rate	Total Value
1	paper	12	10	200	24,000
2	ink	6	6	550	19,800
3	others	12	1	500	6,000
Total in Rs.					49,800

3.5 Utilities			
No.	Utility Name	Year Expenditure	Remarks
1	Power/Electricity	6,000	nil
2	Water	0	nil
3	Fuel (Coal/Oil/Steam)	0	nil
4	Any other item	6,000	nil
Total in Rs.			12,000

3.6 Manpower (Salaries/Wages)				
No.	Manpower Type	No	Wages/Salaries (For seasonal units multiply month amount by (No of working months/12))	Total Expenses
1	Skilled	1	5,000	60,000
2	Semi-skilled	0	0	0
3	Unskilled	0	0	0
4	Withdrawal by Owner as wages	1,000	0	0
5	Any other	-	0	0
Total in Rs.				60,000

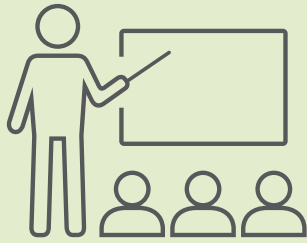
3.7 Administrative Expenses			
No.	Administrative Type	Amount Per Year	Remark
1	Stationary & Printing	1,200	nil
2	Traveling	3,000	nil
3	Communication	0	nil
4	Entertainment expenditure	0	nil
5	Insurance	0	nil
6	Rent	0	nil
7	Misc.	1,200	nil
8	Repair & Maintenance	3,000	nil
Total in Rs.		8,400	

3.8 Selling and Distribution Expenses			
No.	Selling and Distribution Type	Amount Per Year	Remark
1	Advertising expenses	0	nil
2	Freight	0	nil
3	Commission	0	nil
4	Entertainment expenditure	0	nil
5	Misc.	0	nil
Total in Rs.		0	

3.9 Working Capital						
No.	Working Capital Type	Holding Period in Day	Holding Inventory Qty	Holding Inventory Unit Rate	Inventory Cost	Description
1	Raw material stock	0	0	0	0	nil
2	Semi-finished goods stock	0	0	0	0	nil
3	Finished goods stock	365	30	500	15,000	nil
4	Sales on credit	0	0	0	0	
Total Working Capital Needed in Rs.					21,700	

3.10 TOTAL PROJECT COST		
No.	Particulars	Amount in Rs
1	Pre-operative and preliminary Exp	1,800
2	Land and Building Exp	0
3	Machinery Exp	1,13,500
4	Equipment and Furniture Exp	6,000
5	Working Capital	21,700
Total Project Cost in Rs.		1,43,000

Delivery



1. Lecture

Explain the meaning of business plan, need for a business plan and components of a business plan using the content given.

2. Case Study

Distribute the Handout - Case Study on Setting up an Offset Printing Press (p.11) and ask the to prepare a business plan for offset printing press using the handout- format of a business plan .

3. Field work

Group the participants in teams of two members. Use the same grouping that has been followed throughout the training. Ask them to prepare an actual business plan for the enterprise that they have been studying throughout the training.



Handout - Case Study on Setting up an Offset Printing Press

Mr. Raja has been in the business of trading of stationery items for 6 years. Having succeeded in this business, he now intends to diversify into a new activity and has decided to set up a printing press. Based on the following information, you are required to formulate a business plan for him in the given format and advise him on the financial viability of setting up a printing press for printing visiting cards & invitation cards.

The following information is available for you to complete the exercise:

1. Based on the market survey conducted, the feasible production has been fixed at:

Visiting Cards	10,000,00 Per Year
----------------	--------------------

Invitation Cards	3,00,000 Per Year
------------------	-------------------

2. The sale price is Re. 1/- per unit for visiting cards and Rs.2/- per unit for invitation cards.
3. The machinery needed is:
 - a. Two colour offset printing machine costing Rs. 4,00,000/-
 - b. The additional expenses to be incurred for the machine on transport, installation, electrification and others will be Rs. 40,000/-.
4. Cost of a readymade factory shed is estimated to be Rs. 1,00,000/-.

5. Expenses on other fixed assets like furniture and fixtures, computer, storage racks, etc. are estimated at Rs. 60,000/-.
6. For the production level planned, the raw material requirement per year will be as follows:

Material	Nos.	Cost
Blank Visiting Cards	10,00,000	Rs. 500 / 1000 Cards
Blank Invitation Cards	3,00,000	Rs. 640 / 1000 Cards
Ink & Color	Lump sum	Rs. 30,000 Per Year
Misc. Materials	Lump sum	Rs. 5000 Per Year
Designing Charges	Estimated	Rs. 10,000 Per Year
Provision for waste of Cards/Inks	Lump sum	Rs. 20,000 Per Year

7. The manufacturing costs are:
 - a. The only utility requirement is electricity and the consumption will be 2000 units (KWHs) per annum. The rate is Rs. 4/- per unit.
 - b. Manpower requirement is one machine operator and one helper with a total monthly salary which amounts to Rs. 15,000/ (10,000 + 5,000)
8. For working smoothly, you need to have one month's stock of raw materials with you as working funds. There is no need to provide for semi-finished goods & stock of finished goods. The entire sale will be against immediate cash payment. Make a provision for one month's production expenses while calculating the working capital needs.
9. The preliminary and pre-operative expenses (before start of business) will be Rs. 15,000/-.
10. The loan available for the project is at 15% interest per year.
11. The expenses to be incurred for the business would be:
Selling cost @ 3% of annual sales and administrative cost @ 1% of annual sales.
12. The entrepreneur has Rs. 2,00,000/- and the balance money required will have to come through a loan. For the purpose of making the business plan, assume that loan will be available for whatever money is required.
13. Also, assume that the business may incur unforeseen expenses of Rs. 5,000/- per month while calculating profitability.
14. Rate of depreciation per year is 20% on machinery and 10% on factory shed.
15. Income-tax rate is 20%.



Handout - Format of a Business Plan

1. Nature of Proposed Project: Servicing
2. Production Programme

3.1 Sales Plan

No.	Item	Total Qty/Year	Sales Revenue/Year (Rs.)
1.			
2.			
	Total		

3.2 Machinery

No.	Description	Nos. Required	Price	Total Value (Rs.)
1.				
2.				
	Total			

3.3 Raw Materials

No.	Item	Total Annual Requirements		Total Value (Rs.)
		Qty.	Rate	
1.				
2.				
3.				
4.				
5.				

3.4 Utilities :

No.	Particulars	Annual Requirement	Total Annual Expenses (Rs.)
1.	Electricity		
2.	Coal / Oil / Fuel		
3.	Water		
4.	Any other		
	Total		

3.5 Manpower :

No.	Particulars	No.	Total Wages & Salaries Per Year (Rs.)
1.	Machine Operator		
2.	Semi Skilled		
3.	Unskilled		
4.	Office Staff		
	Total		

1. Cost Project :

1.1 Fixed Assets :

No.	Description	Qty.	Price	Total Value (Rs.)
1.				
2.				
	Total			

1.2 Working Capital :

No.	Particulars	Duration	Value (Rs.)
1.	Raw Material		
2.	Semi-finished Goods		
3.	Finished Goods		
4.	Debtors / Receivables		
5.	Production Expenses (Electricity & Salary)		
	Total		

1.3 Total Cost of Project :

No.	Particulars	Value (Rs.)
1.		
2.		
3.		
4.		
	Total	

1.4 Means of Financing :

No.	Particulars	Value (Rs.)
1.		
2.		
3.		
4.		
	Total (Has to tally with total of 3.3)	

1.5 Project Profitability Statement :

No.	Particulars	Value (Rs.)
1.	Sales Revenue	
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.	Total Expenses (Total of 2 to 8)	
10.	Gross Profit (1 to 9)	
11.	Unforeseen Expenses (1 to 9)	
12.	Profit Before Income-Tax (10 to 11)	
13.		
14.	Profit After Income-Tax (12 to 13)	
15.	Cash Accruals	



Handout - Solutions of the Case

1. Nature of the Proposed Project: Servicing
2. Production Programme

2.1. Sales Plan

No.	Item	Total Qty / Year	Sales Revenue/Year (Rs.)
1.	Visiting Cards	10,00,000 x 1.0	10,00,000
2.	Invitation Cards	3,00,000 x 2.0	6,00,000
	Total	1.0	16,00,000

2.2. Machinery

No.	Description	Qty.	Price	Total Value (Rs.)
1.	Two Colour Offset Printing Machine	1	4,00,000	4,00,000
2.	Electrification, Installation, etc.			40,000
	Total			4,40,000

2.3. Raw Materials

No.	Item	Total Annual Requirements		Total Value (Rs.)
		Qty.	Rate	
1.	Visiting Cards	10,00,000	500 / 1000	5,00,000
2.	Invitation Cards	3,00,000	640 / 1000	1,92,000
3.	Colours / Ink	---	---	30,000
4.	Designing Charges	---	---	1,20,000

2.3. Utilities

No.	Particulars	Annual Requirement	Total Annual Expenses (Rs.)
1.	Electricity	2000 Units x 4.0	8,000
2.	Coal / Oil / Fuel	----	----
3.	Water	----	----
4.	Any other	----	----
	Total	----	8,000

2.5. Manpower :

No.	Particulars	No.	Total Wages & Salaries Per Year (Rs.)
1.	Machine Operator	1	1,20,000
2.	Semi Skilled	----	----
3.	Unskilled	1	60,000
4.	Office Staff	----	----
	Total		1,20,000

3. Cost of Project :

3.1. Fixed Assets :

No.	Particulars	Value (Rs.)
1.	Factory Shed	1,00,000
2.	Machinery	4,40,000
3.	Other Fixed Assets	60,000
4.	Any Other	----
	Total	6,00,000

3.2 Working Capital :

No.	Item	Duration	Value (Rs.)
1.	Raw Material	1 Month	72,250 (8,67,000/12)
2.	Semi-finished Goods	----	----
3.	Finished Goods	----	----
4.	Debtors / Receivables	----	----
5.	Production Expenses (Electricity & Salary)	1 Month	15,666 (1,88,000/12)
	Total	----	87,916 Say 88,000

3.3 Total Cost of Project :

No.	Particulars	Value (Rs.)
1.	Fixex Assets (3.1)	6,00,000
2.	Working Capital (3.2)	88,000
3.	Preliminary and Preoperative Expenses	15,000
	Total	7,03,000

3.4. Means of Financing :

No.	Particulars	Value (Rs.)
1.	Term Loan against fixed assets @75%	4,50,000
2.	Working Capital Loan @60%	53,000
3.	Own Investment	2,00,000
4.	From Family / Friends	----
	Total	7,03,000

3.5 Project Profitability Statement :

No.	Particulars	Value (Rs.)
1.	Sales Revenue	16,00,000
2.	Raw Materials	8,67,000
3.	Utilities	8,000
4.	Wages and Salaries	1,80,000
5.	Selling Expenses (3% of 16,00,000)	48,000
6.	Administrative Expenses (1% of 16,00,000)	16,000
7.	Interest (15% of 5,03,000)	75,450
8.*	Depreciation	98,000
9.	Total Expenses (2 to 8)	12,92,450
10.	Gross Profit [1 (-) 9]	3,07,550
11.	Unforeseen Expenses	60,000
12.	Profit Before Income-Tax [10(-)11]	2,47,550
13.	Provision of Income-Tax (20% of 2,47,550)	49,510
14.	Profit After Income-Tax [12 (-) 13]	1,98,040
15.	Cash Accruals (8+14)	2,96,040

*20% of 4,40,000 + 10% of 1,00,000

Chapter III

Cost, Price and Breakeven Analysis



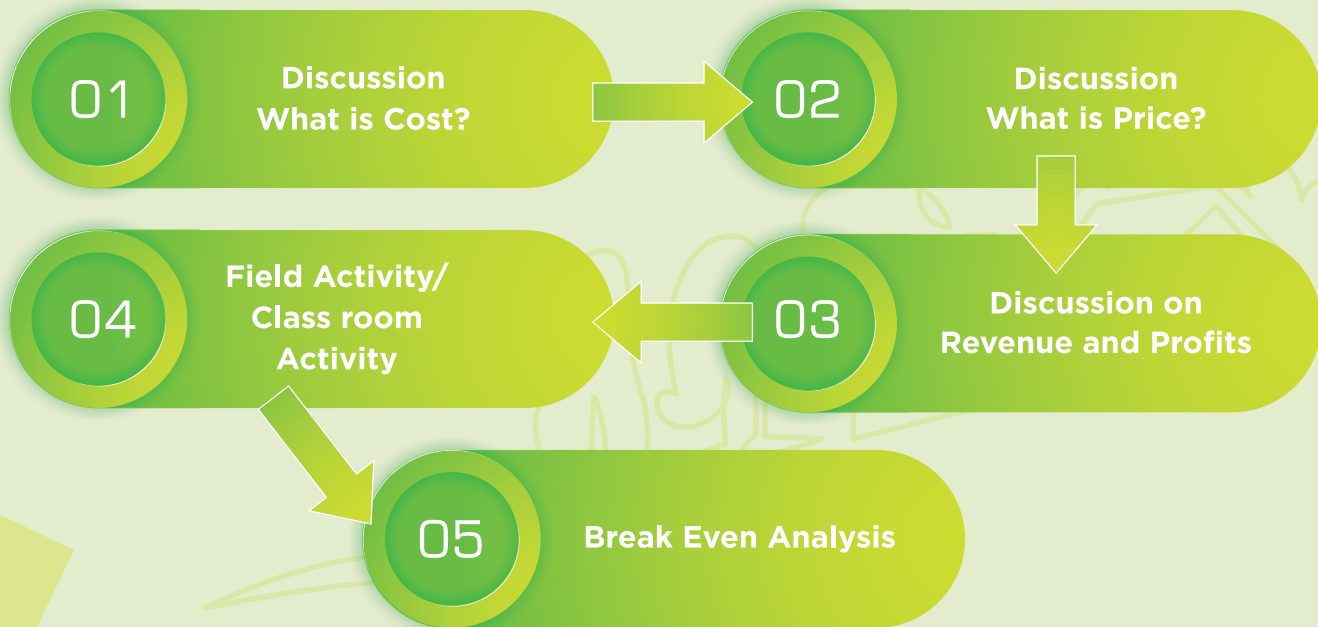
Learning Objectives

- To estimate the cost of product/service
- Arrive at the price for a product/service
- Estimate the breakeven point for the enterprise

Methodology

- a. Lectures
- b. Discussions
- c. Individual Assignment
- d. Field Activity

Session Plan



Resource:

Presentation Slides, Chart Papers, Blackboard, chalk and duster

Cost, Price and Breakeven Analysis

Cost is defined as measuring of inputs or resources in financial terms as used for the purpose of production of goods or services. From the definition:

- a. Cost is expressed in terms of money which is the Indian Rupee.
- b. Cost is the value of resources used. The resources are the factors of production that include people, material or other resources (such as capital, technology, and other services). For example, the payment made to the labour employed in a flour mill is a cost for the flour mill.
- c. Cost is attributable to a specific product or service since the resources are utilised for production and rendering of goods and services.

Costing is important since it is:

- a way of determining how much does each product or service cost
- helps in deciding product prices
- helps find out the amount of profit/loss your business is incurring
- aids to find out the elements that cost too much which will help to explore the options of cost reduction

Elements of Cost

The three elements of cost are material, labour, and other operating expenses.

- a. Materials are directly or indirectly used for the manufacture of a product. For example, in a flour mill wheat is directly used for the production of flour, while grease is indirectly used to ensure that the milling machine is functioning properly.
- b. Human resource in the form of labor is needed, either directly or indirectly, to run any business. For example: In a flour mill, a person is employed to operate the machine and directly contributes to the production. An accountant might also be employed in the mill, who indirectly contributes to the production by managing the accounts.
- c. All other costs excluding material and labour are classified as operating expenses. For example, electricity charges for the flour mill is an expense.

Costs can also be classified as Direct and Indirect Costs

- a. Direct costs are costs which are easily traceable to the product/service being offered by the business. For example, cost of labour used for milling, cost of wheat grains used for producing flour, etc. are examples of direct costs for a flour mill
- a. Indirect costs are costs which cannot be traced directly to a single product/service as they are incurred for production/rendering of multiple products/services. Indirect costs have to be apportioned between different products while calculating the cost of production. For example: cost of electricity, rent for the building, etc. are examples of indirect costs.

Similarly, there are Fixed and Variable Costs.

- a. Fixed cost is defined as a cost which does not change in short term, regardless of changes in production or sales levels, or other measures of activity levels. It is a basic operating expense of a business that is unavoidable such as insurance and

rent of building and employees salary.

- b. A variable cost is a cost that changes in relation to changes in the volume of activity. It increases or decreases in proportion to the change in volume of production. Direct material cost is an example of variable cost

An illustration is given below:

Particular	Total	Per Table
Number of Wooden Tables	10	
Direct Costs		
Wages (Rs.)	32,000	3,200
Material	1,60,000	16,000
Indirect Cost		
Transportation	16,000	1,600
Total Cost	2,08,000	20,800

Price and Pricing

Price is the amount of money a customer has to pay for a product/service offered by an enterprise. Pricing is the process of arriving at the selling price of a product. The basic principles to be kept in mind when calculating price are:

- a. Prices must cover costs and profits. The cost of a product should be calculated before arriving at the price. The price should be more than the cost incurred for manufacturing or rendering the product or service. Otherwise, the business will lose money on each sale and become unsustainable.
- b. The customer must be willing to pay the price being fixed by the business. The price that is fixed should not be so high that the customer is unwilling to pay for the product/service being offered. It should also not be too low to make the business unviable.
- c. The prices at which competitors sell their products could be a reference point in the pricing process. If the prices are very low in comparison to the existing market price, customers might perceive it as a low-quality product. If the prices are too high in comparison, customers might not buy the product/service being offered.

Methods of Pricing

Two commonly employed methods of pricing are;

- a. **Cost Plus Pricing:** The cost of the product/service is calculated initially and a fixed margin is added to the cost in order to arrive at the price of the product. The margin can be in terms of percentage or a fixed amount. For example, if the total cost of milling flour is Rs.4/kg and the entrepreneur decides to add Rs. 1/kg or 25% of the cost as margin, the selling price is Rs. 5/kg.
- b. **Competitive Pricing:** The organisation takes the price charged by the competitors as the reference point and charges either the same rate or slightly higher/lower

prices than the competitors. For example, in the previous example the new flour mill, if the competitors are charging Rs. 3/kg, you can decide to charge either the same rate or slightly higher/lower rate. The disadvantage of using competitor prices as a reference without using the product costs is that the business might end up selling its product/service at loss.

In reality, both the cost of product/service and competitor prices needs to be taken into consideration while arriving at the price for that product/service.

The price of the product or service would be determined on the basis of the direct and indirect cost. One should then take into account margin as per market consideration to earn a profit. Also the prices charged by competitors should be checked as reference point for similar kind of goods & services

Revenue and Profit

Definition of Revenue

Revenue is defined as the income earned from a business during a given period of time. The primary source of revenue for a business is through the selling of its products/services. There could be other income for a business through other sources like interest from bank deposits, sales of assets or fee-based income. The revenue from sales is calculated using the equation given below.

$$\text{Revenue from Sales} = \text{Price} \times \text{Volume of Sales}$$

The volume of sales is the total sales for a given product during the time period under consideration. If there are multiple products, the revenue from sales of each product needs to be calculated separately and then added to arrive at total revenue from the business.

Definition of Profit and Loss

Profit/Loss is the difference between the revenue earned by a business and the costs associated with the running of the business.

$$\text{Profit/Loss} = \text{Total Revenue} - \text{Total Cost}$$

OR

$$\text{Profit/Loss} = \text{Total Revenue} - (\text{Fixed Costs} + \text{Variable Costs})$$

Breakeven Point

A business is said to break even if the revenue generated from the business is equal to the costs associated with the business.

Breakeven point (BEP):

NOTE: At breakeven point (BEP) the business is not making any profit or loss. If a business is operating below breakeven point, the business is making a loss. If the business is operating above the breakeven point, the business is making profit.

The concept is used to calculate the level of business operation of no profit or no loss and determine the desired profit levels. The concept of BEP is important to calculate the selling price and the production level or quantum of sales that will be required to earn the desired profit level.

Calculations

Step One: Classify all possible costs your business is likely to incur. Therefore make an estimate of sales revenue, cost of goods sold, and expenses.

Step Two: Classify all these costs into fixed and variable

Step Three: Compute the ratio of variable expenses to net sales

Step Four: Divide the fixed cost by the ratio of variable cost to net sales (as in Step 3).

Example of Calculation of BEP

Let us now look at a simple example of how to compute BEP.

A tea vendor has set-up a stall to sell 70 cups of tea every day @Rs.10/- per cup. The cost structure for the tea shop is given below:

No.	Cost Item	Type	Amount (Rs.)
1.	Rent	Fixed	100
2.	Daily payment for assistant	Fixed	100
3.	Daily interest for loan	Fixed	50
4.	Milk	Variable - Per Cup	2
5.	Sugar	Variable - Per Cup	0.5
6.	Ginger	Variable - Per Cup	1
7.	Kerosene	Variable - Per Cup	1.5

Let us see the different dimensions of the Break Even Point for a volume of sale of 70 cups

Item	Price of tea cup is Rs. 10	When price of tea cup increases to Rs. 15	When variable cost increases to Rs 8	When fixed cost increases to Rs 300
Fixed cost	Rs 250	Rs 250	Rs 250	Rs 300
Variable cost	Rs 5 per cup/unit	Rs 5 per cup/unit	Rs 8 per cup/unit	Rs 5 per cup/unit
Revenue	Rs 10 per cup/unit	Rs 15 per cup/unit	Rs 10 per cup/unit	Rs 10 per/unit
Break-even point	50 cups	25 cups	125	60
Profit margin	Rs 200 (70-50 Cups) x Rs. 10	Rs 675 (70-25 Cups) x Rs. 15	Loss (70-125 Cups) x Rs. 10	Rs 100 (60-50 Cups) x Rs. 10
Net effect when he can sell 70 cups only	Good profit margin	Loose Customers	Loss or target sale has to be increased	Profit reduces

Indirect cost, for instance, His wife cleaning cups /utensils is not included. Profit margin should be calculated after considering such indirect costs

$$\begin{aligned} \text{Break Even Point} &= \\ &= \text{Fixed Cost} / \text{Revenue per unit} \\ &\quad - \text{Variable cost} \\ &\quad \text{per unit (Unit margin)} \end{aligned}$$

$$\begin{aligned} \text{Break Even point} &= \\ &= \text{Rs } 250 / \text{Rs. } 5 * (10 - 5) \\ &= \\ &= 50 \text{ cups} \end{aligned}$$

Example:

Step 1:

Calculate the Break-even point for a chair manufacturer.

- Selling prices of a chair: Rs. 500
- Fixed cost: Rs. 15,000
- Variable cost per chair: Rs. 300

Step 2:

Calculate the contribution that sale of 1 chair provides toward meeting the fixed cost

$$\begin{aligned} \text{Contribution to the fixed cost} &= \\ &= \text{Selling Prices} - \text{Variable cost} \\ &= 500 - 300 = 200 \end{aligned}$$

Step 3:

Determine how many chairs are required to pay for the entire fixed cost?

$$\begin{aligned} \text{BEP (Not a profit and not a loss)} &= \text{Fixed Cost} / \text{Contribution} \\ &= 15000 / 200 = 75 \text{ chairs} \end{aligned}$$

Now check for 75 Chairs:

$$\begin{aligned} \text{Total cost of 75 chairs} &= \\ &= (\text{Variable cost} * \text{number of Tables}) + \text{Fixed Cost} \\ &= (300 * 75) + \text{Fixed Cost} \\ &= 22,500 + 15,000 \\ &= 37,500 \end{aligned}$$

$$\begin{aligned} \text{Total Selling Price for 750 chairs} &= \\ &= 75 * 500 = 37,500 \end{aligned}$$

Step 4:

If one wants to earn a profit of Rs. 5,000 then how many more chairs are needed to be made?

$$\text{Desired Profit} / \text{Contribution} = \text{Additional chairs to be made or sold}$$

$$5,000 / 200 = 25$$

Now check for 100 chairs:

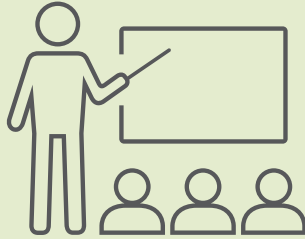
$$\text{Total cost of 100 Chairs}$$

$$\begin{aligned} & (\text{Variable cost} * \text{Total number of chairs to be made}) + \text{fixed costs} \\ & = 3000 \times 100 + 15,000 \\ & = 55,000 \end{aligned}$$

$$\text{Total selling price} = 500 \times 100 = 5,000$$

$$\begin{aligned} \text{Total Profit} &= \text{Total sale} - \text{Total Cost} \\ &= 55,000 - 50,000 = \text{Rs. } 5,000 \end{aligned}$$

Delivery



1. Cost

- a. **Group Discussion** Start the session with a discussion on what the group understands by cost and why costs are important.
- b. **Lecture** Start the lecture by making the participants understand the importance of cost calculation. Proceed to define the term cost, the elements of cost and types of cost.
- c. **Individual Assignment**
 - I. Distribute Handout - Classification of Costs and Per Unit Cost Calculation to each of the participants and ask them to classify the costs into different elements and types.
 - II. Ask 4-5 participants to present the results to the group. Correct if any mistakes have been made. Ensure that all the participants have completed the exercise and understood the concepts.
 - III. After the exercise is over, ask the participants to calculate per unit costs for different levels of sales.

2. Prices

- a. **Group Discussion** - Start the session with a discussion on what the group understands by the term 'price' and how it is different from 'cost'. Also, discuss how they will decide the price per cup of tea being sold in the tea shop.
- b. **Lecture** - Introduce the definition of 'price' and how it is different from 'cost'. Discuss the basic principles to be kept in mind while arriving at a price using the example of a flour mill or tea shop. Discuss the pros and cons of the two methods of pricing.
- c. **Individual Assignment**
 - I. Distribute Handout - Pricing for an individual assignment.
 - II. Once the time for assignment is over, ask 4-5 participants to present the results and how they arrived at the results.

3. Revenue and Profit/Loss

- a. Group Discussion (15 minutes) - Start the session with a discussion on what the group understands by the terms 'revenue' and 'profit/loss'.
- b. Lecture (30 minutes) - Build on the discussion and explain the concepts of revenue and profit/loss.
- c. Individual Assignment (30 minutes)
 - i. Distribute Handout - Revenue and Profits for an individual assignment. The instructions for the assignment are given in the handout itself.

4. Breakeven Analysis

- a. Lecture (1 hour 30 minutes) - Introduce the concept of breakeven point and explain it with the example of the tea shop.
- b. Individual Assignment (1 hour 30 minutes)
 - i. Distribute the Handout - Breakeven Analysis for estimation of individual assignment. The instructions for the assignment are given in the handout itself. Ask 4-5 participants to present the results to the group. Correct if any mistakes have been made. Ensure that all the participants have completed the exercise and understood the concepts

5. Field Activity

- a. Group the participants into teams of two members. Follow the same grouping used in the previous chapter for field activity. Ask the participants to visit the enterprise that they had previously visited at the and estimate and classify the costs, prices of products/services offered, volume of sales and revenue, breakeven point and profit and loss made by the enterprise on a monthly basis.

6. Presentation on Field Activity

- a. Each team will make a presentation and on the enterprise that they have selected. Total time allocation will be 15 minutes per team, with 10 minutes for presentation and 5 minutes for questions and clarifications.

Handout - Classification of Costs and Per Unit Cost Calculation

In a tailoring unit, the owner incurs the following costs. She is confused which cost is fixed and which is variable. Please help her out by identifying the type of costs.

Table : 1

Cost Description	Amount (Rs.)	Fixed /Variable
1. Electricity for the sewing machine (Per Shirt)	15	
2. Electricity cost for the office (Per Month)	5000	
3. Wages for workers (Per Shirt Stitched)	250	
4. Wages for manager (Per Month)	25000	
5. Rent for the warehouse and building (Per Month)	50000	
6. Threads (Per Shirts)	25	
7. Transportation cost for raw materials (Per Shirt)	15	
8. Cotton cloth for shirt (Per Shirt)	500	

After classifying the costs into fixed and variable components, calculate per unit costs for different levels of production.

Table : 1

Production Volume (No. of Shirts)	Fixed Cost (in Rs.)	Variable Cost (in Rs.)	Total Cost (in Rs.)	Cost Per Unit (in Rs.)
500				
1000				
1500				
2000				
2500				

Answer the following questions after completing the above table.

What is the trend in total cost as the production volume increases?

What is the trend in cost per unit as the production volume increases? What do you think is the reason for this trend?

Handout - Pricing

1. Use the cost data in the previous assignment to answer the questions in this handout.
2. If the owner wants to have a 20% margin over cost, what should be the price per shirt at the following production levels?

Production Volume (No. of Shirts)	Total Cost (in Rs.)	Margin (in Rs.)	Price Per Unit (in Rs.)
500			
1000			
1500			
2000			
2500			

3. The competitors are selling their shirts at Rs. 1000 per piece. A survey with customers revealed that they are not interested in buying shirts that cost more than Rs. 1000 per piece. What is the minimum number of shirts to be produced if the business has to make at 20% percent profit?

(Hint: Use the data in the above table to answer the question)

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Handout - Revenue and Profits

- 1. Use the data from the previous two handouts to answer the questions
- 2. Estimate the total revenue and profit for the following levels of sales and production

Production	Sales	Cost Per Unit	Price Per Unit	Revenue	Profile
500	500		850		
1000	1000		850		
1500	1500		850		
2000	2000		850		

a. How is the profit of the organisation varying for different levels of production at the same price? Why do you think it is varying in that manner?

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b. At what level of production is the business turning profitable for the given price per unit of Rs. 1,000?

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Handout - Break Even Analysis

- 1. Use the data given in Handout - Classification of Costs and Per Unit Cost Calculation for answering the questions
- 2. Calculate the breakeven sales and breakeven revenue for the tailoring shop at different price levels given in the table below.

Price Per Shirt	Breakeven Level (No. of Shirts)	Breakeven Level (Total Revenue)
500		
600		
800		
1000		
1200		
1500		
2000		

3. Based on the above table, are there production levels at which the business will never break even? If yes, why can't the business breakeven?

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4. Based on the above table, how is breakeven point changing with increase in prices? Why is it changing in that particular manner?

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Chapter IV

Business Finance



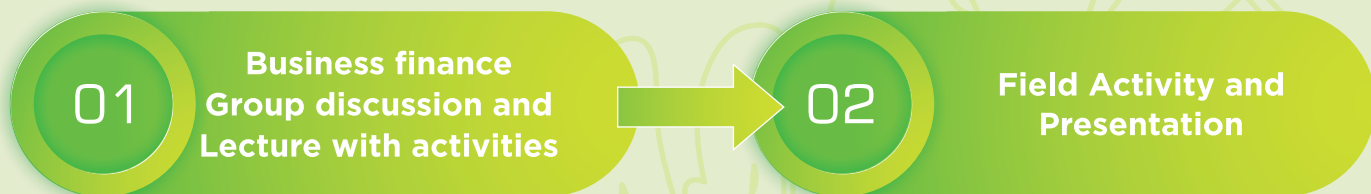
Learning Objectives

- To identify and assess the capital requirements for setting up and running a business

Methodology

- a. Group discussions
- b. Lectures
- c. Individual assignment
- d. Field Activity

Session Plan



Resource:

Chart Papers, Blackboard, chalk and duster

1. Definition of business finance

- 1.1 Business finance is the study of money needed for running a business and ways of raising the required money. Some examples of the requirement of funds for business are listed below;
- Purchase of fixed assets like machinery, land and building and
 - Meeting day to day expenses of business like the purchase of raw materials, paying daily wages and so on.
 - To expand the existing business. For example, a Kirana store might want to expand its product portfolio and add cold drinks. In order to do this, the owner will have to buy a refrigerator and he/she will need money to fund this.

2. Capital Requirement - Working Capital and Fixed Capital

- 2.1 Capital is the money or finances required to produce goods and services. To start and run a flour mill business, the owner should either have own funds or find funds to purchase land and building, purchase machinery and to meet the day to day expenses.
- 2.2 The capital requirement of business falls under two broad categories - fixed capital and working capital. These concepts are discussed in the following sections.

3. Fixed Capital

- 3.1 Fixed capital is required for long term or permanent investment in the business. Fixed capital is used for the purchase of fixed assets like land, building and machinery. The investment in fixed capital is a long term investment and can be taken out of the business only at the closure/dissolution of a business. The fixed capital requirement would differ as per nature and type of products, size of business and processes of production

4. Working Capital

- 4.1 Working capital is required for meeting the day to day expenses of running a business including buying raw materials, paying wages, paying salaries, etc
- 4.2 Working Capital Components

Current Assets	Current Liabilities
Cash balance and Bank balance	Creditors
Stock at hand	Interest and outstanding installment
Debtors	Other short term liabilities
Net working capital is equal to Current Assets less Current Liabilities	
Working Capital Gap is when Current Liabilities > Current Assets	

- 4.3 The concept of operating cycle needs to be understood in order to assess the working capital needs of any business entity. The operating cycle is defined as the average period of time required for an enterprise to procure inputs (raw materials) from suppliers, make goods, sell the output, and collect cash from customers in exchange for the goods.

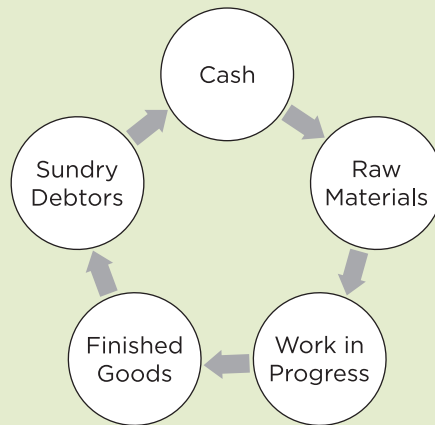


Figure 1: The Operating Cycle of a Business

4.4 Aspects of the Operating cycle are described below;

- Cash is paid for purchasing the raw materials needed for operation. For example, a lemon pickle manufacturing unit needs cash to purchase a lemon, spices, packing material and other materials needed for preparing lemon pickle.
- Cash is needed to pay direct labor costs and other indirect costs to convert raw material to finished product. A pickle manufacturing unit will need to pay its labor and other indirect costs to convert lemon to pickle.
- Holding the stock or inventory of finished goods locks cash in the business for a short period. In the case of a pickle manufacturing unit, the pickle bottles will be stored for some time before a customer purchases the pickles from the unit.
- Cash is locked at the customer's end if the customer does not pay for the products purchased immediately and instead pays them after a time lag of a few days or months. These are sundry debtors. For example, in a pickle manufacturing unit, the retailer who purchases the pickle bottles from the unit might agree to pay only once a month. This results in cash locked at the customer's end for a short period of time.

The total cash locked temporarily in the form of inputs, work in process, finished goods and debtors (customers who owe money) is called working capital.

4.5 Problem on Working Capital Estimation

- A lemon pickle manufacturing unit sells 10000 bottles of pickle every month. The costs associated with the production of one bottle is given in the table below;

Cost Item	Amount (in Rs.)
Material (Lemon and Spices)	40
Bottles and Packing Material	10
Labour Charges	10
Other Indirect Costs	10

b. Use the information given below to calculate the total working capital requirement of the business.

I. Raw materials and packaging material for manufacturing 200 bottles are maintained as stock every month

I. 300 Finished bottles are kept as stock every month

II. 500 bottles are sold on credit every month

Calculate the working capital requirement

c. Solution

Cost of Raw material in stock = 200 bottles x value of raw material per bottle
= 200 x 40 = Rs. 8000

III. Cost of packing material in stock
= 200 bottles x Value of packing material = 200*10 = Rs. 2000

IV. Cost of finished goods in stock
= 300 bottles x cost per bottle = 300*(40+10+10+10) = Rs.21000

V. Cost of credit sales = 500 bottles x cost per bottle = 500*(40+10+10+10) = Rs. 35000

The total working capital requirement for the business is the sum of the above four items. It comes to Rs. 66,000.

4.1 Permanent and Variable Parts of Working Capital

a. A certain part of the working capital is permanent as the business will have standard norms on maintaining a stock of inputs i.e raw material and finished output (goods) and share of credit sales in total sales.

b. Another part of the working capital is variable in nature because of the fluctuation in sales. For example in the previous example, if the sales volume increases to 1500 bottles, the raw material stock and finished goods stock will increase proportionately and lead to an increase in working capital requirement for the month.

4. Cost of Project

4.7 The cost of a project is the sum of its fixed capital and permanent part of working capital.

5. Working Finance

4.8 The different sources from where funds can be raised for setting up and running a business are listed below;

- a. Own Savings
- b. Friends and Relatives
- c. Self-help groups
- d. Money Lenders
- e. Micro finance organisations
- f. Commercial Banks and RRBs
- g. Government institutions - NABARD
- h. Retained profits from running the business

Net Worth of an Entrepreneur

This concept is explained to the participants with the aid of tables (A, B and C) in the following example. Table A consists of the assets, Table B consists of the Liabilities and Table C indicates Net Worth. An attempt has been made to simplify these concepts to the participants:

Table A less Table B is equal to Table C (i.e Net Worth)

No.	Assets	Amount (Rs)
1	Cash	
	Cash on hand	500
	Piggy bank saving	250
2	Bank Balance	4300
	Savings bank	2700
	Personal	4500
3	Bank Fixed Deposit (of Family)	17,000
	Pension Plan (of Family)	25,000
	Insurance Policy (2 policies.) (of Family)	20,000
4	Property	
	House (residence)	52000
	Shop	38000
5	Jewelry (of Family)	25000
6	Machinery and Equipment	10,000
7	Receivables (one monthperiod)	750
	Total Assets	200000

Table B

No.	Liabilities	Amount (RS)
2	Mortgage	
	House Loan (including Interest)	35,000
3	Business Loan (taken against Bank Fixed deposits)	15,000
4	Payables (to Suppliers for goods)	10,000-
5	Business loan from bank	50,000
	Total Liabilities	1,10,000

Table B

Net Worth	Amount
Total Assets - Total Liabilities	2,00,000-1,10,000
Net worth	90,000

Below are some definitions used in the chapter:

Net Worth

Defined as is the difference between Total Assets Less Outside Liabilities (long term or current liabilities)

Asset

Defined as any immovable or moveable property or properties owned by an entity which has an economic realizable value in the market

Liability

Defined as to an obligation financial or otherwise which is to be repaid within a stipulated time period.

learning Points :

Sales Minus Business Expenses = Profit

(Business Expense includes interest on business debt)

Opening Cash

Add - Sales

Add - Other income

Add - Borrowing

Less - Business Expenses

Less - Repayment of Loans

Less - Compulsory Savings

Less Withdrawals = Closing cash balance

Current Assets

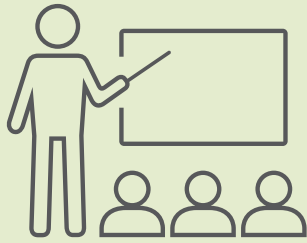
Less Current Liabilities = Working Capital

Total Assets Less Outside Liabilities = Net Worth

We Learn :

- The more number of times the working capital is rotated, greater are the chances of earning higher profit.
- Non-moving stock can decrease the money rotation thereby adversely affecting the working capital cycle and profit of the enterprise.
- Money should be collected immediately on the due date, to facilitate fast rotation of money and increase profits.
- Make payments to your creditors in time in order to avail credit from them whenever required, strengthen one's bargaining power for a good price and good quality.
- If a person has negative net worth and wants to avail a business loan, then the person will find it difficult to get a loan.
- If a person has a positive net worth and wants to avail a business loan, then the person would find it easier to get a loan
- Negative Net Worth implies that the person has unpaid loans or creditors not yet repaid. The person in order to avoid being caught in a vicious debt trap needs to repay the loan as soon as possible.
- Positive net worth means that the person has productive assets on hand which can be used for increasing income.
- Positive Net Worth for micro-entrepreneur stands for better social status.
- Positive Net Worth indicates that the person has a surplus in the form of assets for investments.

Delivery



1. Group discussion

Ask the participants why a business needs money. Ask them to reflect on the Pearl game and for what all purposes they needed money. List down the items that they mention.

2. Lecture Session

Introduce the concept of business finance. After that, classify the items that the participants have listed during the group discussion into fixed capital and working capital and introduce the concepts of fixed and working capital. Explain the concept of operating cycle with the example of a pickle manufacturing unit and then show how the calculations for estimating working capital is done. Explain the cost of project and sources of funding for a business enterprise.

3. Individual Assignment

Distribute Handout - Estimation of Fixed Capital, Working Capital and Cost of Project to the participants for an individual assignment. The instructions are mentioned in the handout.

4. Field Activity (

Group the participants into teams of two members. Ask them to visit the enterprise they have been studying till date and study the capital requirements for setting up and running the business.

5. Presentation on Fieldwork

Each team will make a presentation and on the enterprise that they have selected. Total time allocation will be 15 minutes per team, with 10 minutes for presentation and 5 minutes for questions and clarifications.

Handout - Estimation of Fixed Capital, Working Capital and Cost of Project

An entrepreneur wants to set up a shirt making unit. He has made a list of items on which he needs to invest money. Classify them into fixed and working capital.

No.	Item	Fixed / Working Capital
1.	Purchase Land	
2.	Construct Building	
3.	Purchase of Sewing Machines	
4.	Labour Payment	
5.	Raw Material Requirement	
6.	Salary for Supervisor	
7.	Electricity Bill	

The entrepreneur has also estimated the costs for setting up the plant and per unit cost for stitching a shirt.

No.	Item	Amount (Rs.)
1.	Purchase Land	1,00,000
2.	Construct Building	50,000
3.	Purchase of Sewing Machines	50,000
4.	Raw Material Cost Per Shirt	400
5.	Labour Charges Per Shirt	100
6.	Other Indirect Cost Per Shirt	100

The entrepreneur has estimated that he will have to maintain stock of raw material for 500 shirts, 600 semi-finished shirts, and 500 finished shirts. Also, 70% of his sale in a month will be credit sales. He estimates that he can sell 1000 shirts in a month. Estimate the total fixed capital, working capital and total project cost.



Trainer's Tips

- Preparation as per the session plan and handout during training.
- Mainly focus on the exercise part for the trainees and encourage him to take up their own example as per field experience



Chapter V

Marketing Management



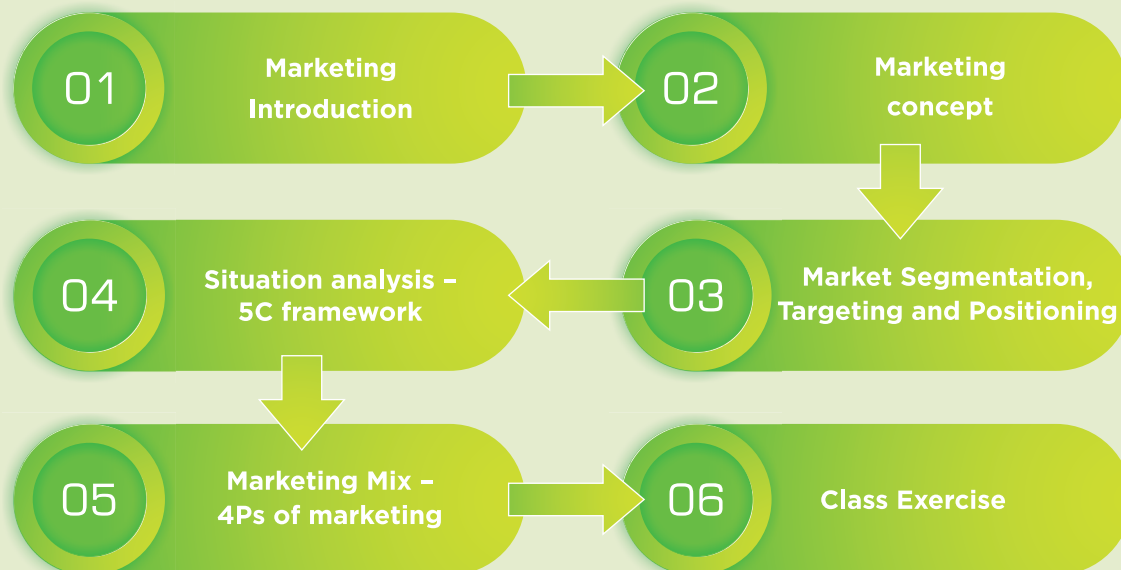
Learning Objectives

- To understand role and function of marketing for an entrepreneur using 5C and 4P Frameworks

Methodology

- a. Lectures
- b. Case Studies
- c. Field Activity
- d. Group Presentations

Session Plan



Resource:

Handout, Duster, Marker, Presentation slides , Case study Handouts

1. Introduction

Marketing concept means meeting the needs of buyers in a profitable manner. It refers to an organization function and processes which help to generate, transmit, provide value proposition to customers and manage consumer relations in such a manner that is beneficial to both the business and its stakeholders. Marketing management refers to the art and science of selecting the target markets along with acquiring, maintaining, and expanding customer base by creation, deliverance and communication of a superior value proposition for the customer. American Marketing Association defines Marketing as the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives.

The term marketing symbolises the method of creating a customer for the business enterprise. The key activities involved in marketing are:

- a. Needs Identification: Identifying the needs of the prospective customer
- b. Product/Service Creation: Creating a product/service to cater to the needs of the prospective consumer with a focus on product/service quality, size and packaging
- c. Price: Test the pricing of the product to reflect cost coverage, competition and prospective customer's willingness to pay
- d. Promotion: Communicate information to attract customers to buy from you
- e. Place: Making goods and services available for the prospective customer at the right place and time. Thus, marketing management and effective use of various strategies is the most important aspect and has direct links with financial management.

1. What is marketing?

2. What are the common sets of condition present in market?

The Marketing concept

The concept of marketing is built on the five pillars as given in Figure below. They describe the connection among provider, marketplace and consumers to produce superior value and earn a good return on the effort by creating differentiation and contributing to the betterment of the lives of the consumers and other stakeholders of the value chain.

Needs, Wants and Demands

Human need is the most elementary notion underlying marketing concept. A need refers to a situation of sensed deficiency. Human beings have several inherent needs, such as needs related to physical, social and spiritual wellbeing.

Human wants are the forms taken by needs, influenced by an individual's beliefs and disposition. They are defined as things which satisfy needs. Such as feeling thirsty



is a need. A person may contemplate on several options to quench this thirst - drink water or juice or a soft drink. These things (which denote the various choices to fulfill one's need) constitute the probable want list. As consumers are increasingly exposed to more and more things that stimulate their attention and aspiration, organizations' attempt to offer more varieties in the form of want-satisfying items.

Humans have nearly infinite wants but finite means. Therefore, they want to make a choice of those items that give them satisfaction in terms of maximum value for their money. Supported by purchasing capacity to buy, a want turns into a demand.

1. What is the difference between need and wants?

Products

Anything that can be brought into a market to fulfill a need or want of a consumer constitutes a product. The concept of a product is not restricted to just tangible things. It also refers to services. Marketers use the terms goods and services to differentiate between tangible products (physical products) and intangible products. However, there is hardly any pure product or service. Entrepreneurs would bundle them to create a superior value. For instance when a product seller provides credit or home delivery, it offers services as bundled with the product. Similarly, when a plumber offers to provide the products needed during installation or repair, products are being bundled with the service.

Values and Satisfaction

A customer tends to evaluate every product for satisfying needs. One might rate the products on satisfaction attribute in varying degrees ranging from, "most need-satisfying" to the "least need-satisfying". However, a perfect product will be that one which would provide all benefits at no cost. Unfortunately, such a product does not exist. However, every consumer tends to evaluate each prevailing product according to his/her expectation of an ideal product and ends up picking the one that provides the maximum value for money. These values can be classified into Economic, Functional, Psychological, Social and Novelty. A product is a bundle of these values that get translated into utilities. Consumers tend to choose a combination of these values by balancing them through a trade-off process that would maximize the satisfaction for them.

Exchange, Transactions and Relationships

Exchange refers to the deed of attaining a sought after thing from someone by offering something in return of it. In the exchange process there should be at least two participating parties, and each must have something of value to offer to the other. Also both parties should have an inclination to deal with the each other with an option to either accept or reject each other's offer. Eventually, both the involved parties must be in a position to communicate and deliver.

Trade of values between two parties is termed as transaction, a marketing unit of measurement. Transactions are of two types: monetary transaction and barter transaction. The former consists of trading goods and services in exchange for money. The latter comprises of dealing of goods and services in return for other goods and services.

Over time the marketing concept has been shifting from profit maximization on each business deal towards maximizing mutually advantageous relationships with customers

and other stakeholders. It is based on the premise that worthy interactions will translate into lucrative transactions. The relationships could be financial, social or structural. In the first case each party would strive to maximize the economic value of the transactions which tend to build a transient relationship. In the second situation, the exchange is based more on personalising the offer to the customers and driving better value for the seller. The third case represents a situation where customers are internalized by the seller and involve them in creation of the offers leading to customised offers or customers co-creating the exchange process themselves.

Markets

The space where the exchange process in marketing occurs is called a Market or Marketplace. It could be physical as in case of haat, fixed shop and door-to-door as well virtual as in case of ecommerce, teleshopping and catalogue selling. A market is the set of actual and potential buyers of a product. It may exist in a physical or virtual space, the former referring to the marketplace and the latter to the internet space. The concept of market follows the concept of transaction. It is an interpreter of demand and supply. It is also a sphere where values compete for acceptance that facilitates deals and transaction.

A successful marketplace is recognised as having more buyers than sellers. Whereas a single buyer is generally economically weaker than a single seller, the power of even a small section of buyers is sufficient to determine presence or removal of many sellers from the business. Thus, sellers vie to influence the maximum number of buyers to their advantage as against other competitors' offerings. For this purpose sellers constantly alter their behaviour to attract and retain the maximum number of buyers over time.

Market Segmentation, Targeting and Positioning

A market place is a mixed of varying wants and divergent purchase capacities. This mixed marketplace can be categorized into many similar consumer categories on the basis of segmentation variables. This process of dividing the total market into comparatively smaller categories is referred to as market segmentation.

Segmentation enables the marketer in classifying customer groups and identifying ones that could be 'targeted' effectively by the marketing efforts for the firms' product or service. It provides an understanding of the customers which helps the marketer to form the product or service tactics. It helps the marketer to identify and meet more effectively consumer needs. Useful data is generated through market segmentation and on-going customer analysis helps in long-range planning for growth and product development.

Selection of target market is the next step after customer segmentation. Based on the identified customer segment prospects, the entrepreneur will develop approaches that will best match the firm's product offerings with the needs of the specific target segment.

1. What is marketing segmentation?

2. How is targeting different from segmentation?

Situation analysis - 5C framework

In order to establish and run a business profitably an entrepreneur must understand the external and internal environment of the business. 5C framework is useful for an entrepreneur in performing situation analysis. The 5Cs are explained in detail below.

Customer

An entrepreneur should understand the expectation and needs of the customer very well. It entails an analysis of the profile, expectations, behaviour and price sensitivity. Company, though, are situated in a marketplace, they sell their products to customers. These customers are individual or organisations. For a successful marketing strategy and programme, entrepreneurs must define their customer segments. They could use a set of demographic variables such as age, income, occupation and gender. Geographic location of customers is another way of profiling them based on where the customers are located such as in the village or away from village; in the nearby cities or cities away from the location of business. They could also be classified as domestic or international. Besides determine the location, this basis of profiling also helps understand the differences in economy, culture, topology, competition and pricing.



Customers can also be profiled based on their behaviour. Entrepreneurs would gain a lot by understanding the basket of products of their consumers. The quantity and frequency of purchase would help in understanding the value of the customers in every visit also well as total purchase for a period. This study also helps in finding their market visit and store choice patterns. A deeper understanding of customer behaviour is attained by using psychological and sociological methods. They help in finding out the expectations, attitudes, norms, networks and other enablers of purchase.

Company

Entrepreneurs must identify the strengths and weaknesses of their own business enterprises in terms of resources and skills needed to meet the customer needs. The key questions that need to be answered while trying to understand the company are (a) does the entrepreneur have those resources and capability and (b) if not, does it have an access to them and garner them when required. These resources are mainly the factors of production such as manpower, material, money and machines. In the current scenario, a good idea or a business proposition is also considered as valuable asset as these.

Competition

The analysis of completion is carried out to gauge the intensity of competition and the structure of the markets. An entrepreneur must know its competitors, the competitive landscape and the game plans of the players in the market. A study of their way of doing business lays out the practices and behaviour. A careful analysis helps in finding out a gap in the market and developing strategies for winning, growing sustaining in the market place. It determines the size of market that may be available for the entrepreneur to address and serve. It is difficult to build entry barriers for smaller businesses and therefore an understanding of potential/new competitors who will enter the market in the future should always be developed. A large market is as much an opportunity as a threat as it would attractive to many. A smaller market is easy to serve but does not provide for future growth. A new idea would require creation of demand and hence time and resources besides risks. An entrepreneur must analyse the market competition and its structure from several dimensions.

Collaborators

Collaborators are agencies and people who help an entrepreneur in operating the business. Suppliers of raw material, machineries, services and distributors of the products of an enterprise are examples of collaborators in a business. SHGs and other village organisations and government as a facilitator also form a part of the set. Similarly, financial institutions, transport service provides, marketing services organisation and individuals as mentors and guide also constitute as collaborators. These collaborators can contribute to one or several parts of the value chain. An entrepreneur needs to spell out the terms and ways of working with each of them. These terms are a combination of terms that are commercial as well social in nature. The key questions to be asked while trying to understand collaborators are listed below.

Context

The entrepreneur must understand the factors in the external environment that affect its business. Prominent among them are economic factors that affect income, market growth, cash and liquidity, entrepreneurial opportunities and chances for innovation. For instance,

- Political and Regulatory Environment, i.e. government policies and laws. E.g. Demonetization.
- Economic Environment: e.g. a drought year will affect the income and expenditure patterns of village households.
- Social and Cultural environment: e.g. People will not eat meat/fish on certain days of the week.
- Technology environment.

Marketing Process

The following are the steps of the marketing process:

1. Strategy formulation – It refers to the preparation of the widest business strategies with the longest term influence
2. Marketing planning – It refers to the formulation of longer-term plans which generally have a stronger influence than the short-term plans
3. Marketing programming, allocating and budgeting – Programming refers to the preparation of short-term plans with the emphasis on mixed methods for a given product. Allocation refers to the disbursement of limited resources and time across several products and functions. For example advertising or new product development
4. Marketing implementation –It refers to the real job of accomplishing the marketing task
5. Monitoring and auditing –Monitoring refers to the program appraisal and investigation. Auditing refers to evaluating the effectiveness of plans and strategies to determine the changes necessary
6. Analysis and research – It refers to the process of careful and thoughtful collection and analysis of data (both in terms of qualitative and quantitative) for improved decision making

4. Marketing Mix – 4Ps of marketing

4 Ps Matrix of Marketing Mix

Product	Price
i. Product type ii. Product diversification iii. Quality iv. Packaging v. Service vi. Maintenance vii. Guarantee and Warranty viii. Return policy	i. Pricing ii. Pricing strategies iii. Payment conditions iv. Competitors price v. Customer segment
Place	Promotion
i. Channels of distribution ii. Strategic location iii. Building specifications iv. Transport facilities v. Public infrastructure facilities	i. Sales promotion ii. Personnel sales iii. Advertising iv. Public relations v. Branding and packaging

Figure 2: 4Ps of Marketing

4.1 Product

- a. The first P of marketing is Product. The key questions to be explored while trying to understand the product are listed below;
- I. What does customer want from the product?
 - II. What features does the product have to meet these needs?
 - III. How is the product different from those offered by the competitors?

4.1. Price

- a. The second P of marketing is Price. Price and Pricing have been covered in detail in Chapter IV. The key questions to be explored while trying to understand pricing are listed below;
- I. What is the price that the customer is willing to pay?
 - II. What are the established prices for the product/service being offered in the market?
 - III. Can a desirable level of profit be generated at the price set for the product/service?

4.2. Place

- a. The third P of marketing is Place. Place stands for the different mechanisms through which the products and services reach the customer. An enterprise has to ensure that the product/service being offered is available “at the right place, at the right time and in the right quantity”.

- b. Key questions to be explored while trying to understand Place are listed below;
 - I. Where do the customers look for the product/service offered by the enterprise?
 - II. Will the enterprise sell directly to the customers?
 - III. Will the enterprise sell indirectly to the customers through wholesalers and retailers?

4.3. Promotion

- a. The fourth P of marketing is Promotion. Promotion is about communicating the benefits of the products to the customers in order to increase the probability of trying the product or service or its repeat purchase.
- b. The four ways of promoting a product/service are listed below.
 - I. Advertising refers to generating the customers interest by communicating the benefits of the product through media (TV, radio, newspaper) or through signboards, posters, pamphlets and wall writings.
 - II. Sales Promotions is about making customer buy more by offering discounts, coupons and contests.
 - III. Personal selling is through direct interaction with the customer.
 - IV. Word of mouth is through interaction between existing customers and prospective customers.



Examples

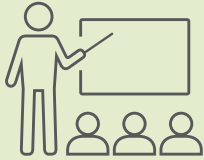
Example 1 Competition in terms of quality:

Some bakeries bake bread using white flour ingredient while some use wheat flour. Currently consumers demand whole wheat bread hence sellers of white wheat bread lose market share. What makes it bad that are unaware of the reason for the decline in sales?

Example 2 Competition in terms of quantity:

Some stalls owners smartly adjust their selling price based on the price offered by their neighbor stall owner. A smart seller should be able to explain the difference in quality.

Delivery



1. Lectures and Discussions (3 hours)

Lecture about various concepts of marketing management with the use of case studies associated with various topics.

2. Exercise

Written test at the end of the chapter related to the various concept of this chapter



Trainer's Tips

The trainer could use PowerPoint presentation for explaining the various concepts of this chapter. Class discussion is the major part of this chapter, the trainer could use examples of the rural enterprise to make the concept relevant according to the rural enterprise.

Handout - Case Studies for Discussion

Case 1:

Ravi underwent training on manufacturing of handmade soaps. He went back to his village and started a small shop in the village to produce and sell soaps. The villagers are already using soaps available in the market like Lux, Santoor etc. Will the villagers buy soap from Ravi's shop? Discuss on the basis of external environment, customers' need and product.

Case 2:

Ravi is selling soaps at Rs. 50 per soap. The soaps in the market are sold at Rs. 25 - Rs. 30. Will the villagers buy soaps from Ravi's store? If Ravi starts selling the soaps at Rs. 10 per soap, will the villagers buy soaps from Ravi's store? Discuss from the perspective of pricing?

Case 3:

Ravi has developed a very high quality soap which is cheaper than other soaps in the market. He decides that he will make the soap and stock it at his house so that villagers can come and purchase the soaps. Will the villagers come and purchase the soaps from his house? Discuss from the perspective of place and promotion.

Exercise

1. What do you mean by marketing? How is marketing defined according to American Marketing Association

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2. Explain 4Ps of marketing?

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3. Describe marketing segmentation in the rural context?

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4. Describe 5C framework in detail?

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5. Describe marketing process?

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Chapter VI

Buying and Stock control



Learning Objectives

- To understand the items businesses need to buy
- To know the steps to follow when buying
- To understand material requirements and capacity requirement planning
- To understand inventory management system
- To understand stock control

Methodology

- a. Class discussions
- b. Individual assignment
- d. Field Activity

Session Plan



Resource: Handout

Introduction

An entrepreneur needs to answer a few key questions for an effective operation management plan for its enterprise. These primarily include (a) how much quantity of raw materials should be ordered to meet the demand for the product/service being offered, (b) how many units of the product should be made during a given time period to meet the demand of customer at the right time, (c) what should be the number of personnel and equipment needed to meet this demand and (d) how much stock of raw material/finished goods should be maintained by the business?

1. What items have you been buying for your business? List them in the space below.

All businesses need to manage several items during the operation of the enterprise. These items fall in the categories of (a) Equipment, (b) Raw materials, (c) Finished goods and (d) Services and other outsourced items.

Equipment

Equipment refers to the entire office furniture, machinery, workshop fittings, and tools that a business needs to manufacture goods or to provide services. Buying equipment, especially expensive machinery, is of importance, as it impacts profitability.

There are important questions to answer before equipment is bought. For example, a metal fabricator has many new orders. To fulfill these orders, the enterprise may need a new grinding machine. Before deciding to buy the machine, the entrepreneur would ask following questions:

- How much will this machine cost?
- What should be the size of the machine to produce what I expect?
- Does my business have the money to buy the machine?
- Do I have the option of purchasing second-hand this machine?
- Would my profit increase sufficiently to pay for the cost of the machine?

Entrepreneurs must decide how best they can use money. Perhaps there may not be a need to buy new equipment. Find out if one can (a) continue using the present equipment you already possess and rent or borrow additional equipment only as and when needed, or (b) outsource your work to someone else who has the resources and equipment to fulfill the orders.

In case the equipment has to be purchased, one would collect all the necessary information pertaining to the variety of equipment that is available for the purpose. Following questions may be answered before the equipment is bought:

- Does the equipment operate well? What is the frequency of it to break down?
- Are there options available of newer and better type of equipment?
- What are the other options for equipment that are economically cheaper to run and simplest to operate?
- Is there a need for specialised training to use the equipment? Is it available? Is it free of cost?
- What is the life of the equipment?
- Does the equipment have a written guarantee?

- Is there an option of the supplier to install the equipment?
- Would the supplier service it?
- Could it be serviced locally?

Most of the above information is available from the suppliers. However, it is prudent to discuss with other employees, business associates and others who utilise similar equipment. Information about the equipment specifications, reliability and limitations may also be available on the internet. It is equally important to check the compatibility aspect of the machine with the other equipment in the factory. Equipment will also need repairs and maintenance at some point. Following information should be collected before making a decision:

- Can the spare parts be procured locally? If not then what is the fastest time within which they can be made available?
- What is the quality of these spare parts and how much do they cost?
- Are there local experts trained to maintain or repair that kind of equipment?
- How long is the guarantee for the equipment? What are the conditions of the guarantee?

When spare parts are purchased, one must ensure the appropriate and genuine parts are bought. The cheapest spare parts may not be the appropriate one. Business loses a lot of money when the equipment breaks down and production is interrupted. Buying original models of the spare parts saves a lot of money. A good business relationship with an experienced repairman who knows the equipment well is desirable.

Raw Materials

Producers require raw materials to produce things. Raw materials consist of all the items that are required to produce. Accurate estimations are needed to determine the right amount of raw materials that the business needs. It guarantees that the business is not undersupplied, and surety that products are delivered to the customers on time. Besides, an oversupply of raw materials ties up valuable capital. Manufacturing activities need to be well planned and delivery timelines established so that purchase of raw materials is timely and accurate. Raw materials that are easily available from reliable suppliers and are of good quality improve the efficiency of the operations. Using quality assured raw materials increases the value of products and the likelihood that they are perceived as reliable by customers. However, caution should be ascertained so that purchase and use of raw materials do not make product cost more than what customers are willing to pay.

Finished goods

Producers use equipment to transform raw materials into finished product. The manufacturer then sells the finished goods to wholesalers and retailers for resale. It is necessary to conduct a market research and arrive at an estimate before the finished goods are ready for sale. Customers are growing increasingly sensitive on the effect of products on the environment and health. Following things need to be considered before buying finished goods:

- What qualities and sizes do my clients require?
- What prices are my clients ready to pay?
- What is the quantity of each type can I expect to sell per week or per month?
- Which types of goods do my clients require?
- Can I buy the goods directly from the manufacturer or must I buy from a wholesaler?

Common mistakes when buying - Find out what happened in these three businesses and answer the questions that follow:

Ramesh Lungi Store

Wholesaler (Dinesh) : This silk type material is very popular for Lungis. Your customers will like it.

Retailer (Ramesh) : You think so? Isn't it very costly?

Wholesaler (Dinesh) : Not so much. A lot of shopkeepers are buying it?

Retailer (Ramesh) : Ok give me 50 meters.

After 1 Year

Retailer (Ramesh) : I made a mistake in estimating what my customers want and willing to pay. They find the silk lungis very expensive and not useful for daily wear. I am stuck with 30 metres of material.

Taaza papad

Reena makes papad and supplies to the local kirana shop. She is examining the stock of urad dal she uses to make the papads. She tells herself, "I have only a handful of dal left. I have poorly estimated the quantity required. This would be my third trip to the Haat to make the purchases. A total waste of time, money and energy and delay in execution of my order.

Girish Smallhold Farmer

Girish regretting on his poor planning of the quantity of fertilizer. Girish thinking aloud, "I overbought fertilizer A. Now I need to buy pesticide urgently but all my money is locked up. I wish I had planned my purchases better".

- 1. Why did Ramesh Lungi Store buy so much of thin, silky material?
.....
- 2. What is the problem with the way Ramesh Lungi Store does its buying?
.....
- 3. What advice can you give Ramesh Lungi Store to improve its buying?
.....
- 4. What mistake did Reena in Taaza papad do?
.....
- 5. What may happen to future of Taaza papad in case it does not amend its buying?
.....
- 6. Where did Girish Smallholder Farm go wrong?
.....
- 7. What condition could Girish Smallholder Farm land into if it did not improve its purchasing?
.....

What is Purchasing (Buying) well?

- 1. Purchasing the right quality** : Purchase what business requires, in the qualities it requires and as per the requirement of the customer
- 2. Purchasing the right quantity** : Purchase the amount required by business and its customers. It should neither be either too much or too little.
- 3. Purchasing at the right price** : Purchase at those prices that are affordable for the enterprise and the clients are ready to pay. Ensure that the amount paid generates profits.
- 4. Purchasing at the right time** : Procure only whenever the enterprise or its clients need the goods.

The Buying Process:

Successful entrepreneurs follow a methodical process in buying goods and services for their enterprises. This is required to achieve efficiency and manage the business with lowest cost.

Step 1: Find out what the enterprise needs

The needs of an enterprise are determined by customers' needs. Ensure you collect information about your clients as to who they are and what is their requirement. This helps you in making better decisions about:

- Which are the materials or equipment needed to manufacture goods to sell?
- Which goods are needed while reselling finished goods?
- What is the amount of this material or equipment you need?
- What is the price you are ready to pay?
- When do you need these materials?
- What services your business needs to procure?

Step 2: Get information about different suppliers

Obtain information on which suppliers sell the goods, materials, equipment or services you require. Information gathering is important especially if the potential supplier is new for your business. Hence it helps you to identify other new suppliers. There are many ways to get information about potential suppliers:

- Enquire** from the people who work in the business such as associates, friends, faculty of business institute, consultants, or any other people who may be familiar with the suppliers. An entrepreneur should also be aware of the sources where competitors buy their supplies.
- Contact** establishments or associations that support small businesses for information on suppliers. For example, DICs or the local MSME or SRLM office. They can also provide information on supplier's reliability.
- Look** in newspapers, online sources like GeM, IndiaMart, Justdial, magazines, trade journals, and yellow pages. These are useful sources to procuring the list of suppliers as well as customers.
- Search** on the internet too for potential suppliers. You can get valuable information about them from their websites, including the type of products they sell, their prices, their credit terms and their delivery arrangements.

- e. **Use** social media as a key source of information about suppliers. It provides a platform for companies to share information about their goods and services. Social media sites provide experiences and testimonials of other businesses with the suppliers.
- f. **Visit** trade fairs to meet new suppliers. A lot of information can be obtained about suppliers and their products at trade fairs which will be helpful in immediately negotiating purchasing terms with them.
- g. **Advertise** for the products on websites, social networks and newspapers. Advertising helps in getting competitive bids and a lot of information about suppliers in a cost-effective way.

Step 3: Conduct background checks on suppliers

The reputation and reliability of the supplier is important. One should look for information like:

- Does the supplier have the reputation of usually delivering on time?
- Does the supplier accept the returned items?
- What responsibility does the supplier undertake for the quality of goods or materials supplied?

Try finding out information about every supplier by (a) talking to previous customers of the supplier who provide important information about that supplier, (b) talking to other business people and finding out what they know about the supplier and (c) checking on the internet to find out what other people think about the supplier

Step 4: Contact the suppliers for quotations

Before contacting the supplier, it is good to talk to people from similar businesses in the area that need the same goods or materials. Forming a consortium or association to purchase the goods in bulk help reduce costs and also better commercial terms like credit, delivery schedule and return policies. One could save money by negotiating discounts for bulk orders and sharing transport costs. In fact, in some communities, buying centre or business associations order goods and materials from suppliers in bulk to save on costs. Check about such a centre or association in nearby block or town.

The quotation you request from the supplier should contain the following information.

- What are the various kinds of goods, materials or equipment each supplier can offer
- Can that supplier provide quality and quantity that the enterprise needs?
- What is the smallest amount that can be bought?

It is a good practice to mention clearly both the prices and terms of payment. Such as whether the payment has to be made in cash or on credit, the amount of credit extended, discount offered on cash payment and large quantities and the amount of discount.

Terms of delivery:

- What are the delivery terms? Will the supplier deliver to your premises?
- What is the delivery schedule after placing the order?
- What is the transportation cost? Is the delivery free of cost or the transportation charges are additional?

It is best to send an enquiry in writing either through a letter or an e-mail. The reply in the form of written quotation is a proof in case of situation of conflict between you and your suppliers.

Step 5: Negotiate the terms and conditions and proceed to choose the best suppliers

Negotiation is an important skill in any business. A quotation is an answer to the enquiry. Quotations are compared to evaluate the terms and conditions of the different suppliers. Based on the comparison of quotations, suppliers are invited to finalise the deal.

One of the goals of purchasing well is to acquire goods at the best price, while ensuring that the business requirements for delivery time, warranties, payment terms and quality are met. During negotiations an entrepreneur would include the possibility of returning any unsold items within a specific timeframe. This type of agreement is common especially with perishable goods. Such an agreement enables the enterprise to refresh its goods and services when they expire. It is a good practice that once the deal is negotiated for prices, credit terms, delivery or other conditions with one supplier, the other suppliers may be asked to send a new quotation for deciding the best deal for the business.

Step 6: Sign contract and place the order

A contract is an agreement between parties, whether in writing or verbal, to participate in or not to participate in certain activities. A typical contract includes:

- The items being provided
- The schedule for delivery
- Responsibilities of both the supplier and the consumer
- Legal and regulatory compliance provisions
- Payment terms between the two parties
- Provision for resolution in case of a dispute between the two parties
- Confidentiality and non-disclosure clause
- Conditions of termination

Order is placed after selecting the supplier from whom purchases would be made. Order can be placed verbally personally or over the phone. However, it must be followed by a written order. It serves to place on record the goods ordered and a proof of the order placed as also remove any ambiguity while paying the supplier.

Step 7: Receive and immediately verify the goods

Usually the supplier sends a delivery note along with the delivery of goods or materials which needs to be signed. It is a proof that the goods have been received by you. The delivery note consists of details of the goods. Some suppliers may give an invoice instead of a delivery note. An invoice contains details of what you have bought and along with the terms and conditions of payment. When the goods are received:

- Compare the goods with the deliver note/invoice
- After that check the delivery note or invoice to ascertain that everything is as per the order for and on time

Before you sign on the delivery note/invoice, ensure the following:

- The goods ordered have been received
- The quantity ordered has been received
- Goods received are in proper condition
- The delivery in on time

Complain immediately if there is any mistake. Refrain from signing the delivery note/invoice until the problem has been resolved. For taking a corrective action:

- Immediately get in touch with the supplier Or speak to the delivery person before the individual leaves your premises
- File the complaint to the supplier in the form of a written note or put it down on the delivery note itself
- Ensure that the person delivering too put his/her signature on the note acknowledging the accuracy of the complaint. This makes matters easier to settle with the supplier

Step 8: Check the invoice and make the payment - The supplier can send an invoice:

- Before they send the goods: This means payment may have to be made before delivery is made.
- At the same time when goods are received: This means that the invoice will specify “Cash” or “COD” (Cash On Delivery). In this case payments would have to be made immediately upon receipt of the goods.
- After receipt of goods: This means that the enterprise has established credit and does not have to pay in advance or upon receipt of the goods. The invoice will designate a specific time period before the payment is due. For example, if the invoice says 20 days net, this means that one must pay no later than 20 days from the date of the invoice.

Ensure correctness of the invoice by doing a comparison of both the invoice and the delivery note. Both should have identical details of goods. Ensure that:

- All goods are received for which payment is processed
- The total amount and prices are accurate. For example, if it was negotiated with the supplier for a 10 percent discount, does the invoice include it?

In case an invoice is incorrect, check out the mistake and immediately get in touch with the supplier. Discuss the issue and resolve it immediately. In case the payment has already been made, match the invoice with the received items. In case any item is to be returned, ensure that a refund for the equivalent price of that item is received.

Paying for your goods and services

Payment is processed once the correctness of the invoice is established. Most suppliers will accept payment either in cash, by cheque, by electronic transfer or by debit or credit card. Electronic transfer of funds is usually the preferred method and often the safest method of payment, as it does not involve handling the physical cash. Encourage suppliers to adopt electronic transfers.

Material requirements planning

Material requirements planning address the question of quantity and timing of purchase of raw materials that are needed to meet the demand for the product/service required by the customer. If the material requirement is underestimated, it will lead to loss of sales. If the material requirement is overestimated, it will lead to capital being locked up in the form of inventory. The steps in material requirements planning are detailed below:

- a) Estimate demand for the final product – The first step in materials requirements planning is to estimate the demand for the product that is being offered. The requirement of raw materials is calculated based on the demand for the final product.
- b) Generate a bill of materials (BoM) for the product – It is the list of all raw materials with corresponding quantities that are required to produce one unit of the final product.
- c) Estimate the requirement of raw material to produce one unit of the final output and determine the demand, and scheduled receipts if any.

Example

Ravi has a demand of 1000 soaps every month. The raw material needed for producing one unit of soap is given in Table - 1. Estimate the quantity of raw materials he will need to purchase every month. Also estimate the total cash that he will need to purchase the raw materials.

Solution

Estimate demand - Demand for the soaps is 1000 per month

Bill of materials - Bill of materials is given in Table 1.

Estimation of raw materials required and cash required to purchase them is given in Table 1.

Raw Material	Quantity per Soap	Total Quantity for 1000 Soaps	Rate per unit of Raw material	Total Cost (In Rs)
Sodium Hydroxide	50 ml	50 L	Rs. 100 per Litre	5000
Coconut Oil	50 ml	50 L	Rs. 60 per Litre	3000
Talc	10 gm	10 Kg	Rs. 250 per Kg	2500
Perfume	5 ml	5 L	Rs. 500 per Litre	2500
Natural Colour	10 gm	10 Kg	Rs. 300 per Litre	3000

Capacity Requirement Planning (CRP) :

It is the process of determining the number of personnel along with the equipment needed to meet the requirement for the final product. If capacity is underestimated it will lead to loss of sales. If capacity is overestimated it will lead to higher costs due to under-utilization of capacity.

- Estimate demand for the final product - The first step in capacity requirement planning is to estimate the demand for the product that is being offered. The requirement of personnel and machinery is calculated based on the demand for the final product.
- Estimate the capacity of personnel and machine - How many products can a person/machine produce in a given time frame.
- Estimate the requirement of personnel and machinery based on demand for the product and production capacity of personnel and machinery.

Example

Ravi has a demand of 1000 soaps every month. He has estimated the production capacities of personnel for soap making and machinery required for cutting the soap into proper shape. Estimate the total number of personnel and machines that Ravi will need to hire/purchase. Assume that there are 20 working days in a month.

Resource	Capacity
Person	10 soaps per day
Soap cutting machine	20 soaps per hour

Solution

Estimate demand - The demand is 1000 soaps per month

Production capacity of resources – Given in Table 3

Requirement of resources is calculated in Table 4

Resource	Capacity	Total production in a month	Number of resources needed to meet demand
Person	10 soaps per day	220 Soaps (10 soaps x 22 days)	5 person (1000 soaps/220 soaps per person)
Soap cutting machine	20 soaps per hour	3520 Soaps (20 soaps x 8 hrs x 22 days)	1 machine (1000 soaps/3520 soaps per machine)

Inventory Management : Inventory is made up of raw materials, work-in-process and finished goods stock of an enterprise. Inventory management is important for a firm for two reasons:

- Right inventory is needed for sales growth – Lack of inventory will affect the ability of a business to meet the demand from the customer.
- Right inventory is needed to reduce the costs – Stocking more than what is needed will increase the cost of doing business.
- Sales loss if sufficient inventory is not kept
- Safety level for meeting uncertainty in demand. Safety stock should be maintained to meet sudden increase in demand and/or missing a supply run.

The right inventory level is decided after considering the following factors:

- Purchasing cost of inventory should consider following to reach at inventory level:
 - Time and transportation costs
 - Price discounts on bulk purchases
- Holding cost: The cost of holding inventory includes
 - Interest on capital
 - Spoilage of inventory
 - Other maintenance costs

Example

Ravi has two options for buying sodium hydroxide for his soap manufacturing unit. Which option should he choose?

- Option 1: Buy 50 liter pack, just enough to meet his monthly demand. He transports the pack on his scooter and his petrol cost for purchasing is Rs. 200/-.
- Option 2: Buy 100 liter pack, enough to meet demand for two months. He can transport the pack on his scooter and his petrol cost remains the same as in the previous case, Rs. 200. Sodium hydroxide can be stored for months without any wastage. But he has to pay interest on working capital at 2%. The price of sodium hydroxide is Rs. 100 per liter.

Solution:

For option 1, the holding cost is zero and purchasing cost is Rs. 200. So the total cost of sodium hydroxide would be Rs. 4 per liter. For option 2, purchasing cost is Rs. 200, while

holding cost, i.e. interest on working capital is Rs. 100 (2% of Rs. 5000). The total cost is Rs. 300, and per unit cost is Rs. 3 per liter. Since the cost per liter is lower for option 2, Ravi should go for purchasing 100 liter packs instead of 50 liter pack.

How to manage stocks

Stock management includes the following aspects:

- Maintaining materials and products in a good condition
- Keeping records of the quantity of stock and condition
- Keeping sales and purchase records of products and working materials
- Creating visibility through advertisement of existing products
- Safeguarding items in an appropriate place with regular control
- Ordering in time new working materials and paying attention to the delivery periods, in order to avoid stock out

Forecast and Inventory Order

Enterprises need to order new inventory to replenish what they have used, Persson in-charge of inventory tries to maintain balanced inventory. This implies placing enough order, to ensure that working material is always in adequate quantity to meet market demand or manufacturing requirements. However, simultaneously, care is exercised to prevent over ordering or ordering too soon which would lead to excessive stock on hand increasing the storage and handling costs.

Enterprises find the amounts and optimal times to reorder inventory in situations of regular and predictable inventory usage. They use **Economic order quantity (EOQ)** model for ordering.

Optimal Reorder Point and Reorder Quantity

The **reorder point** should be first calculated. Then calculate the optimal reorder quantity that indicates the stock level (in units) when a need for reordering arises. For calculating the reorder point many points need to be considered:

Usage rate Daily: It refers to the amount of units used up per day. (e.g., sold)

Lead time: It refers to the time period between placing and receiving the order for new inventory. This is specified in terms of days.

Lead time demand:

It refers to the number of units that will leave inventory during **order lead time**. Lead time demand is computed as:

Lead time demand = Daily usage rate * Order lead time.

Safety Stock:

It refers to placing an order for units in addition to lead time demand. This helps to maintain a safety factor. It ensures availability in case lead time demand is higher than forecast.

A lead time example, the lead time between the placement of an order and delivery of a new car from a manufacturer may be anywhere from 2 weeks to 6 months.

Reorder Point Computation with an illustration

Following assumptions could be made:

- Usage rate daily: 25 units per day
- Order lead time: 14 days
- Safety stock: 150 units (6 days' supply as per the current daily usage rate)

With these factors, the reorder point (in units) is:

$$\begin{aligned} & (\text{Daily usage rate}) \times (\text{lead time days}) + \text{Safety stock units} \\ & = \text{Lead time demand} + \text{Safety stock} \\ & = 25 \times 14 + 150 \\ & = 500 \text{ units} \end{aligned}$$

Hence, when the current inventory level falls to 500 units the enterprise should plan replenishment by placing an order

The Optimal Order: Economic Order Quantity EOQ

What is the number of units the firm should place an order for? This answer is provided by The **economic order quantity model**.

The EOQ model is used to calculate the order quantity that minimizes the **total relevant cost**. In other words, it is the total cost of placing orders and holding goods. The EOQ model computes this quantity by using several interacting factors.

A = Unit demand for a year

Assume for the example A = Daily usage rate x 365 = 25 X 365 = 9,125 units

Cp = Cost to place one order

Assume for the example Cp = Rs 40

Ch = Cost to hold one unit for one year

Assume for the example Ch = Rs 20

Economic Order Quantity EOQ Calculation

The above example indicates a reorder point of 500 units. The enterprise reorders when inventory goes down to this level, The objective here is to order the optimal quantity—which mean an order size that keeps the total relevant costs minimum. The Economic order quantity (EOQ) is calculated with the formula as under.

$$EOQ = \sqrt{(2 \times A \times C_p) / C_h}$$

Using the example figures for A, Cp, and Ch, above, the EOQ is calculates as:

$$\begin{aligned} & (2 \times 9,125 \times 40) / 20 \\ & = 1,91 \text{ units} \end{aligned}$$

Safety Stock Ordering

The example above calculates the reorder point using a safety stock of 150 units. Here, the enterprise chooses to order safety stock to cover an extra 6 days usage (at the current daily usage rate).

Reorder point include safety stock figures to safeguard against the high cost of "stocking out" while waiting for arrival of new inventory. Accurate and detailed knowledge of the enterprise's operations and inventory needs are necessary to arrive at the optimal safety stock level.

Special inventory terms for Safety stock estimates like:

Buffer : It means the safety stock added to guard against out of stock from fluctuated statistical variation in daily usage. These fluctuations could be a result of normal statistical variability, seasonal cycles, etc.

De-coupling : This refers to the inventory that permits different work centers or groups to independently operate.

Anticipation : This is safety stock that foresees interruption in future demand or supply.

Pipeline : This refers to extra safety stock keeping in mind that inventory goods cannot be moved immediately.

Exercise

Circle the correct or best ending for each sentence.

1. While buy machines and other equipment one must...
 - a. Sell the machines you already have
 - b. Buy the same machines your competitors have
 - c. Find out if service and spare parts are available locally
2. You want to buy new types of goods to sell in your store. Before you decide what goods to buy, the first thing to do is to find out...
 - a. What goods your customers want
 - b. What goods suppliers can offer you
 - c. How much it costs to make your storage area larger
3. When you select a service provider or someone to do outsourcing, the most important information you should have is...
 - a. Their customers
 - b. Their size and production capacity
 - c. Their skills and experience
4. Buying well can help your business ...
 - a. Reduce costs
 - b. Keep costs unchanged
 - c. Sell at a higher price than other businesses
5. A written order is better than a spoken order because...
 - a. It is a neater way to order
 - b. It is a quicker way to order
 - c. It is proof that you made an order
6. Verify the goods against the delivery note or the invoice
 - a. When you count your stock at the end of the week or at the end of the month
 - b. Immediately when you get the goods
 - c. When you make your order

7. Your supplier delivers coffee. It is listed on the invoice, but you cannot remember if you asked for it. To find out, check the...
 - a. Order
 - b. Quotation
 - c. Receipt
8. If a supplier sends you damaged goods, you must immediately...
 - a. Give the supplier a bad reputation
 - b. Complain and then discuss with the supplier to solve the problem
 - c. Lower the price to your customers and advertise the goods
9. COD means that you must pay...
 - a. By cheque
 - b. When the goods are handed over to you
 - c. Within 30 days

What do you mean by stock?

Stock control is the next step. After purchased the goods, you received them, but you may not use or sell them immediately. Keep them as stock and you have to control your stock well.

Stock is (a) all the goods your business has for sale and (b) all the raw materials or spare parts your business keeps and uses to make goods or provide services. Different types of businesses have different types of stock. Here are some examples:

Retailer

The stock for a retailer is the goods and materials the business buys from other businesses and keeps to resell. The stock for a computer and mobile phone shop includes the computers, the phones and the accessories such as computer parts, chargers, earphones.

Manufacturer

The stock for a manufacturer consists of (a) the raw materials and parts the business uses to make goods for sale and (2) the finished goods that have not yet been sold. The stock for a milk processing plant includes raw milk delivered by the farmers, packaging, additives, straws and labels.

Service provider

For a service provider, stock is the materials or goods the business buys to use to provide a service. The stock in a beauty salon includes shampoos, conditioners, scissors, braids, and hair products.

What is stock control?

- 1. Keep a record of your stock :** Record in writing all goods or materials entering or exiting from your business
- 2. Maintain stock storage :** Maintain the right amount of stock in a safe and practical manner
- 3. Organize your stock :** Organize the stock so that it appeals to consumers to purchase and is convenient and easy for you to see and count

4. Stock checking : Often check the stock for good condition and count it to ensure nothing is missing stock

5. Stock Reorder : Reorder the right stock, in the right quantity at the right time

How can stock control improve your business?

1. Stock control ensures maintaining the right quantity of stock - neither too little or nor too much
2. Stock control enables to take a decision on what goods to sell
3. Stock control indicates the reorder quantity
4. Stock control shows the time to reorder
5. Stock records indicates if the enterprise is losing stock

Stock control methods

There are many methods for stock controlling intended to provide a well-organized system for deciding what to order, when to order and how much to order. One has the option for choosing one method or a combination of two or more depending on the varieties of stock.

Minimum stock level : It means identifying a minimum stock level, and re-ordering when the stock reaches that level. This is called Re-order Level.

Stock review - It refers to a regular stock appraisal. With every review an order is placed to bring the stocks to a predetermined level.

Just In Time : It aims to reduce costs by reducing the stock level to a minimum. Goods are delivered as and when needed and used promptly. This method has an inherent risk of getting into an out of stock situation. Hence one needs to have confidence that the suppliers will be able to deliver on demand.

The stock control system can be improved using these methods along with other methods. Such as:

Re-order lead time : It permits for the gap between placing an order and receiving it.

Economic Order Quantity (EOQ) - It denotes the mathematical formula which is used to determine stock balance, between holding too much or too little stock. Since It is a complicated exercise, you may find it convenient to use a stock control software.

Batch control : It refers to scheduling the manufacturing of goods in lots. For this you need to ensure that you have the adequate raw materials to fulfil your requirements until the next lot. If you have foreseeable needs, you have two options. One is to order a fixed quantity every time you place an order, two place order at a fixed period of time such as either weekly or monthly. Since you are placing a standing order, need to constantly monitor the quantities and prices.

First in, first out : It is a method that ensures the first usage of perishable stock so that it does not get spoilt. All stock items are arranged in the order of date received and is strictly used accordingly in production.

Keep stock records : Stock records refer to written records of the stock amount that enters and goes out of a business. Stock records explain:

- What are the goods or materials that have been sold or used?
- What is the quantity of each type of goods or materials that have been sold or used?
- When were the goods or materials sold or used?
- What is the quantity of goods or materials in the stock?

Stock taking – It is a system of physically checking and counting the items. It enables to check the stock status. Stock taking provides a lot of useful information. For example, on counting, one may find out:

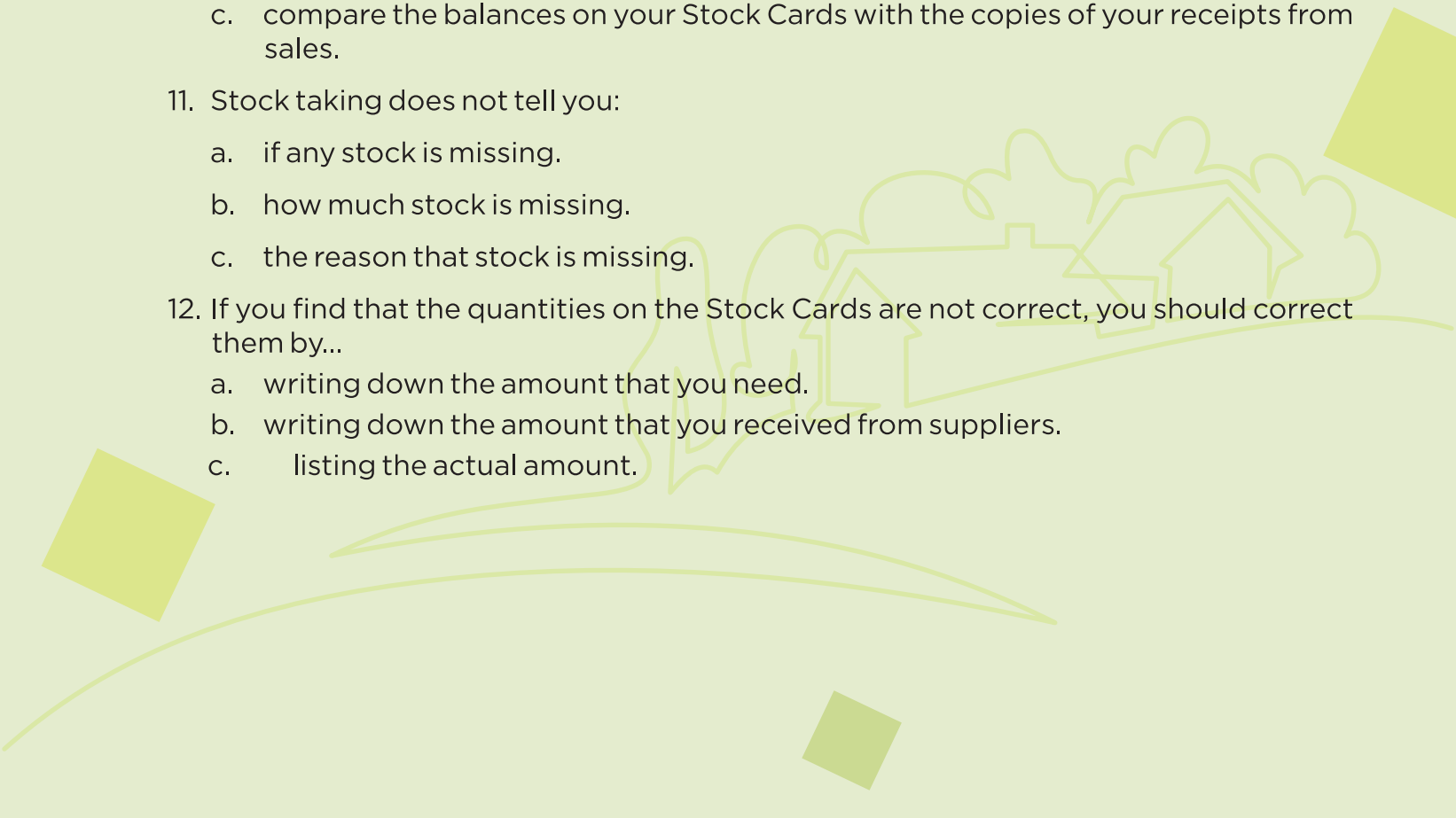
- The condition of the stock - damaged or in poor condition
- The time to reorder based on which goods sell quickly or slowly
- If stock is missing.

When should you conduct stock taking?

You need to determine the appropriate day and time best suited for stock taking for your enterprise. It should be kept in mind that it is not good for your business to close for stock taking. When you close business you are not selling or producing. Customers may get annoyed and go to your competitors. It is better to do stock taking after your business closes for the day.

Circle the correct or best ending for each sentence.

1. Stock control is important...
 - a. Only for retailers.
 - b. Only for manufacturers.
 - c. For all businesses.
2. It is bad for your business to over-stock. This may cause...
 - a. your suppliers to complain that the payments are not made on time.
 - b. some stock to expire or become obsolete before being sold.
 - c. your money to be tied up in the stock, while borrowed money accrues interest charges.
3. A good way for store owners to improve their stock control is to...
 - a. always have goods in large quantities.
 - b. always keep their stock well arranged.
 - c. make sure that they have enough of many different types of goods so they never have to say no to a Customer.
4. Stock control helps your business to...
 - a. sell less goods on credit.
 - b. get discounts for advertising.
 - c. avoid running out of stock.
5. If you suspect that you are losing stock, your stock records will tell you...
 - a. who is stealing.
 - b. how much stock is missing.
 - c. how to solve the problem.

6. A customer complains because the shirt you sold him had stains. You give him a new shirt. This means that the balance on your Stock Card will...
 - a. be higher than before.
 - b. be lower than before.
 - c. remain the same.
 7. Your sales of lemon biscuits have increased, so you must...
 - a. increase your reorder level.
 - b. decrease your reorder level.
 - c. keep your reorder level exactly the same.
 8. Your reorder level for 2kgs sugar is 20 bags. This means that...
 - a. you need 20 bags of sugar in each order from your supplier.
 - b. you need to order more sugar when your stock of sugar falls to 20 bags.
 - c. your supplier will not sell less than 20 bags of sugar at a time.
 9. If you often run out of stock, a good way to solve the problem is to...
 - a. work out more accurate reorder levels.
 - b. buy extra stock every day from a nearby wholesaler.
 - c. always keep extra stock of all your goods.
 10. The best way to find out if stock is missing is to ...
 - a. count the stock and compare the quantities with the balances on your Stock Cards.
 - b. count the stock and compare the quantities with the quantities on your suppliers' invoices.
 - c. compare the balances on your Stock Cards with the copies of your receipts from sales.
 11. Stock taking does not tell you:
 - a. if any stock is missing.
 - b. how much stock is missing.
 - c. the reason that stock is missing.
 12. If you find that the quantities on the Stock Cards are not correct, you should correct them by...
 - a. writing down the amount that you need.
 - b. writing down the amount that you received from suppliers.
 - c. listing the actual amount.
- 

Answer of common mistakes when buying

1. The buyer from Ramesh Lungi Store Store bought a lot of the thin, silky material because the salesperson said that:
 - The price was very good.
 - The material was popular and a lot of tailors were buying it.
 - Many customers would like the material.
2. The problem with Ramesh Store's purchasing is that it does not know what its customers want. The store makes buying decisions based on what the supplier says.
3. To improve its buying, Ramesh Store must find out what the customers want before making a purchase. The store should not simply rely on the information given by the supplier. It needs to do market research. When the store buys materials, they can buy small quantities to find out if customers want the materials and are willing to pay the price for them.

Taaza papad did not buy enough flour. The business ran out of flour too often because Reena, the owner did not estimate the demand for flour properly. It takes a lot of time and costs a lot of money for transport to go to town so often.

4. If Reena of Taaza papad does not improve its buying:
 - The business will not be able to make enough papad's for the Kirana stores. Sales will go down and Reena may lose customers.
 - The increased cost of transport will lower the business profits.
 - Reena will continue wasting a lot of time when they go to buy flour so often. Sales will suffer and profits will go down.
5. The owner of Girish Smallholder Farm bought too much of one type of fertilizer and had no money left to buy the pesticides that the crops needed.
6. If Girish Smallholder Farm does not improve its buying practices:
 - The farm output will be affected as the yields may go down, which will affect profitability.
 - The crops will not meet the quality standards required by their customers. They may then lose customers and their sales and profits will decrease.

Handout - Cases for Discussion

Case 1:

Ravi decides to manufacture and sell handmade soaps in his village. The total number of households in the village is 200. Ravi decides to manufacture 2000 soaps every month. Is this a right decision? Discuss from the perspective of 'Right Quantity'.

(Assuming average of 5 members in a house, each household may require 6 soaps in a month. The demand would be 1200 soaps. Keeping inventory level of 300, he should not go for manufacturing 2000 soaps.)

Case 2:

Ravi's soaps are very hard in nature (like Lifebuoy soap). How will the villagers perceive it from the 'Right Quality' point of view?

If good quality soaps are available in this price range, his soap will not have good sales.

Case 3:

Ravi decides that instead of manufacturing & stocking soaps, he will make to order. He will manufacture soaps only if he gets order in advance from the villagers. The time taken to manufacture soap is 1 month. Discuss whether his decision is correct from the perspective of 'right time'.

He will lose his clients.

Case 4:

Ravi is producing the highest quality soaps and it is costing him Rs. 50 per soap. The other soaps available in the market are selling at Rs. 25 - Rs. 30. Discuss whether Ravi will be able to sell his soaps in the market? He will have to ensure to face the price competition within reasonable range.

Handout - Individual Assignments

1. Gita wants to set up a pickle manufacturing unit which manufactures two types of pickles - lemon and mango. She has estimated the demand for both pickles for the whole year.

The details of the raw materials needed for manufacturing both pickles are given in the table below. She also needs to employ personnel and purchase a machine for packing of pickles. The estimated productivity per person and per machine is also given. Prepare a material requirement plan and capacity requirement plan for the whole year. Assume that there are 20 working days in a month.

Table 1: Estimation of demand for mango and lemon pickles

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Mango	200	250	200	300	400	250	500	450	450	600	550	350
Lemon	50	100	75	120	80	100	75	150	150	200	125	100

Table 2: Details of raw materials required for manufacturing of pickles

Raw Material	Quantity per kg of Pickle	Rate
Mango	1.50kg	Rs. 50 per kg
Chilly Powder	350gm	Rs. 80 per kg
Salt	10 gm	Rs. 20 per kg
Oil	50 ml	Rs. 100 per litre
Others	30gm	Rs. 200 per kg

Table 3: Estimated productivity per person and per machine

Resource	Capacity
Personnel - Mango	5 kgs per day
Personnel - Lemon	2 kgs per day
Machine	20 kgs per day

- Gita has the following options for purchasing mango for her pickle making unit for the month of January. Choose the optimal option which will minimize her inventory costs:

Options for purchasing raw mangoes

- Purchase 400 kg lot. Transportation cost for bringing the lot to her unit is Rs. 1000. She knows that 20 KG (5%) of the mangoes will get spoiled if stored for more than a month. Also she needs to take a loan at 2% interest per month to purchase the raw mangoes.

Cost of Mango@ Rs 20 per kg=Rs 8000

Spoiled Mango5%= Rs 400

Cost of 380 kg Mango = 8000

Transportation=Rs 1000

Interest = 160

Inventory holding Cost = Rs 24 per kg

- Purchase 600 kg lot. Transportation cost for bringing the lot to her unit is Rs. 1400. The spoilage after a month will be 5%. She will get a discount of 5% on the rate if she purchases the mangoes in 600kg lot. She will need a working capital loan at 2% interest per month to purchase raw mangoes.

Cost of Mango 600 kg Mango@ Rs 20 per kg=Rs 12000

5% spoilage

5% discount

Effective cost for 600 kg=12000

Transportation cost= 1400

Interest = 240

Inventory holding cost= Rs 22.7 per kg



Trainer's Tips

The chapter is equally divided between Lecture, Class discussion and class exercise. Trainer should give more weightage to Class discussion and Exercise.

Exercise

1. List out products and equipment a small entrepreneur need to buy.

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2. What is buying well? Steps to follow when buying?

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3. Define Just-in-time method of stock control.

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4. What is Order lead time?

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5. Describe briefly 3 methods of stock control.

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6. Deepak manufacturers use 70,000 kgs of a particular plastic in producing the children dolls. The cost associated with placing each order is Rs. 12.25. The carrying cost of 1 kg of the plastic is Rs 1.00 per period. Calculate economic order quantity (EOQ).

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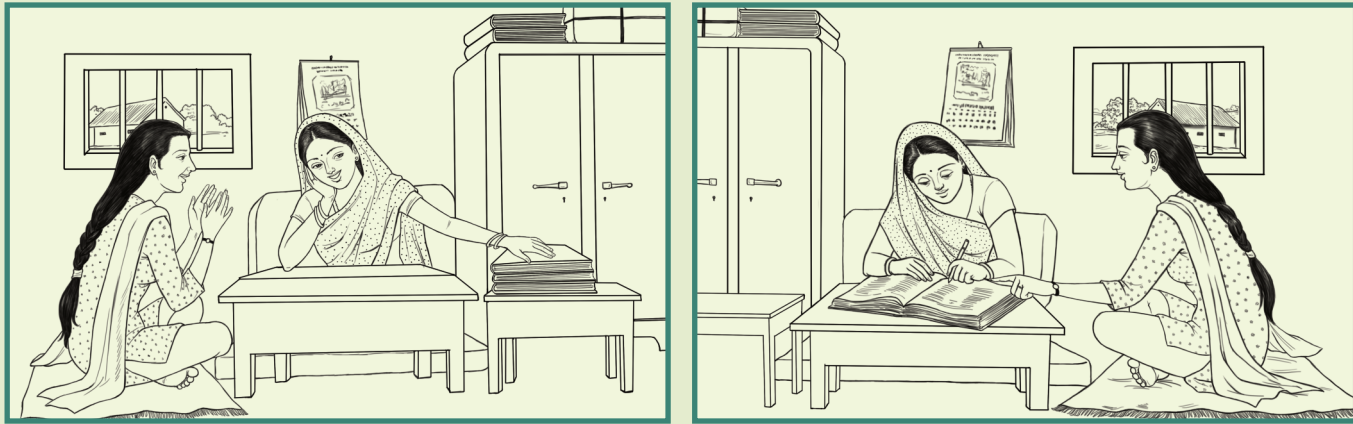
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Chapter VII

Bookkeeping and Financial Statements



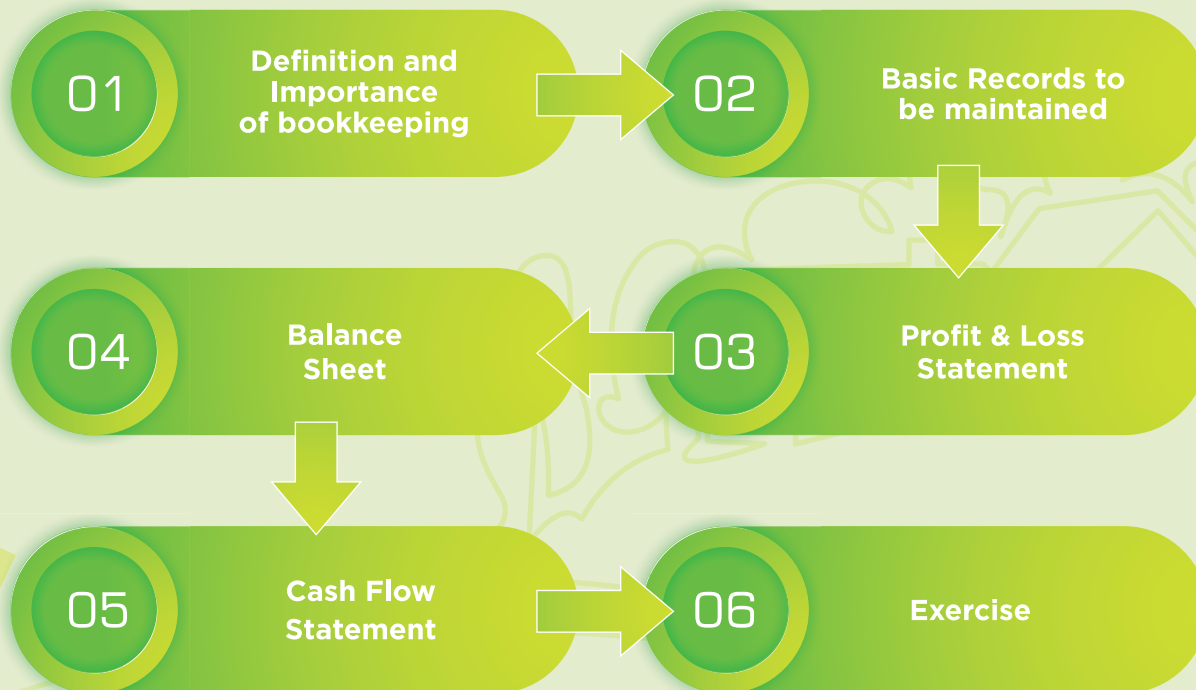
Learning Objectives

- To understand and maintain book of records needed for a small enterprise
- To understand and prepare P&L statement, balance sheet and cash flow statement

Methodology

- a. Lectures
- b. Individual assignment

Session Plan



Resource: Handout, Duster, Marker, Exercise sheet

Definition of Bookkeeping

Bookkeeping is creating a record of all business transactions such as sale of products, purchase of raw materials, purchase of fixed assets and loans taken for business.

Bookkeeping helps an entrepreneur answer the following questions:

- a. How much money has the business received?
- b. How much money has the business spent?
- c. On what items of the business the money has been spent?
- d. How much money is owed by customers to the business?
- e. How much money do the suppliers owe to the business?
- f. How much profit has the business generated?

In which manner bookkeeping could be helpful to your business?

a) Why bookkeeping?

Many enterprises do not maintain a record of the amount of money that comes in and goes out of their business. This is mainly due to the lack of knowledge as to how to maintain records and ignorance that it can bring an improvement in their business. As a result, such people have no idea of the money they are earning, how much stock sales and sales on credit. Such poor bookkeeping often results in mistrust and accusations between people in the organisation. Bookkeeping is useful to maintain records and a safeguard against the carelessness of people.

b) What is the value of bookkeeping to your business?

- Helps to understand the amount of money that has been received by the business
- Helps to understand the amount of money that has been spent and the manner in which you have spent it;
- Helps to calculate whether the business is making a profit or incurring a loss;
- Enables to make improved buying and selling decisions;
- Helps to maintain records of goods bought and sold on credit and safeguards you against being cheated by people;
- You can keep a track of incoming and outgoing finances of a project. This helps to prevent misuse of funds and avoid mistrust amongst the organisation.

Bookkeeping means that you keep and maintain written records of all incoming and outgoing finances of the business.

Basic Record Books needed for a small enterprise

The seven basic records to be maintained by a small enterprise and their formats are explained in the following sub-sections.

Basic Record Books needed for a small enterprise

1. Income book
2. Expenses book
3. Creditors book
4. Debtors book
5. Stock book
6. Fixed assets book
7. Loans and Deposit book

2.1 Income Book

1. Income received from sales
2. Advance received from the customers
3. Sales made against the advance

- a. An income book is used to record the income received from sales in the form of cash/bank payments along with other sources of income. It also records advance received from the customers and the sales made against that advance. It does not capture income from credit sales. The basic format of income book is shown Table 1.

Date	Details of Transaction	Type of Transaction (Cash/Bank)	Sales (1)	Sale Against Advances (2)	Other Income (3)	Total Revenue (1)+(2)+(3)	Advance Received From Customers
1st Jan	Sales	Cash	2000	0	0	2000	
1st Jan	Advance from Ravi	Cash	0	0	0	0	2000
2nd Jan	Sales against Advance to Ravi	Cash	0	2000		2000	

Table 1: Income Book

- a. The income book will give the details of total income generated from the business for a given time period. It will also show if any advances from customers are outstanding at the end of the period.

1. What is the 7 books use in bookkeeping?

2.1 Expenses Book

- a. Expenses book is used to record the expenses incurred by the business in the form of cash/bank payments. Some of the expenses incurred by a small enterprise include purchase of raw materials, labor payments, rent for the building etc. The expenses book also captures the advance payments made to the suppliers or labour and

purchases/expenses made against advance payment made. A sample format of the expense book is shown in Table 2

2. What do you understand from Income and Expense Book?

Date	Details of Transaction	Type of Transaction (Cash/Bank)	Purchases (1)	Purchase Against Advances (2)	Money taken by Owner (3)	Other Income (4)	Total Revenue From (1)+(2)+(3)+(4)	Advance Paid to Suppliers /Labours
1st Jan	Cash taken by Owner	Cash			2000		2000	
1st Jan	Advance Payment to Wholesaler	Cash						4000
2nd Jan	Purchase from Wholesaler against advance	Cash		4000			4000	

Table 2 : Expense Book

If purchases are made for Rs 3000 against Rs 4000 advance then Rs 1000 is outstanding as on date hence a column can be added to record the outstanding advance on Jan 2.

The expense book will give the details of total expenses incurred for the business for a given time period. It will also show if any advances made to the supplier/labour are outstanding at the end of the period.

b. Note: Existing columns can be changed or additional columns can be added to capture the main expenses associated with a business.

2.1 Creditors' Book

a. Creditors are people/other enterprises to whom the business owes money or How much money is payable by business. An example of a creditor for small kirana store will be a wholesaler who gives one-month supply of grocery on credit. The details of creditors- how much credit was taken by the business and how much has been paid is recorded in the creditors' book.

b. The transactions entered in the creditors' book are listed below.

c. If multiple creditors exist for an enterprise, it is better to maintain different creditors' books to keep proper track of the amount due to each creditor.

Date	Transaction	Debt	Amount	Mode of Payment (Cash/Bank/NA)
1st Jan	Purchase of Eggs	200	0	NA
2nd Jan	Purchase of Rice	1000	0	NA
30th Jan	Purchase of Eggs and Rice	0	1200	Cash

Table 3 : Creditors' Book

2.4 Debtors' Book :

- a. Debtors are people/other enterprise(s) who owe the business money or Money receivable from other people. For example, a customer who purchased items from a kirana store on credit is a debtor for the kirana store. A debtors' book is used to record the details of all the debtors of the business as per Table 4.

Date	Transaction	Credit Sales	Amount Paid by Customer	Mode of Payment (Cash/Bank/NA)
1st Jan	Purchase of grocery - Ramesh	200	0	NA
30th Jan	Purchase of grocery - Ramesh	0	200	Cash

Table 4 : Debtors' Book

- b. If multiple debtors exist for an enterprise, it is better to maintain different debtors' books to keep proper track of the amount due from each debtor.

2.5 Stock Book

- a. Stock Book records all the inventory details of a business as per Table 5.

Date	Item Name	Opening Balance (Qty)	Purchases (Qty)	Wastages (Qty)	Sales (Qty)	Closing Balance (Qty)	Cost Per Unit	Value of Closing
		(1)	(2)	(3)	(4)	(5)=(1)+(2)+(3)+(4)	(6)	
1-Jan	Wheat	0 Kg.	100 Kg.	1 Kg.	20 Kg.	79 Kg.	Rs. 25/Kg.	1975
2-Jan	Wheat	79 Kg.	0 Kg.	0 Kg.	25 Kg.	54 Kg.	Rs. 25/Kg.	1350
3-Jan	Wheat	54 Kg.	0 Kg.	1 Kg.	20 Kg.	33 Kg.	Rs. 25/Kg.	825

Table 5 : Stock Book

2.6 Fixed Assets Book

- a. Fixed assets book keeps record of all the fixed assets purchased or sold during the operations of a business. The sample format for a fixed asset book is shown in Table 6.

Date	Transaction Details	Purchase Value (Rs.)	Sales Value (Rs.)	Bank/Cash
1st Jan	Purchase of Weighing Scale	5000	0	Cash
2nd Jan	Purchase of Packing Machine	10000	0	Bank

Table 6 : Fixed Assets Register

Loans and Deposits Book

- a. Loans and deposits book track details of all the loans received by the enterprise or amount deposited by the owner from his/her personal account into the business. The sample format for Loans and Deposits book is shown in Table 7.
- b. Note: Only the repayment of principal should be entered in the loans and deposits books. Payment of interest is an expense for the business and this should be entered in the expenses book.

Date	Transaction Details	Loan/Deposit Taken (Rs.)	Loan/Deposit Paid Back (Rs.)	Bank/Cash
01st Jan	Loan from SHG	10000	0	Bank
02nd Jan	Loan Repayment	0	1000	Cash

Table 7: Loans and Deposits Book

3. Financial Statements

3.1 Financial statements are made to determine the financial performance of a business enterprise during a given period, say during the year 2015-16.

3.2 Financial position of the enterprise indicates the position at the end of a given period say as on December 2016

3.3 Three financial statements employed to assess the financial performance and financial position of a business enterprise are:

- Profit and Loss statement indicate financial performance of a business enterprise
- Balance Sheet indicates asset and liabilities of a business at the end of a given year
- Cash flow statement indicate only cash inflows and outflows

These three statements are explained in detail in the following sub-sections.

3.4 Profit and Loss Statement

- a. A profit and loss statement (P&L) is a financial statement that summarizes the revenues, costs and expenses incurred during a specific period of time, usually a fiscal year (i.e quarterly or yearly. Simply put, the P&L statement tells if the business is making money (in profit) or losing money (in loss).

No.	Income	Amount (Rs)
1.	Total sales	30,000
2.	Other Revenue	0
3.	Total Revenue (1+2)	
4.	Direct expenses:	
5.	Material cost	7,000
6.	Labour cost	3000
7.	Overhead	2000
8.	Opening stock+ any purchase	3,000
9.	Cost of goods sold	15,000
10.	Gross Profit (8-3)	15,000
11.	Indirect expenses:	
12.	Transportation expenses	2500
13.	salaries	5,000
14.	Rent	1,000
15.	interest payment	500
16.	Other expenses like Phone, electricity,	2,000
17.	Total expenses (Direct + indirect expenses)	26,000
18.	Operating Profit/Loss	
19.	Operating net profit (3-16)	4,000
20.	Interest expense	1,000
21.	Net profit before tax	3,000
22.	Tax (if any)	300
23.	Net profit after tax	2,700

Table 8 : Profit and Loss Statement

Facilitator should explain analysis of Income & Expenditure Statement:

- How interest payment shall reduce the profitability of business activity of an entrepreneur
- If an enterprise activity is making sufficient profit, one should not go for earning daily wages.
- If an entrepreneur spends more in the beginning, it becomes difficult for him/her to repay the debt in time.
 - I. The total sales during a time period are the sum of cash sales and credit sales for that period. The data on cash sales is available from income book and data on credit sales is available from debtors' book.
 - I. The 'other revenue' for a given period can be estimated from income book.
 - II. Expenses can be calculated from the expense book. The total value of raw materials purchased on credit which are recorded in the creditors' book should also be considered as an expense.
 - III. Cost of goods sold (COGS) is estimated using the below given formula
 - IV. $COGS = (\text{Closing stock} - \text{opening stock} + \text{Purchases})$
 - V. Note that the value of stock in terms of rupee and not in terms of quantity has to be used to estimate the COGS.

The facilitator should be able to explain to link with different books

3.1 Balance Sheet

- a. A Balance sheet refers to a statement showing monetary position of a business enterprise at any specific point of time. The financial position is assessed in terms of assets and liabilities.
 - I. Assets are resources owned by the business. Such as **Cash balance, bank balance, stock of raw materials and finished goods, money owed by debtors, and fixed assets are some example of assets of a business.**
 - II. Liabilities are what the business owes to other people/enterprises. Such as share capital, loans outstanding, and amount payable to creditors are some examples of liabilities of a business enterprise.
- b. In balance sheet, the assets of a business are always equal to the liabilities of the business. Assets are further classified into two main sub-categories as listed below.
 - I. Fixed Assets which are purchased by the business for long term use and helps business earn revenue. Such as equipment, vehicles land and building etc. are examples of fixed assets.
 - II. Current Assets which are acquired by business for resale or for conversion into cash. These are normally realized in one year of acquiring the assets. Stock of raw material, money owed by debtors, cash in bank, cash in hand are some examples of current assets.
- c. Liabilities of a business are classified into three main sub-categories as listed below.
 - I. Entrepreneur's funds which are put into the business by the entrepreneur at the starting of the business or during its operations. Since the business account and personal account of entrepreneur are treated as separate in accounting,

the money given by the entrepreneur to the business has to be paid back to the entrepreneur and hence is a liability for the business.

- II. Long term liabilities are amounts which are raised as loans or deposits from other people/businesses and not payable during the current year For instance: A long term loan of 5 years raised initially for starting the business is an example of long term liability.
- III. Short term liabilities are amounts which are raised as loans or deposits from other people/businesses and are payable during the current year. Short term loans of 6 months taken from SHG or credit availed from suppliers of raw material for 2 months are examples of short-term liabilities.

A detailed balance sheet will help to understand more as below

- d. The sample format of a **business plan**.
 - I. The details of owner's funds and outstanding long- term loans can be obtained from the loans and deposits book. The details of creditors can be obtained from creditors' book
 - II. Net profit is obtained from the P&L statement
 - III. Fixed assets' value is obtained from the fixed assets register.
 - IV. Inventory value is obtained from stock book.
 - V. Debtors' details are obtained from debtors book
 - VI. Cash in hand is estimated by assessing the cash inflows and outflows from all the seven books maintained by the business.

Example of a Balance Sheet as at the end of the first year

Assets	In Rupees
Current Assets:	
Cash	23000
Raw materials Inventory	26000
Work-in-process Inventory	600
Finished Goods Inventory	15000
Accounts receivable	16800
Total Current Assets	81400
Fixed Assets:	
Land	4000
Building	20000
Machinery + Equipment	9000
Office Equipment	1000
Less : Accumulated Depreciation	-3400
Net Fixed Assets	30600
Other Assets	
Pre-operating Expenses	
Total Assets	112000
Liabilities	
Current Liabilities	
Long-term Liabilities	
Loans payable	4000
Total current Liabilities	4000
Long-term Liabilities	
Loan payable	52000
Total Liabilities	56000
Owner's Equity:	
Beginning Capital	27000
Add : Net Profit after Tax	29000
Less: Withdrawal / Dividends	
Total Owner's Equity	56000
Total Liabilities and Equity	112000

Table 9 : Recording Liabilities and Assets

Exercise on Types of Accounts

In the table below indicate for each account, what type of an account is it? whether it is an asset, liability, expense, revenue or ownership equity. In each case there is only one correct answer. Indicate your answer with a tick mark.

Account	Asset	Liability	Expense	Revenue	Ownership
Advertising Expenses					
Bank Charges					
Bank Loan					
Telephone Charges					
Creditor					
Cleaning Charge					
Donations Received					
Debtors					
Depreciation					
Electricity and Gas					
Fundraising Income					
Fixtures and Fittings at Cost					
Provision for Depreciation on Fixtures and Fittings					
Internet Charges					
Interest Paid					
Insurance					
Interest Earned					
Motor Vehicles at Cost					
Premises at Cost					
Postage					
Printing					
Provision for Depreciation on Motor Vehicles					
Rent Paid					
Purchases					
Rent Received					
Repairs and Renewals					
Salaries					
Sales					
Sponsorship Receipts					
Stationery					
Stock					
Government Grant Received					
Taxes Paid					

3.1 Cash Flow Statement :

- a. It is the financial statement which displays all the cash inflows and outflows for a business during the year. The cash flow statement does not capture the non-cash transactions like credit sales and purchases made on credit.

Cash flow statement is prepared by looking at three components of a business through which cash enters or leaves the business.

Cash flow from operations	Cash flow from finance	Cash flow from investing
Cash Inflow	Cash Inflow	Cash Inflow
sales of final products and payments to creditors	Receiving loans/deposits	interest received from investments
Payments by debtors,		Sale of fixed assets.
Cash outflows	Cash outflows	Cash outflows
Purchases of raw materials	Payment of loan installments and interest	purchasing of fixed assets
Labor cost	-	investing money in fixed deposits
Related to other expenses like transportation expenses, and rent.	-	Publicity/promotion

Some strategies for generating a positive cash flow is given below:

- Step up the sales which means increase the number of items sold
 - Raise the price of goods in sync with competitors
 - Reduce expense
 - Save Money to have sufficient opening balance (use marble game)
 - Obtain other sources of cash other than sales
 - Buy inventory at lower price by buying in bulk
 - Set up policy to get paid soon from customers/debtors
- I. Cash flow from financial activities: Cash flow from financial activities includes cash inflow on receiving loans/deposits and cash outflows on payment of loan installments and interest.
 - II. Cash flow from investing activities: Cash flow from investing include cash outflow on purchasing of fixed assets and investing money in fixed deposits/chit funds. Cash inflow in the form of interest received from investments or through sale of fixed assets
- c. A sample cash flow statement is shown in Table 10.

Opening Cash Balance	5000
Cash Flow from Operating Activities	
Cash sales (1)	10000
Cash received from debtors (2)	2000
Total inflow (3) = (1) +(2)	12000
Wages paid (4)	1000
Cash paid to creditors (5)	5000
Expenses paid in cash (6)	3000
Total cash outflow (7) = (4)+(5)+(6)	9000
Net cash flow from operating activities (8) = (3)- (7)	3000
Cash Flow from Investing Activities	
Inflows (9)	0
Purchase of Weighing scale (10)	5000
Net cash flow (11) = (8) - (10)	-5000
Cash Flow from Financing Activities	
Loan received (12)	10000
Loan repayment (interest + principal) (13)	1000
Net cash flow from financing activities (14) = (12)-(13)	9000
Net cash flow from operating, investing and financing activities (15)=(8)+(11)+(14)	7000
Closing Cash balance (Opening cash balance + Net cash flow)	12000

Table 10 : Cash Flow Statement

All details of all the cash inflows and outflows activities are recorded in the seven books of accounts maintained by the enterprise.

Learning points:

- Profits have three components which are spending, savings and investing in business. For example, making more investment in your business means more expansion
- For a startup, each element has a cost attached to it. For example lower the cost, the better it is for the business growth.
- Stock is an important aspect of the business cycle and the business profitability depends on stock quality, its quantity, price and storage facility. .Most importantly, stock wastage can reduce your profitability.
- If outstanding dues of credit sales are not recovered within due date, it increases the likelihood of bad debt which might result in business loss.
- Using profits for building skills and adopting innovation which is not an expense but considered as an investment.
- Proper bookkeeping is the foundation for all financial management
- Profit and Loss statement is the best tool for finding out the profitability of your business

Delivery

1. Lecture (30 minutes)
Explain the definition and importance of book keeping using information given in section 1 of content section.
2. Lecture (3 hours and 30 minutes)
Explain the different books to be maintained using the examples provided in section 2 of content section.
3. Lecture (1 hour and 30 minutes)
Explain the concept of financial statements and profit and loss statement using information and example given in sections 3.1 to 3.5 of Content section.
4. Lecture (1 hour and 30 minutes)
Explain the concept of balance sheet using the information and example given in section 3.6 of Content section.
5. Lecture (1 hour and 30 minutes)
Explain the concept of balance sheet using the information and example given in section 3.7 of Content section.
6. Individual Assignment (1 hours 30 minuter)
Distribute the Handout - Individual Assignment for completion.

Handout - Individual Assignment

The details of all transaction for a small kirana store for the first fifteen days of January are listed below.

Create all the necessary books and prepare all three financial statements.

Date	Business Transaction
01-Jan	Rs. 10000 Loan given in cash by SHG for the enterprise. Own cash of Rs. 10000 put into the business
02-Jan	Storage containers worth Rs. 7500 for storing grocery items purchased on cash
02-Jan	Purchase of 100kg of grocery items worth Rs. 10000 made on cash. Transportation costs of Rs. 600 incurred.
03-Jan	Cash Sales of 10kgs of grocery made for Rs. 1200. Credit sales of 2kg at Rs. 240
04-Jan	Cash Sales of 20kgs of grocery made for Rs. 2400. Credit sales of 3kg at Rs. 360
05-Jan	Cash sales of 30 kg of grocery made for Rs. 3500. Credit sales of 3 kg at 360
06-Jan	Cash sales of 20 kg of grocery made for Rs. 2400. Rs. 720 repaid by creditors.
07-Jan	Purchase of 80 kg of grocery items worth 8000 made on credit from wholesaler. Transportation costs of Rs. 500 incurred
09-Jan	Cash sales of 25 kg of grocery made for Rs. 3000. Rs. 240 repaid by creditors
10-Jan	cash sales of 30 kg of grocery made for Rs. 3600. Credit sales of 5 kg made at Rs.
11-Jan	Cash sales of 25 kg of grocery made for Rs. 3000. Rs. 300 repaid by creditors. Credit sales of 3 kg made at Rs. 360
12-Jan	Purchase of 120 kg of grocery items worth Rs. 12000 made on credit from wholesaler. Rs. 5000 paid to wholesaler against old dues.
13-Jan	Cash sales of 35 kg of grocery made for Rs. 4200 Rs. 500 repaid by creditors
14-Jan	Wages of Rs. 1000 taken out
15-Jan	Rs. 500 paid as rent for the shop building

Cash Flow- Case study

Manjula' Papad making business:

Manjula is having a Papad making business. The analysis of financial transactions showed different business activities during the four days of the papad making business.

Basic information of the business

Name: Manjula

Business : Papad making and selling

Persons associated with business :

Owner : Manjula

Helper : Ramu

Customer : Jashoda

Meena, Savitri who purchase the papad from the shop.

Working time :3 hours

First day:

- In the beginning of first day, Manjula had Rs.1000 in the bank account and Rs.500 cash on hand.
- Manjula sold papad of Rs.300 to Meena.
- Manjula paid Rs.200 to Jashoda because she returned the goods.
- Manjula sold the goods of Rs.200 on credit to Jaya, which she will be pay after 3 days.
- Manjula paid telephone bill of Rs.200/-
- Manjula made salary payment of Rs.1000 to Ramu.
- Manjula sold the goods of Rs.500 on credit to Savitri, which she was to pay next day.

Second day:

- Manjula sold papad for Rs.300 to Jaya in cash.
- Manjula purchased flour of Rs.1000 on credit from the vendor. She will pay that amount on the fourth day.
- Manjula sold 100 packets of papad for Rs.3000 to the customers.
- Manjula had given Rs.200 on credit to Jashoda.

Third day:

- Manjula got Rs.5000 from her uncle on her birthday.

Fourth day:

- Manjula brought a mobile for Rs. 5000/-
- Manjula gave credit of Rs.1000/- to Jashoda. She will repay after five days.

Cash Flow :

Cash flow	First day	Second day	Third day	Fourth day	Fifth day
Opening balance		100	3700	8900	1900
Cash	500				
Bank	1000				
Sale in cash	300	300 +3000 =3300			
Sale on credit		500	200		
Balance Amount					1000
Others Income			5000		
Total Income	1800	3900	8900	8900	2900
Purchase on cash					
Payable account	200			1000	
Personal Expenses		200	5000 +1000 = 6000		
Salary	1000				
Loan payment to bank					
Rent	500				
Total Expenses	1700	200			
Closing balance	100	3700	8900	1900	
Income & Expenditure					

Reflection : The case study shows cash flow in small business unit. Participants will understand the day to day activity of small enterprise in a village

Exercise :

- The financial statement that records the revenues and expenses for a period of time either yearly or monthly is the**
 - Income Statement
 - Balance Sheet
 - Statement Of Cash Flows
 - None of these
- Revenues minus expenses equals:**
 - Net Income
 - Net Loss
 - Annual Income
 - Annual Loss

- 3. Company owned resources (like equipment, cash, accounts receivable, vehicles) are recorded on the balance sheet and are referred to as**
- A. Assets
 - B. Income
 - C. liabilities
 - D. none of these
- 4. Amounts owed are recorded on the balance sheet and are referred to as**
- A. Cost
 - B. Income
 - C. Liabilities
 - D. Loss
- 5. Liabilities frequently have the wordin their account title.**
- A. payable
 - B. receivable
 - C. revenues
 - D. none of these
- 6. What is the minimum number of accounts do accounting entries involve?**
- A. 1
 - B. 2
 - C. 3
 - D. 4
- 7. Assets minus liabilities are equal to:**
- A. Profits
 - B. Owner's equity
 - C. Losses
 - D. None of these
- 8. When cash is received, in books of account cash will be**
- A. Credited
 - B. Debited
 - C. Increased
 - D. Reduced
- 9. Expense entries like Rent are usually**
- A. Debits
 - B. Income
 - C. Loss
 - D. Credits
- 10. Which of the following describes Capital Expenditure?**
- A. Cost to buy non-current assets -
 - B. Cost to operate non-current assets
 - C. Cost to repair and maintain
 - D. Recorded in Income Statement



The Institute

The Entrepreneurship Development Institute of India (EDII), Ahmedabad was set up in 1983 as an autonomous and not-for-profit Institute with support of apex financial institutions - the IDBI Bank Ltd., IFCI Ltd., ICICI Bank Ltd. and State Bank of India (SBI). The Government of Gujarat pledged twenty-three acres of land on which stands the majestic and sprawling EDII Campus. EDII began by conceptualising Entrepreneurship Development Programmes (EDPs), and subsequently launched a fine tuned and a tested training model for New Enterprise Creation, popularly known today as EDII-EDP model. EDII moved on to adopt the role of a National Resource Institute in the field, and today, together with three other exclusive national institutions, it is successfully backing about 12 state level entrepreneurship organizations by human resource development and by sharing research findings, new teaching techniques & learning material. Today this effort has also been broad-based internationally with Entrepreneurship Development Centres in Cambodia, Laos, Myanmar, Vietnam and Uzbekistan, in addition to efforts in the process, in select African countries.

To enhance the impact of EDPs, the Institute, over the years, introduced the several development models. While the informal sector was majorly brought into the ambit of activities, rural and urban poverty alleviation also became a priority with the models getting widely replicated. EDII designed integrated programme for start-ups (Village Entrepreneurship) is being replicated nationally. EDII conducts a variety of programmes and projects under the Departments of Entrepreneurship Education; Policy Advocacy, Knowledge and Research; Projects; Business Development Services & National Outreach and Developing Economy Engagement.



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