



## DEPARTMENT OF EDUCATION

### GRADE 11 BUSINESS STUDIES

#### MODULE 3 BUSINESS START-UP AND MANAGEMENT



## FODE DISTANCE LEARNING



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## **GRADE 11**

## **BUSINESS STUDIES**

## **MODULE 3**

## **BUSINESS START-UP AND MANAGEMENT**

**TOPIC 1: BUSINESS AND IMPLICATIONS FOR MANAGERS**

**TOPIC 2: ASSESS YOUR FINANCIAL SITUATION**

**TOPIC 3: BUSINESS PLAN**



### **Acknowledgements**

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**DIANA TEIT AKIS**

PRINCIPAL



Flexible Open and Distance Education  
Papua New Guinea

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Papua New Guinea

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## SECRETARY'S MESSAGE

Achieving a better future by individual students, their families, communities or the nation as a whole, depends on the curriculum and the way it is delivered.

This course is part and parcel of the new reformed curriculum – the Outcome Base Education (OBE). Its learning outcomes are student centred and written in terms that allow them to be demonstrated, assessed and measured.

It maintains the rationale, goals, aims and principles of the National OBE Curriculum and identifies the knowledge, skills, attitudes and values that students should achieve.

This is a provision of Flexible, Open and Distance Education as an alternative pathway of formal education.

The Course promotes Papua New Guinea values and beliefs which are found in our constitution, Government policies and reports. It is developed in line with the National Education Plan (2005 – 2014) and addresses an increase in the number of school leavers which has been coupled with a limited access to secondary and higher educational institutions.

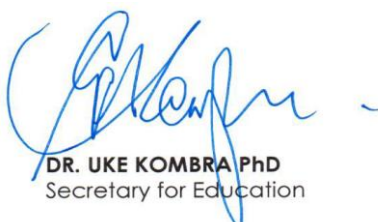
Flexible, Open and Distance Education is guided by the Department of Education's Mission which is fivefold;

- to facilitate and promote integral development of every individual
- to develop and encourage an education system which satisfies the requirements of Papua New Guinea and its people
- to establish, preserve, and improve standards of education throughout Papua New Guinea
- to make the benefits of such education available as widely as possible to all of the people
- to make education accessible to the physically, mentally and socially handicapped as well as to those who are educationally disadvantaged

The College is enhanced to provide alternative and comparable path ways for students and adults to complete their education, through one system, many path ways and same learning outcomes.

It is our vision that Papua New Guineans harness all appropriate and affordable technologies to pursue this program.

I commend all those teachers, curriculum writers and instructional designers, who have contributed so much in developing this course.



DR. UKE KOMBRA PhD  
Secretary for Education



## STUDY GUIDE

- Step 1: Start with Topic 11.3.1, study the first sub-topic notes and do the Learning Activities as you go along. Turn to the back of your module to correct the answers of your learning activities.
- Step 2: When you have completed the first sub-topic notes, then, you can move on to the next subtopic. Continue to do the Learning Activities as you go along. Turn, to the back of your module to correct the answers of your learning activities.
- Step 3: If you make any mistake, go back to the notes in your module and revise the notes well and try to understand why you gave an incorrect answer.
- Step 4: After completing your topic 11.3.1, then complete the Topic Test in the Assessment Book.
- Step 5: Go to Topic 11.3.2 and repeat the same process in steps 2, 3 and 4 until you complete our second topic. You will also repeat the same process until you complete our three (3) topics.
- Step 6: After you have completed your three (3) topics, do also the Module Examination in the Assessment Book.
- Step 7: Check through your Assessment Book, when you are satisfied, then submit your Assessment Book to your Provincial Centre for marking.

### Study Schedule

Here is the Study Schedule. It will guide you to complete your module and its assessment.

WEEKS	TOPICS/SUBTOPICS	ASSESSMENT	COMMENTS
1-3	Topic 11.3.1	Topic 11.3.1 Test	
4-	Topic 11.3.2	Topic 11.3.2 Test	
6-8	Topic 11.3.3	Topic 11.3.3 Test	
9		Module Examination	
10	Submit your Assessment Book 1 to your Provincial Centre for marking.		

### Remember

**As you complete each lesson, tick the box on the content's page. This shows what you have done and what you still have to do each Topic.**

**All the best and enjoy your studies with FODE- Business Studies.**



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## MODULE 11.3 BUSINESS START-UP AND MANAGEMENT

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### MODULE INTRODUCTION

In this module you will focus on establishing and improving your own business. The unit introduces you to practical approaches necessary to start and manage an appropriate small-scale business. Through this unit you understand management as an important process that involves planning, organising, leading and controlling. You will undertake a small feasibility study and prepare a business plan for your business.

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### Broad Learning Outcomes

To achieve the learning outcome, you;

- Assess the role and importance of key business functions in the local operations of a small business success in the local area.
  - Write a business plan that includes budgeting, roles of individual members within the group, timelines, resources, documentation of teacher input, measures of success and personal observations about the impact.
  - Report on particular management aspects of your small business.
-



## Time Frame

This unit should be completed within 10 weeks.

If you set an average of 3 hours per day, you should be able to complete the unit comfortably by the end of the assigned week.

Try to do all the learning activities and compare your answers with the ones provided at the end of the unit. If you do not get a particular exercise right in the first attempt, you should not get discouraged but instead, go back and attempt it again. If you still do not get it right after several attempts then you should seek help from your friend or even your tutor. Do not pass any question without solving it first.



### 11.3.1 Business and Implication for Managers

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This topic will teach you about what a business is and its implication for managers. You will also learn about market research and entrepreneurship. You will further learn about personal assessment, abilities and experiences in a business setting.

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#### **Learning Outcomes;**

To achieve the learning outcome, you;

- Define business, differentiate between small and large business and identify and discuss factors affecting size of business.
  - Identify features of big and small business and discuss their importance in the economy.
  - Define business idea and discuss its importance.
  - Define research, explain its purpose and importance in developing a business.
  - Define entrepreneurship, identify the different forms and discuss why people get into entrepreneurship.
  - Identify characteristics of successful entrepreneurship.
  - Define obligations and identify types of obligations a business person has for his or her family and the community.
  - Explain how obligations will affect the business.
  - Identify and explain different categories of assessment, conduct a personal assessment and explain how personal characteristics would affect management of business.
-



### 11.3.1.1 What is a business?

We all want food, clothing and shelter. In the modern world today we meet these requirements through businesses. For example, we go to the small canteen to buy our rice and tinned fish. The shop owner in turn gets supplies of rice and tinned fish from the wholesaler. The wholesaler gets rice and tinned fish in bulk from the manufacturer. The canteen owner, the wholesaler, and the manufacturer are doing business. Therefore, they are called Businesses.

A **business** is defined as ‘the regular production or purchase and sale of goods and services with an objective of earning **profit** and acquiring **wealth**.’ This is done through the satisfaction of material needs and wants of humans. Thus the term business means the continuous production and distribution of goods and services with the aim of earning profits under uncertain market conditions.

Businesses vary in size, structure and objectives. They can be sole traders, family owned businesses, cooperatives, franchises, partnerships, public or private corporations.

#### Big and small businesses – differences

A small business has certain features which sets it apart from large firms or businesses. The common ones are discussed below.

##### i. Number of employees

One way of telling the size of a business is by looking at the number of people employed. Smaller businesses employ fewer workers while large corporations employ up to thousands of **workers**.

##### ii. Ownership/management

Small businesses are generally owned and operated by a small number of persons (except franchises). Large businesses can have thousands of owners.

##### iii. Market share

Businesses compete with other businesses in supplying their goods and services to the market place. Their market share is determined by the size of their capital investment, sales and the size of the total market served or market demand.

##### iv. Source of finance

The owner usually contributes the money or capital expenditure required to start and operate a small business. Large businesses have easy access to debt finance such as bank loans.

##### v. Asset value

Small businesses are those that possess assets valued between K300 000 to K500 000. Large businesses have assets valued above K3 million.

**vi. Sales turn-over**

The level of sales made each year can also define the size of a business. A small business is one that makes an annual sales of up to K500 000. Medium and large-scale businesses, on the other hand, record annual sales of K1 million and above.

**Factors affecting business size****i. Market share/competition**

Competing for market share can be a limiting factor. If the competition for a small market is very high, competitors will end up with only a fraction of the market. That will mean that a particular business' size will also be kept small.

**ii. Finance**

A business that is able to attract external funding such as bank loans is likely to expand its size quickly over time. This expansion process continues until such time the owner decides to keep it at a desirable level.

**iii. Management knowledge and skills**

Small business managers who lack the experience and knowledge prefer staying small. At least it is comfortable for them. Experienced and knowledgeable managers can grow a business quickly.

**iv. Risk**

Risk is a part of every business. It is the possibility of experiencing a loss or business failure. Where there is a lot of risk involved, business growth is affected. So business owners operating out of a high risk environment prefer a size that is small and manageable.

**Importance of business to the economy****i. Employment**

The business sector employs fifty percent of the workforce. Without businesses, employment will be a serious problem for our country. This will lead to many other social problems, such as rise in criminal acts.

**ii. Contribution to GDP**

The Department of Trade, Commerce and Industry estimates that small and medium enterprises contribute between 30 to 60 per cent of the country's GDP. This is a significant contribution to the national economy.

**iii. Wealth creation and redistribution**

Businesses create wealth for their owners. When many Papua New Guineans engage in spin-off business activities, like guests houses, PMV services and trade stores more of our national wealth is retained in the country. For this reason, we must encourage spin off businesses.

**iv. Provision vital goods and services**

Businesses always provide a solution to human needs and wants. The products that they sell are in direct response to human needs such as food, shelter and clothing. Businesses enable goods and services to move from the producers to the consumers.

**Learning Activity 11.3.1a: Complete the activities given below.**

---

1. Can we classify a government-run school as a business? Explain your answer.

---

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2. State one factor which is used to differentiate between a large and a small business.

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3. How do businesses help the economy of PNG? Explain your answer.

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**NOW CHECK YOUR ANSWERS AT THE END OF THE MODULE**



### 11.3.1.2 What is a Business Idea?

A business idea is just like a seed which has the potential to spring into life. It starts from someone's head. There are countless business ideas which are found in people. But only a handful of people take necessary steps to put their ideas into practice.

As potential entrepreneurs you should work on developing your own ideas. The idea must always be related to who you are. It should suit your abilities, experiences and lifestyle. An idea could stem from something that you are exposed to daily. Or it may be your hobby. However, it may be difficult to research your business idea initially. This is true if you have never been exposed to any business industry before.

There are places where you can search for more information to support your business idea. Go to a library near you to discover more information about your business idea. Keep up with the daily news on television, radio, and newspapers. The Internet is another endless source of useful information. Go to Google – a popular search engine on the internet - type in a key word in the search box and it should provide endless sites, information, hints and clues.

#### Type of businesses available

The table below summarises the businesses that were reserved by the Government for Papua New Guineans only. Sometimes you will hear the term '**cottage industries**' when referring to these reserved businesses. Some of the listed businesses may not be available in your community. You may explore further to establish reasons why they are absent in your community. It may be because there is no market for it or because of lack of expertise and resources.

RESERVED BUSINESS ACTIVITIES	
Restaurants and kai bars	Bottle shops
Tyre repair bays	Mechanical repair shops
Tailoring shops	Retail stores
Artefact shops	Scone making or bakery shops
Walkabout saw mills	Furniture making shops
Eco-tourism	Poultry and piggery
Farming of vegetables and cash crops	Public Motor Vehicles
Second-hand shops	Stationery shops
Internet cafes	Trade stores

Table 3.1. Reserved business activities for Papua New Guineans.

Source: Gr 11 Business Studies- 2014.

The above table should be very helpful. Remember, there are many possible business ventures for you to try out. You need to figure out which one of these possibilities is very suitable for you. It is difficult to try out more than one idea at the same time.

## Sources of ideas

The generation of successful business ideas depend on both personal factors as well as environmental factors as illustrated by the diagram below.

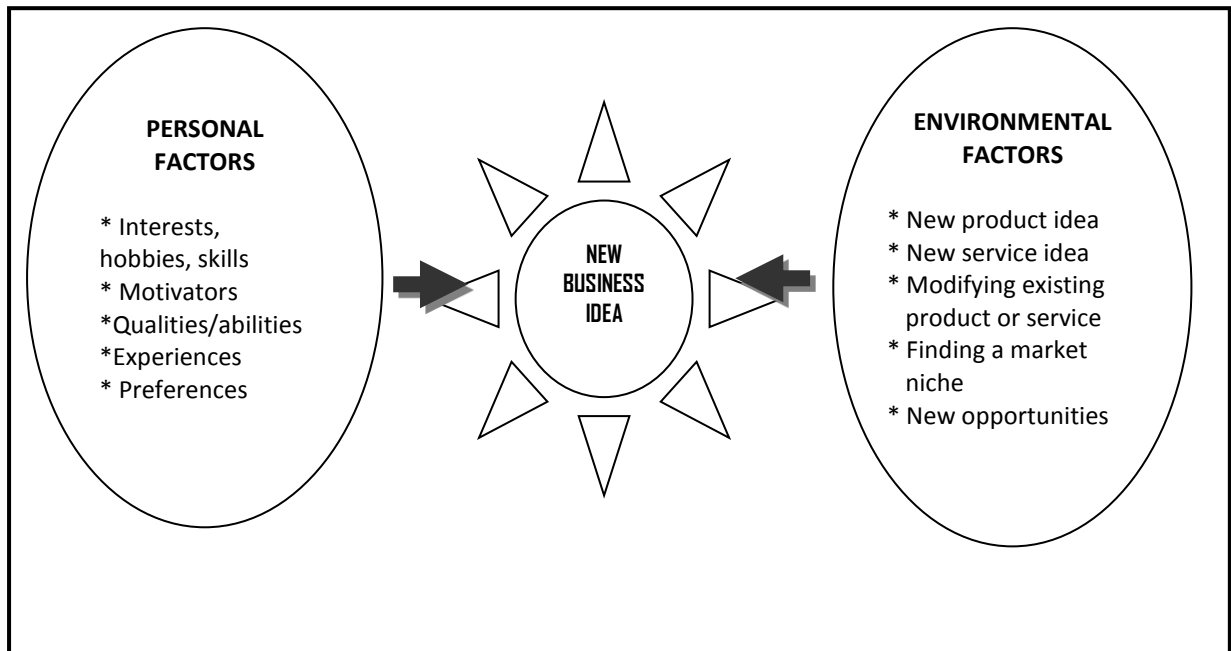


Figure 3.1. Sources of new business ideas.  
Source: Gr 11 Business Studies- 2014.

## Personal factors

Developing a business idea starts with some personal evaluation. It is good to start with questions such as:

- *What sources of information are available to me?*
- *How much do I earn and where do I spend that money?*
- *What do I wish was available that currently is not?*
- *What is the general level of spending in my area (town and village)?*
- *Where are the current goods sold in my area sourced from?*

Posing these questions will lead to further search for information.

## Environmental factors

If you lack good business ideas you should observe your environment; the people, businesses, income levels, peoples' interests and hobbies, population growth rates and number of young people for ideas. Observation is a very useful tool which you can make use of. By observing your environment you will definitely obtain some ideas. Through careful observation and research you can settle on either a new product or service idea – something that has never been taken up by anyone before.

Make contact with some people in your environment. Ask a few questions to obtain information that is related to a business idea you already have. It is advisable to make





contract with someone who is in business, doing what you are interested in. You should aim to find out information on demand, sales, growth trends, risk involved, profitability and level of expenditure.

What if you discover that your idea is already being carried out by other people in your local area? You can simply observe the level of activity to determine if there is still some unfulfilled demand to meet. By keeping your ears and eyes open you can figure out the weaknesses of existing businesses.

Opportunities abound in the environment in which we live. At least that is how so many successful entrepreneurs have started – through observation, careful research and planning.

### Case Study - How Business Idea is generated

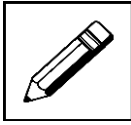
Julius Caesar is a charming person who loves music. He also has 5 years of experience in the retail industry. Julius woke up one morning to the thought of working for himself. He started asking so many questions. Angelina, his girlfriend, suggested to him to look at opening his own music store, selling to retail outlets, publishing a newsletter to help music stores and so on. Initially, Julius was reluctant to take the suggestion, but was soon convinced. One other passion that both Julius and Angelina shared is travelling. So, they both decided to go into business together. They initially posed the following questions:

- *How about creating a compilation of CDs from different destinations to sell to tourists?*
- *How about a booking agent who secures lodging and transportation for bands?*
- *How about an event planner who specializes in creating events based around locales and local music?*
- *How about being an independent sales rep who sells music for small record labels?*
- *How about creating an organization devoted to helping people organize their CDs and electronic music files for a fee?*
- *How about creating your own music/travel related gift shop which ships anywhere in the world?*

Julius and Angelia joined forces to open up a business that specialises in all of the activities posed in the questions above. Their business is called 'Angels Music Labels'. It is a successful business which has incorporated the skills, hobbies and interests of its owners.

Figure 3.1. A case Study of how business idea is generated.

Source: Gr 11 Business Studies- 2014.



**Learning Activity 11.3.1b: Complete the activities given below.**

1. Why is it important for you to develop a business idea based on who you are – your hobbies, interests, qualifications and experiences?

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2. Refer to table 3.1 on page 11 and identify a business which suits you. Explain why you think it really suits you.

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3. Read the case study of Julius and Angela above and decide whether they are in the right business or not. Explain the position you take on this.

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**NOW CHECK YOUR ANSWERS AT THE END OF THE MODULE**



### **11.3.1.3 What is a Market Research?**

#### **Market Research**

Research plays a vital role in marketing as it provides a great deal of information about potential and existing customers, competition, and the industry in general.

Market research allows a business person or manager to;

- see if a market exists for a product.
- define the size of the market for a product.
- identify typical customer characteristics.
- analyse market trends.
- check on competition levels.
- set a realistic pricing structure.

#### **In-house research**

Existing businesses have a storehouse of information on past sales figures, location, customer details, and demand trends. Such information will assist the business to plan its production in order to meet the demand in the market place.

#### **Primary data collection**

Primary data is normally collected directly from the consumers. There are three common methods of collecting primary data. These include:

- Experimental testing. Customers are placed in mini market buying situations, or where user testing (such as taste testing) is carried out.
- Surveys or questionnaires carried out by telephone, mail or through personal interviews.
- In-depth research. Provides responses from small focus groups with special characteristics to determine their reaction to a selected product.

#### **Secondary data**

Secondary data comes from sources other than the customer. These indirect sources may be; publications by the government and its organisations, previous market research information, reports and other records from the past. Such information may be used to analyse the market.

#### **The market research process**

Market research can be undertaken by the following six steps. At the end of this process you will know if there is a market for your business idea or not.

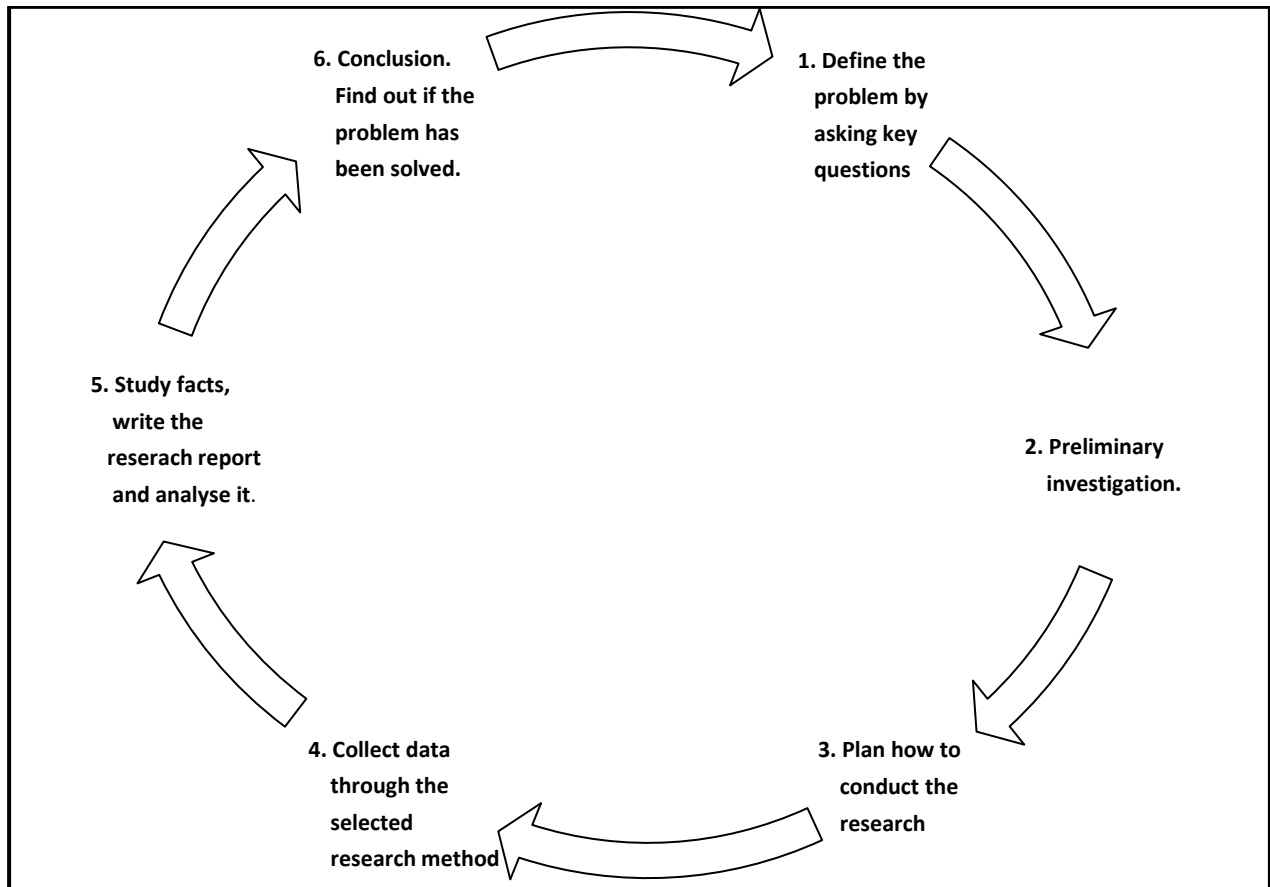


Figure 3.3. The market research process.  
Source: Source: Gr 11 Business Studies- 2014.

### Purpose of primary market research

A research or survey is a useful method of finding out more about your business idea. The first step in any research is deciding what you want to learn. The goals of your business idea determine whom you will research and what you will ask them.

It is very difficult to contact everyone when conducting a research, so it is necessary to select a sample size of the total population. The sample selected must consist of at least an equal number of male and female. It must also have a good mixture of young, old and middle-age people. Other factors such as occupation and location (where they live) are also important.

Researches are usually conducted with the help of a questionnaire. A questionnaire consists of a set of well thought out questions usually written, which an entrepreneur can use to gather information from potential customers. One way you can conduct a research questionnaire is by allowing the potential customers to complete the questions and return it to you. The other way, is to have direct face-to-face interview with your selected potential customers.

The following types of questions should be asked in order to find out about the potential market for your new business idea - product or service



1. What is the product or service you want to offer in the market place?
2. Are there other entrepreneurs already selling the product you want to offer?
3. Is the market growing or declining?
4. Are there any plans for growth in the area where you want to set up your business?
5. Will the demand for your product idea change during the year?
6. What is the potential customer's level of income in the area? Can they afford the prices you intend to set for your product idea?
7. Within a particular area, what segment of the market do you really want to aim at?
8. What are the customers' preferences and tastes for your product idea?
9. How much are the potential customers willing and able to pay for your product?

Figure 3.4. A sample of Questionnaires.

Source: Source: Gr 11 Business Studies- 2014.

The information collected through surveys and **questionnaires** will reveal likely demand, potential sales, current competitors and customer preferences. This information will assist in making important decisions for the business idea.

### How to develop market research questions

- **Step 1:** The theme of the market survey should be clearly stated. This reflects that business activity/idea to be generated. For example; Rice Consumption Survey.
- **Step 2:** With the theme clearly written, the next section contains some instructions and information for the interviewee to take note and follow. Interviewee refers to the person who is asked the questions.
- **Step 3:** Write some questions under these headings: (i) What, (ii) Where, (iii) Who, (iv) When, (v) How much, (vi) How, (vii) Why. See the example given below.
  - What is your name?
  - Where do you live?
  - How much do you earn every fortnight?
  - What is your favourite brand of rice?
  - Where do you buy your packet of rice?
- **Step 4:** Group similar questions together under a general heading. Each heading becomes a section in the questionnaire. For example;
  - Section One – Personal Information
  - Section Two – Income and Consumption Information
  - Section Three – Demand for Alternative Rice Sources
  - Section Four – Future decisions based on alternative choices for rice
- **Step 5:** Edit the questions. Check through the questions for grammar and spelling mistakes. If possible, give your questionnaire to someone else to check it for accuracy.



- **Step 6:** Final draft. You are now ready to finalise your questionnaire. The completed questionnaire is ready to be used.

### **Evaluation of completed market research questions**

A questionnaire is developed for a specific research or survey. Every time a new business idea or an existing product needs to be evaluated, it is advisable to develop a specific questionnaire. A questionnaire can be duplicated and distributed to a selected group of people to respond to. The completed questionnaires are then collected for further evaluation.

The evaluation stage becomes easier if the questionnaire was designed properly as outlined in the six steps above. The main purpose is to summarise the data from the individual questionnaires onto a summary sheet. The summary sheet contains vital data which will be needed for the compilation of a survey report. Decisions are often based on the final market survey report. The report will usually make one or two recommendations based on the responses received. It is up to the decision-maker to decide whether to take up the recommendations or not to.

### **Possible sources of new business based on market research**

A completed market survey report will lead to a number of decisions such as the following;

1. Follow the recommendation(s).
2. Disregard the recommendation(s) altogether.
3. Modify the business idea based on the findings and recommendation.

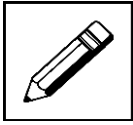
If the market research reveals that a new business idea can work, then it is safe to put the idea into practice. If the survey reveals otherwise, then it is safe to drop the idea altogether. At least the market research has served its purpose by revealing the possible success or failure of a business idea.

Sometimes, a single market survey report is not enough to fully find out the feasibility of a new idea. Therefore, a second round of market research may be necessary.

### **Possible causes for failure based on market research**

Market research is a methodical task. That means it has a set of rules and processes which must be followed in order to obtain the right responses. For instance, if a questionnaire is involved then it must contain the right kinds of questions to obtain the right information. Sampling of the population is another important area of consideration. That means the questionnaire must be given to the right people to fill out.

Too often researchers jump quickly to the research activity without much attention to details. As a result, the survey report leads to recommendations which are faulty. When someone implements faulty recommendations the end result is always failure. Once a business is in operation it takes some time to correct the mistakes, and often times it costs money to correct any kind of mistakes. That is why it is better to undertake the market research properly before putting a business idea into practice.



**Learning Activity 11.3.1c: Complete the activities given below.**

1. How can a market research help a business?

---

2. What is the difference between primary research and secondary research?

---

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3. How does a questionnaire help out in the market research process?

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**NOW CHECK YOUR ANSWERS AT THE END OF THE MODULE**



#### **11.3.1.4 What is Entrepreneurship?**

Entrepreneur is a French word, which means 'to undertake', or to take something into someone's own hands. In business, it means; to undertake a business activity or project with an intention to earn a profit.

An entrepreneur is someone who is innovative, aggressive and willing to take risks for a purpose. He or she becomes innovative by trying out new ideas, and is usually willing to take any risk if he or she knows that there is some return on the money invested.

#### **Different Forms of enterprise in Papua New Guinean**

There are many different forms of entrepreneurship which are all part of the broader definition of the term entrepreneurship. Outlined below are the common types of entrepreneurs.

##### **i. Lifestyle entrepreneur**

The lifestyle entrepreneurs are less concerned with money and instead more focused on working in a field they love and/or the enjoyment of being their own boss. Many professional practitioners such as lawyers, doctors and accountants. come under this category.

##### **ii. Profit-driven Entrepreneur**

The profit-driven entrepreneur is largely motivated by profit. Therefore, he/she creates business ventures to earn a pure income. His/her ultimate goal is to maximize income. Factors like lifestyle or being their own boss may be necessary accomplishments in the process of acquiring more income.

##### **iii. Serial Entrepreneur**

The serial entrepreneur is driven by the desire to constantly begin new business ventures and make new investments. This person is always full of bright business ideas which he/she cannot wait to turn into investments. Serial entrepreneurs usually sell their businesses and move onto new ventures with the sales proceeds. Their motive is not to remain long in one business, but to move onto new ventures.

##### **iv. Social Entrepreneur**

A social entrepreneur always attempts to improve society through business ventures. Social entrepreneurs can make profits and still maintain the fundamental goal to better the society in some way. This may be done by offering a product previously unavailable to a certain group, or by operating a business that provides jobs or other opportunities otherwise inaccessible to certain people.

#### **Reasons why people venture into entrepreneurship**

Entrepreneurs take up self-employment because of a number of reasons. Some look to increase their personal wealth. Others use it as a way to become their own bosses. Yet





others see self-employment as an escape from unemployment and poverty. These and other reasons are discussed below.

**i. Wealth creation:** Entrepreneurs, especially those with profit motive, hope to create personal wealth. It brings personal satisfaction for most entrepreneurs as their wealth increases.

**ii. Being in control:** Entrepreneurs always feel that they can take control of their lives and their business ideas. They begin by making vital decisions about their lives such as risk-taking and venturing into new, untried business ventures. Entrepreneurs gain satisfaction from being in control of their own destiny. They agree that the ultimate goal in life is to be free from the control of others.

**iii. Making use of skills:** Entrepreneurs aim to fully and practice special skills they possess. They have total freedom to practice these skills the way they want to and without any outside control while earning a profit.

### Characteristics of Successful Entrepreneurs

At this point, it is appropriate to take a closer look at what it takes to become a successful business person. All small business owners have different characteristics and attitudes. Their objectives or goals also differ. Despite these differences there are things that they have in common.

Successful entrepreneurs possess a wide range of characteristics. However, there are seven most important characteristics which entrepreneurs must possess.

Entrepreneurial quality	Description
Independence	Entrepreneurs enjoy the freedom to make independent decisions.
Confidence	Entrepreneurs have confidence in their own ability to be successful.
Discipline	Entrepreneurs are well organised in their approaches. They persist in what they set out to do and learn from mistakes.
Drive	Entrepreneurs are motivated by their own interests and aspirations. They are also good at goal setting.
Initiative	Entrepreneurs think creatively to solve problems. They are flexible and consider different alternatives before selecting the logical solutions to a problem.
Leadership	Entrepreneurs are able to motivate others to produce the results. They can influence others. They also achieve cooperation and teamwork and lead as role models.
Risk taking	Entrepreneurs promptly respond to challenges. They are prepared to accept any failure if it happens. However, they never stop looking out for new opportunities.
Honesty	Entrepreneurs must be honest in all their business dealings.

Table 3.2. Eight important entrepreneurial qualities.  
Source: Business in Melanesia – Book 1-2008.



### Entrepreneurship as a factor of production

Enterprise involves human beings that are creative enough to act on a business idea. These actions involve some level of risk or uncertainty. Individuals who are involved in this process are called entrepreneurs. They utilise other resources such as land, labour and capital to generate more activities and products.

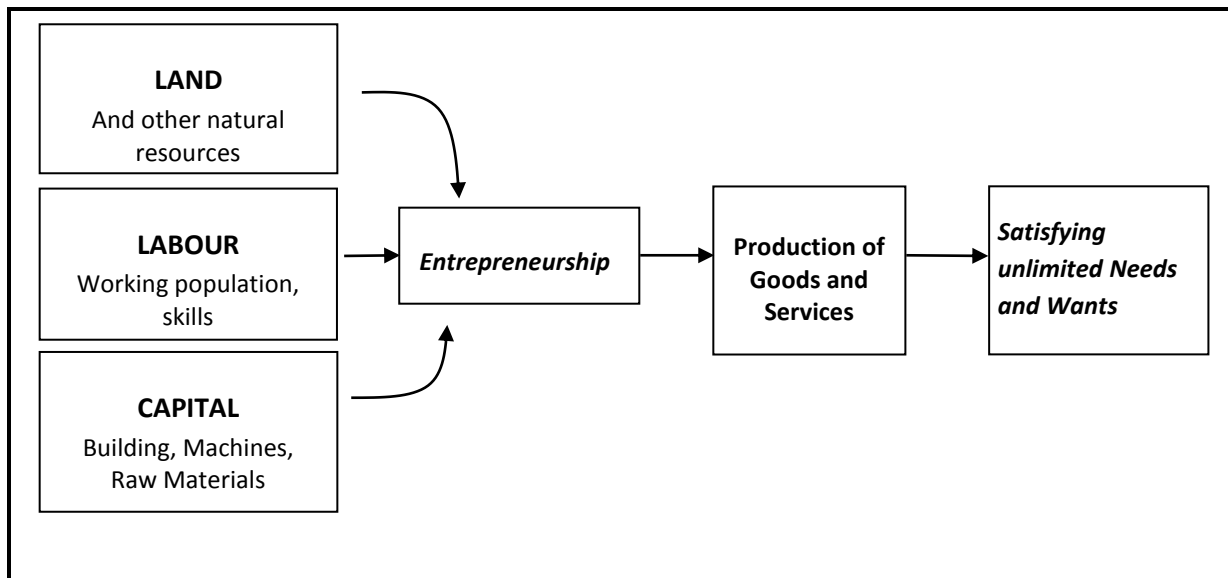
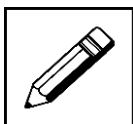


Figure 3.5. Factors of Production.

Source: Business in Melanesia – Book 1-2008.

Figure 3.3 above shows that entrepreneurship combines the other factors of production to satisfy human needs and wants. Entrepreneurship is therefore, a very important factor of production.



#### Learning Activity 11.3.1d: Complete the activities given below.

1. Is it easy for someone who doesn't like risks to become a successful entrepreneur? Explain.

2. How is a serial entrepreneur similar to a profit-driven entrepreneur?

3. There are seven (7) important entrepreneurial qualities see table 3.2 on page 21. Which one, in your opinion, rank as the most important? Explain.

**NOW CHECK YOUR ANSWERS AT THE END OF THE MODULE**



### 11.3.1.5 Implications for Managers/Owners

#### Challenges of Starting your own business

Many people have the desire to start their own businesses. They see it as a way of becoming their own bosses. Many successful business people today only started with the desire, some capital and a lot of commitment.

Each year many Papua New Guineans are venturing into business hoping to become successful. As much as we would like to take up business we must also understand that there are obligations, commitments and duties which come with entrepreneurship. Let us take some time to consider them here.

#### Obligation/Duties

An entrepreneur has several obligations. The first obligation is towards the business, its operations, its employees and its finances. The second obligation is towards the government and its laws. Tax is an obligation which the government demands from all businesses. The third obligation is towards the customer's. An entrepreneur must ensure that the customer needs are met. The fourth obligation is towards the general society. Protecting the environment is one such obligation. The fifth obligation is towards the family, relatives and others that are close to the entrepreneur.

#### Obligation to Family, Relatives

Entrepreneurs who neglect their families end up in all sorts of problems caused by their family. Ongoing family interference in the business such as family feuds or marriage break-ups are likely outcomes. Smart entrepreneurs always find a balance between their business and family. They find ways to give the required level of attention to both. Sometimes they ask for compromised solutions with their family. It is something which an entrepreneur must discuss with his/her family members.

#### Demand by Business on Manager's Time

People who prefer more holidays and relaxation are not suited for entrepreneurship. This is because a business is always very demanding. Also, a small business is not suitable for people who are not time-conscious. Time is the most valuable resource which a small business has and should use it productively.

A small business always demands total commitment from its owner. The daily routine starts very early in the morning and finishes off very late in the day. It gives the owner/manager very little time to relax with the family at home.

A common problem facing Papua New Guineans is time management. It is a known fact that Papua New Guineans are not so good at **time management**. We, as a society, do not really care about time. This is something which we have inherited from our ancestors. But, in the modern world of business, time management is critical for success. Westerners have prospered over time because of their time-conscious culture. We, too, must adopt this culture if we are to prosper in business and in life generally.



### **Changing Times and How to Respond to them**

Papua New Guinea has changed so much over the last hundred years or so. Things which we have never dreamt of ten to fifteen years ago are now a reality such as access to Internet. Peoples' lifestyles have also changed so much in relation to the general changes in our external environments. In business, many things have changed. Most of these changes are a reflection of a large-scale change called **globalization**.

The Internet and its related products are part fruit of globalization. Communication systems and methods have also changed so much due to one great invention called the 'computer chip.' Transportation systems and methods have also changed greatly. Digital cameras, mobile phones, laptop and palmtop computers, GPS system, cloning and revolutionary drugs are all examples of advanced inventions that continue to change the economic, social, political, scientific and spiritual aspects of our society.

Managers of small businesses must be able to at least manage some of these common-place changes. They must, for example, know how to use the internet to benefit their business. They must also know the different communication products on the market so that they use them for their businesses.

In order to cope with the modern, changing environment, business owners must be educated. So education is a key element of business success. A respectable level of education is needed in order to cope with the changing technological environment.

### **Personal Assessment Exercise**

How do you work out if self-employment suits you? There is no aptitude test, no textbook examination and no exhaustive sets of interviews. There is only a personality that is suitable for a particular business idea.

#### **The Suitability Checklist**

- Do you enjoy working with people?
- Are you an independent person?
- Are you a good organizer?
- Are you a good communicator?
- Are you confident about your abilities?
- Can you pick good qualities in others
- Are you an "ideas person"?
- Are you prepared to work long hours?
- Are you usually frustrated?
- Are you in good health?
- Can you handle stress?
- Are you an "encourager" of staff?
- Do you have stamina and perseverance?
- Does your family support your actions?
- Have you held past leadership positions at school or in the community?

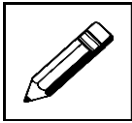
*If you answered "NO" to more than three (3) of these questions, you are probably not suited to running your own business.*

**Which type of business suits you?**

There are numerous business activities that can be taken on as possible school-based small business activities. Your activity could involve selling a product, the assembly of a product from single items or parts, or the provision of services. Here are some useful categories and examples for you to consider:

1. Food sales –selling doughnuts, lamingtons, nuts, chocolates, ice cream and fruits.
2. Catering services – selling cooked food or boiled egg to students, teachers and the surrounding community.
3. Entertainment –video or C.D. shows and fashion parades.
4. Community services – car wash and lawn mowing.
5. Personalised service –printing ‘T’ shirts or creating tattoos.
6. Manufacturing –manufacturing personalised calendars for students.
7. Courier services –selling newspapers and newsletters.
8. Communication services –printing and selling newsletters and creating school radio programs.
9. Promotions – organising school dances, walkathons, or promoting company products at school for a fee.
10. Secretarial services –typing assignments, selling stationery and printing cover sheets.
11. Shops – Example, selling a wide range of items in tucker shops or at the school canteen.
12. A cricket clinic with some well-known players taking part as coaches. Clinics are run over a number of lunch hours or afternoons, in which students pay a fee to participate.
13. Baking and selling home-made cakes and chocolates for weekends.
14. Selling first aid kits to students during sports carnivals.

There are countless ideas which exist within the school environment. The above list only gives you some idea of the countless business ideas that exist. To run any school-based business activity you will have to consider the types of resources that are available in your school. You will also have to pay attention to key areas such as legal requirements and likely operational difficulties.



**Learning Activity 11.3.1e: Complete the activities given below.**

1. List two (2) business commitments which the business owner is obliged to fulfill. How important are these commitments to the business or its owner?

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2. How different is the manager's job today in light of technological changes?

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3. Someone once said that all good business ideas have been taken up by clever entrepreneurs. Therefore, there is nothing new for anyone to take up these days. Do you agree with this statement? Explain your opinion.

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**NOW CHECK YOUR ANSWERS AT THE END OF THE MODULE**

### 11.3.1.6 Personal Assessment, Abilities and Experiences

#### Assessing Managerial Abilities

**Management** is a specific set of roles that a manager performs. Managers can be business owners or people employed by owners of businesses to run their business. The success of a business depends a lot on the manager and how he/she performs the given roles and responsibilities. Figure 3.6 below clearly outlines the common roles of any manager. When these roles are preformed properly, success will naturally follow in business. Failure results from managers' lack of performance of these roles and responsibilities.

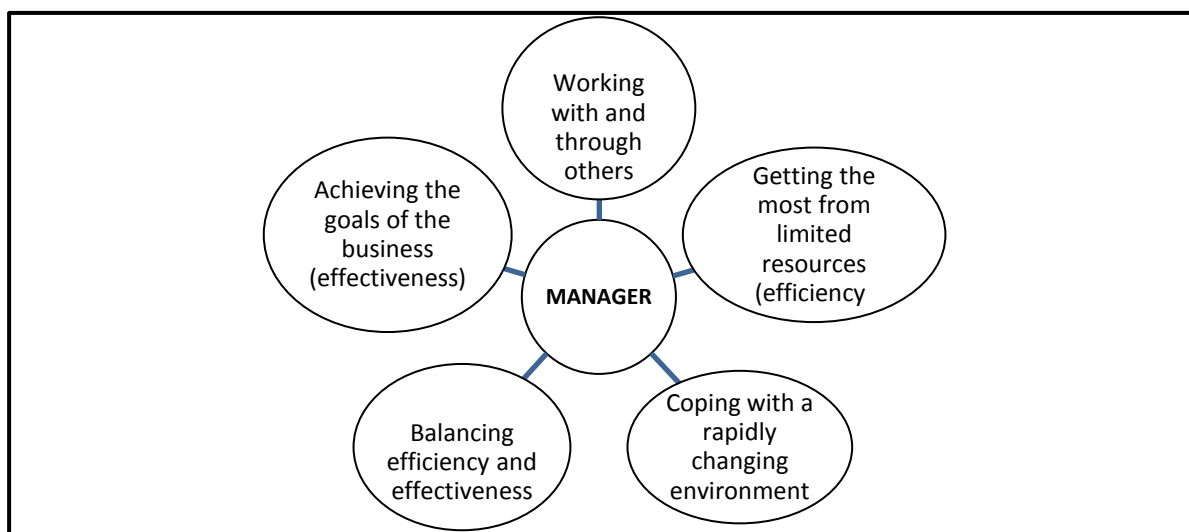


Figure 3.6: Responsibilities of a manager.

Source: Business in Melanesia – Book 1-2008.

Management is about:

- *Working with and through others:* Management is, above all else, a social process.
- *Achieving the goals of the business:* Without the goals, the business would quickly lose direction.
- *Getting the most from the limited resources:* All businesses face the problem of limited resources or scarcity. The most efficient coordination of resources occurs when the benefits are greater than the costs.
- *Balancing effectiveness and efficiency:* Managers must balance both the effectiveness and efficiency of their decisions. A balance between efficiency and effectiveness is the key to achieving a competitive position in today's challenging business environment.
- *Coping with a rapidly changing environment:* This is one of the most important tasks of all managers. Successful managers are those who anticipate change and adjust accordingly.
- *Acting ethically:* This means making decisions and taking actions that comply with legal, social and organisational codes of conduct.



### The Importance of Effective Management

Every business – whether it be for profit or non-profit, small, medium or large – needs effective management to succeed.

The four main resources available to a business are;

- **Human resources.** These are employees of the business.
- **Information resources.** These include knowledge and data such as market research, sales report, economic forecasts, technology and legal advice.
- **Physical resources.** These include equipment, machinery, buildings and raw materials.
- **Financial resources.** These are funds needed to operate.

The resources highlighted above are critical to business success. These resources must be managed well in order to bring success to business operations. Without good management these resources will be mismanaged and business failure will occur as a result.

One management function involves directing the joint efforts of workers towards achieving stated organisational goals. For example, producing goods and services demanded by consumers involves the combined efforts of many people. This combined effort must be effectively managed to produce the needed goods and services at the least cost – that is, efficiently. This coordination needs to be managed at many different levels; for example, within businesses, between businesses and on a national and international level.

The skills and expertise of the manager in coordinating the business's resources largely determine whether the objectives of the organisation are achieved or not.

### SWOT Analysis

The acronym 'SWOT' stands for the following;

- Strengths
- Weaknesses
- Opportunities
- Threats

A typical SWOT Matrix will show Opportunities and Threats (coming from external environmental analysis) on the horizontal axis. The Strengths and Weaknesses (derived from internal appraisal) are shown on the vertical axis. This is how it is read: SO suggests the use of strengths as competitive advantages to exploit opportunities, WO identifies weaknesses that need to be corrected before exploiting opportunities, ST reinforces strengths as defenses against threats, and WT helps by anticipating and preventing threats and taking actions to reduce damage if they happen.

### How Personal Characteristics Influences Business Managers

#### Personal Characteristics

Every individual has his or her personal characteristics. These are the things that an individual possesses at an individual level. We can also say that these are things that are typical of an individual which you cannot find in other individuals. For instance, some people





are more patient than others. Also, some people are smarter than others. So our personal characteristics set us all apart. Therefore, we can conclude that no two persons are alike. Even identical twins have differences in characters.

Most of our characters are a result of years of education, environmental influence and experience. Even personal determination can result in major changes in character. Leadership skills, for example, can be learnt through training.

### **How do personal characteristic relate to business management?**

Management, as a discipline, has been developed over the centuries. Today management is well-defined with set of rules and descriptions. Any person can learn the art of management and apply that knowledge in real life.

In reality, managers are influenced by their personal characteristics. Even the most educated and experienced manager can be influenced at times by his or her personality. But personality is also influenced by education and training. Things like anger, anxiety, excitement, fear, and other emotional elements can influence managers at different times. When they are deeply influenced, they can easily deviate from the norms or established management practices for some time until they realize it.

### **Ability and Experience**

#### **Ability**

Ability is part of an individual's characteristics. It means the skills, capacity, talent or gift that an individual possesses. All managers possess certain kinds of abilities. These abilities can be in-born or learned. Some people possess more abilities than others. Highly able people can accomplish much. The opposite is also true for those with fewer abilities.

#### **Experience**

Experiences come through one's involvement in activities, tasks and programs. Experiences are part of one's knowledge base. Experiences increase knowledge. But a person must firstly learn to do something and do it correctly. People must practice a skill or body of knowledge, become familiar with it and develop a high level of involvement and familiarity. Once these become established in a person's mind, he or she is said to be very experienced.

Not every one of us is experienced in something. Even if we are, there are differences in the level in which we are experienced. Some people are very experienced, while others only have limited experiences. The higher the years of practice the more experienced a practitioner becomes. Age and regularity of practice determines the experience level of a person.

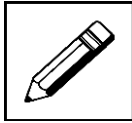
Managers can be rated on a scale of (1) No experience, (2) Some experience, (3) good level of experience, and (4) very highly experienced. Very highly experienced managers are rare and are in high demand.

### **Importance of Ability and Experience of a Manager**

Managers must possess the necessary levels of ability and experience. This is because management is a highly demanding job. Management holds the key to organizational



success. A manager who has the ability to manage in a particular industry can lead the business to success. Ability is backed up by a manager's experiences in managing various tasks and functions. Managers played a bigger part in the success or failure of businesses. This will continue on as good managers come and leave due to retirement or death. The cycle of management continues. A business that performs well under one manager may not be as successful under another manager.



**Learning Activity 11.3.1f: Complete the activities given below.**

1. Good managers possess great social skills. What particular management role do you think a manager can fulfill successfully with his/her social skills?

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2. What do you think will happen if a manager fails to cope with or keep up with changes in the external environment such as technological changes?

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3. Why is it important for a manager to know his/her personal characteristics?

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**NOW CHECK YOUR ANSWERS AT THE END OF THE MODULE**



### 11.3.2 Assess your Financial Situation- Cash Flow

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In this topic you will learn how to assess your personal cash flow budget and work out your cash flow problem. You will also learn about how businesses should keep a business cash flow and budget without credit transaction.

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#### **Learning Outcomes;**

On successful completion of this topic, you can be able to;

- Define income and budget, identify and discuss types of income and explain and differences between personal budget and personal cash flow budget.
  - Define cash flow and cash flow budget and explain its personal cash revaluations.
  - Identify components of a cash flow plan without credit transaction.
  - Discuss the process involved in constructing a cash flow plan with credit transaction ( using the questions given).
-

### 11.3.2.1 Assessing your personal Cash Flow Budget

#### Income

**Income** is the money received by an individual, a business, an organisation or the government. Income is important in the modern economy as it is needed to pay for goods and services, provide goods and services, buy properties, pay for school fees, holidays, medicals expenses.

There are different types of income that people earn in a society. Below are the main income categories:

- Selling services.
- Owning property, and
- Government transfers.

#### Different types of Income

There are many different types of income available in our country. As shown in the diagram below, there are many income-generating activities.

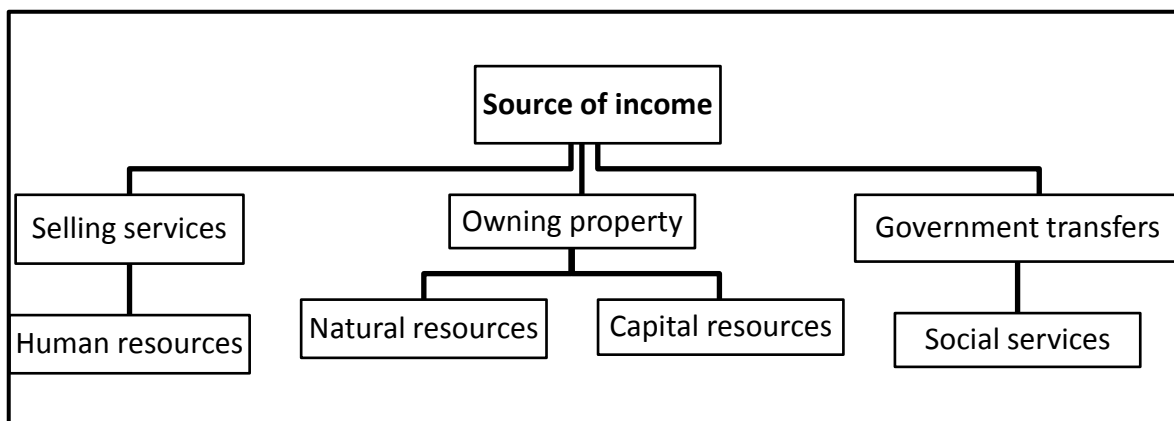


Figure 3.7. Different types of income.

Source: Business in Melanesia – Book 1-2008.

Let us consider the common types of income in detail below.

#### i. Work

People work at jobs and receive money as payment. Examples of such people are lawyers, teachers, doctors, entrepreneurs, and mechanics. These people either receive a wage or a salary. People who work at jobs come under two categories:

- those who work for others - employees, and
- those who work for themselves – self-employed.

People who work for others receive either a wage or a salary. Professional workers such as lawyers, teachers, accountants, doctors and nurses usually earn a salary. A wage, on the other hand, is paid to those people who are skilled, semi-skilled and un-skilled. Self-employed people also receive regular wages if they choose to do so. But, their real income is the profit that their business generates.

**ii. Investment**

Investment involves the use of money and property to earn an income. Income from ownership can be further classified into different groups.

**iii. Owning building, land or equipment**

People who own properties such as houses, land or equipment can allow others to use them for a fee called rent. Rents can be earned on either fortnightly or monthly basis.

**iv. Income from the ownership of money**

Some people have extra or surplus money that can be used to earn an income called interest. Most people allow banks to use their money in return for an interest.

**v. Investing in shares and debentures**

Extra money can also be used to buy shares from big companies. The person who buys and owns shares is called a shareholder. A shareholder earns dividends as income.

A debenture is a type of fixed-interest security. It is issued by companies, who act as borrowers, in return for investing money. Debentures are issued to the general public through a prospectus and are secured by a trust deed that states the terms and conditions of the debenture and the rights of the debenture-holders. Companies that normally issue debentures are finance companies and large industrial companies. Debenture-holders earn interest.

**Other types of income**

There are other lesser types of income as well.

- School children are given pocket money by their parents. This represents an income for children.
- Gifts in the form of money offered by a friend or a relative can also be classified as income.
- Politicians in this country also give cash commitments to people in their electorates. This is part of the government's income distributed to the people by politicians for development purposes. It represents income for those who receive it.
- Some people become successful farmers growing sweet potato, kaukau, betel nut, or vegetables for sale. They even grow plots of cash crops such as coffee, cocoa, palm oil, or coconuts and sell to processors and earn their income.
- Other farmers raise chickens, pigs, cattle and other livestock for sale to local processors or the local markets.
- There is a growing informal sector in urban centres of Papua New Guinea. It consists of people engaged in buying and selling various goods on streets and in busy places like markets.

**Budget**

A budget is a written plan of how to use or spend the income that one earns. It is usually about the future, how one plans to earn an income and also how to use it. A person's budget is called a personal budget. Personal budgets are important because they enable people to

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predict their income and plan for that income in advance. This plan enables people to spend their limited money wisely to achieve their set goals and objectives.

In a budget, we include expected income and expenditure for a certain period of time. By doing so, we can see how our money will be spent. We can also know if there will be some left over money to save.

### **Personal Budget and its Main Components**

Wise people always try to manage their income responsibly so that they can obtain the greatest satisfaction. It involves making sensible choices. Listed below are some tips for responsible financial management.

- Prepare a budget regularly.
- Save some money regularly.
- Monitor and record income and expenses.

### **Personal budgeting**

A budget requires the complete listing of income and expenditure items. Expenses are of two types: fixed and variable expenses. Combining these two categories will show the total expenditure level for a given period. By comparing income and expenditure one can see if there is enough income or cash to meet expected expenditure.

A budget is also a working document that can be changed many times to suit our needs and objectives. A budget also stops people from impulse buying – or buying without any planning at all.

There are two parts to a budget:

- planning for income, and
- planning how to use the income.

Usually a person's income can be all spent on goods and services. If he or she plans to spend all the income, then income will always equal expenditure. A simple formula for this situation is:

$\text{Income} = \text{Expenditure}$
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### **Expenditure**

Expenditure represents the use of income. Variable expenses often change according to the levels of income and other factors. For example, the cost of utilities such as water, electricity, and telephone depend on their usage. Textbooks and uniforms for school children are also expenses for most families. Some variable expenditure may be non-essential, such as entertainment. Food, water and clothing are regarded as essential expenses.



Fixed expenses usually represent important items such as bus fares and lunch for school children. Usually a family will put aside a fixed amount every fortnight for food, clothing and sometimes accommodation.

### Savings

Savings is part of the money which is not spent. It is important for people to save some part of their income for later use. If a person plans to save some money from the income, then the budget will look like this:

$$\text{Income} = \text{Expenditure} + \text{Savings}$$

### Importance of drawing personal budgets

Personal incomes are always limited compared to the unlimited uses for personal income. In Economics, it is referred to as '**scarcity**'. There are so many competing uses for our limited income. Therefore, it is difficult to satisfy all our needs and wants. Needs are more important than wants; therefore needs must be fulfilled first. Whatever income is leftover can be used to spend on wants.

Even if that distinction is closely followed not all people are wise enough in spending their income. The temptation to spend on wants is higher for everyone. It requires a lot of patience and self-discipline to spend first on needs.

A budget is a very handy tool available to everyone who earns an income. This tool enables us to plan the use of our income well in advance. This planning is necessary as it directs our attention to the needy areas which our income must fulfill. A budget also is a form of control as it tells us what to do with our limited income.

Two people may earn the same level of income but person A seems to be happier than person B. Person B always runs out of money before the next fortnight. Person A has a budget which he follows. Person B also has a budget but does not follow it and is likely to be in all sorts of financial trouble because his money runs out quickly. He is likely to develop stress, headaches or frustrations. He will be forced into borrowing from people who charge very high interest rates for a short period. This leads to further financial problems.

### Components of Personal Cash Flow budget

A cash flow is a statement of income and expenditure for a certain period of time. Cash flows can be developed for individuals as well as for businesses. A personal cash flow helps an individual to plan ahead for the flow of cash. It will help a person to see periods of surplus cash flow and periods of deficit cash flow. By knowing such different times in advance, plans can be made to deal with each of these outcomes. By successfully managing personal income an individual can live a successful life.

The key components of a personal cash flow budget are listed below.

- A. Income
- B. Expenditure
- C. Left over cash (surplus) or short fall (deficit)





D. Carryover the left over cash to next year month/fortnight/week.

### Preparing a budget

A personal budget states the income of a person and how it will be spent. Income is always limited so a budget will help the income earner better manage and spend the income.

A budget is also called a money plan. When a person makes a money plan it is helpful to list all expenses on paper. This list can be changed until a better working plan appears. There can be many changes made before settling on a final budget.

Below are examples of two budgets belonging to a student and a casual worker. Steven Sumatin is a secondary school student living in Port Moresby. Iri Puti is a casual worker employed in a rural health center in East Sepik.

(i)

Sumatin's Weekly Budget		13 – 17 April 2015	
Income:	K	Expenses:	K
Pocket money	50.00	<i>Fixed</i>	
Car washing	10.00	Bus fare School bus	15.00
Sale of empty tin cans	15.00	Lunch	20.00
		<i>Variable</i>	
		Movie CD	10.00
<b>Total income</b>	<b>75.00</b>	<b>Total expenses</b>	<b>45.00</b>
<b>Savings (income – expenses) = K30.00</b>			

(ii)

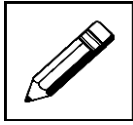
Puti's Weekly Budget		13 – 17 April 2015	
Income:	K	Expenses:	K
Wage	150.00	<i>Fixed</i>	
Selling backyard vegetables	20.00	PMV fare	15.00
		Food	50.00
		Electricity	15.00
		Loan repayment	25.00
		<i>Variable</i>	
		Fertilizer	10.00
		Market fee	5.00
		Bus fare for son	10.00
<b>Total income</b>	<b>170.00</b>	<b>Total expenses</b>	<b>140.00</b>
<b>Savings (income – expenses) = K30.00</b>			

Table 3.3: Preparing budget (i) Sumatin's Weekly Budget, (ii) Puti's Weekly Budget.

Source: Business in Melanesia – Book 1-2008.



What advice would you give Steven Sumatin and Iri Puti in order for them to increase the amount of money for their savings?



**Learning Activity 11.3.2a: Complete the activities d given below.**

1. State the income sources for these income types:

- a. Profit: \_\_\_\_\_
- b. Rent: \_\_\_\_\_
- c. Dividend: \_\_\_\_\_
- d. Interest: \_\_\_\_\_
- e. Wages: \_\_\_\_\_

2. Briefly explain the difference between a 'share' and a 'debenture'.

\_\_\_\_\_

\_\_\_\_\_

3. How can a budget help prevent impulse buying?

\_\_\_\_\_

\_\_\_\_\_

**NOW CHECK YOUR ANSWERS AT THE END OF THE MODULE**



### 11.3.2.2 Business Cash Flow Problems

#### Define Cash Flow Budget

A business uses cash to acquire resources. These resources are put to work by producing goods and services. These are then sold to customers. Payments from customers are collected and invested in new resources and production. And so, the cycle of cash movement repeats all over again. This is called cash flow in business terms. It is crucial for this cycle to be properly managed so that the business continues to operate successfully.

A **cash flow** has two important components: cash inflow and cash outflow. Cash inflow is money coming into the business. This is money from sales of goods and services to customers. Some of that is cash collected for goods sold previously to customers on credit. A bank loan also brings money into the business, so is part of the cash inflows.

A cash outflow is what the business pays out. It is cash paid for things like finished goods for re-sale, purchasing raw materials to manufacture a final product, paying wages, paying operating expenses (rent, advertising and market research), purchasing fixed assets, paying interest and principal on loans, paying taxes. Take note that **depreciation** does not actually involve cash, but only a reduction in asset value. Therefore, it is not included in the cash flow.

#### Cash flow Management

Cash flow management is all about balancing the cash coming into the business with cash going out. More often than not, cash inflows seem to lag behind the cash out flows, leaving the business short of cash. This money shortage is called the cash flow gap. If cash flow is not carefully monitored and controlled, a business can get into financial trouble. By carefully monitoring cash flow, a business owner can forecast cash availability at any given time, and plan business activities to match the availability of cash.

#### Advantages of Managing Cash Flow

Having a clear view of where a businesses' cash is tied up, unpaid invoices, stock and so on, what cash is coming in, when and what cash commitments coming up is very beneficial. Potential cash flow gaps can be spotted and action can be taken to reduce their impact, for example, by negotiating new terms with suppliers, fresh borrowing or chasing overdue invoices.

#### Cash flow Surpluses and Shortages

Unused surpluses simply sitting in a current account suggests the business has suffered a failure of planning, and in many cases shareholders will consider it a failure of management to put their money to work. It is worse, if your cash flow forecast has identified an upcoming shortage of cash and you fail to fill that gap, the result could be insolvency.

#### Surpluses

If a business creates a cash surplus, the business owner has important choices to make:

- Deposit the surplus cash to earn interest until the money is ready to be used elsewhere.



- Use the cash to fund capital investment for development and expansion.
- Pay creditors early to reduce interest expense and enhance the credit ratings for future.
- Pay the owner or shareholders.

### **Shortages**

If there is a shortage of cash, additional funds are needed to meet short-term payments or for long-term development. There are several sources of new funds:

- An overdraft facility. The business owner should negotiate with the bank to agree on acceptable limits and competitive interest rates.
- A short-term borrowing facility. The bank can allow for a drawdown of a specific amount to be repaid in a specified number of days.
- Fixed-term loans. Financing can be a loan or for much larger amounts, a bond issue.
- Fresh equity. This can be from a private placing of shares with private investors, an injection of capital by existing or new investors or a public offering.

### **Importance of cash flow budget**

A cash budget shows the estimated cash received and paid by a business over a period of time, usually one month.

Joy's budget below is useful because it enables her to predict how much money her business will have in the bank at the end of the month. Joy should have K9380 in the bank by 31 July if the actual receipts and payments for the month correspond to her predictions. The budget allows her to compare the actual results against the predicted outcomes at the end of the month.

A budget helps the business owner to know and manage differences between the actual performance and the budget predictions. For example, Joy may have ended up paying K4600 in wages instead of K4000 as budgeted. Why was that so? It may later be uncovered that some workers had to work overtime, and that the extra money paid constituted overtime payment.

### **Example – Joy's Watch Repairs**

Joy wants a cash budget prepared for the month of July. She supplies her accountant with the following information.

- Bank balance on 1 July K6350
- During July K12 560 will be received as service fees.
- The following expenses will be paid in July:
  - Rent K1500
  - Wages K4000
  - Car expenses K750
  - Parts and components K780
- Joy will withdraw K500 for personal expenses during July.



- A new computer will be purchased in July valued at K1000 to assist in running the accounting system.

*Joy's accountant prepares the following cash flow budgets.*

---

**Cash flow budget for month ending 31 July 2015**

---

Cash bank balance as at 1 July 2015			6350	
add	Estimated cash receipts			
	Repair fees		<u>12 560</u>	
			18 910	
less	Estimated cash payments			
	Rent	1500		
	Wages	4000		
	Car expenses	750		
	Parts and components	1780		
	Drawings		500	
	Computer equipment	1000	<u>9530</u>	
	Estimated bank balance as at 31 July 2015			<u>9380</u>

---

Table 3.4: A Cash Flow Budget.

Source: Business in Melanesia – Book 1-2008.

### **Negative impact of cash flow problem on business**

Cash flow is a critical and ongoing business concern. Many businesses are under pressure to generate quick cash flows to meet operational expenses. Cash flow is important for short term business survival.

A business can make a profit but that does not mean there is sufficient cash on hand to pay for expenses and debt obligations when needed. It is the availability of actual cash that matters most to the survival of any business.

In fact, small businesses that sell on credit do not receive cash payments until some days or even months later. Yet these firms cannot afford to wait until debtors' payments are received because some suppliers need to be paid promptly. Also, some vital expenses such as wages have to be paid on schedule.

### **Solutions to cash flow problems**

#### **1. Managing cash**

The business should hold some cash on hand to conduct business transactions. This is called the '**transaction**' motive. Cash is needed to make payments such as purchases, wages, taxes, and other expenses arising in the ordinary course of business.

The second motive is the '**speculative**' motive. This motive helps businesses to take advantage of temporary opportunities, such as a sudden decline in the price of a raw material.



The '**precautionary**' motive is the third reason for businesses to keep cash on hand. It serves as a safety cushion or buffer to meet unexpected cash needs. Emergency needs can be easily met with cash on hand. Holding a reasonable level of cash on hand is the key to avoiding a cash crisis.

#### *Speeding up cash receipts*

Most businesses that undertake **credit transactions** use various collection and payment methods. This has a joint effect on the overall efficiency of cash management. The general idea is that it will benefit by 'speeding up' cash receipts and 'slowing down' cash payouts. This will enable the business to have the use of cash sooner than later. On the other hand a delayed repayment method enables the firm to use the funds in high turnover activities such as stock purchase.

A number of ways are applied to speed up cash collection by doing one or two of the following:

- i. Prepare and mail the invoice immediately.
- ii. Speed up the mailing of payments from customers.
- iii. Reduce the time during which payments remain uncollected.

## **2. Managing accounts receivables**

When goods are sold on credit to customers an account known as **accounts receivables** is created. This account reflects the amount outstanding as well as what has been received. The balance continues to fluctuate as credit sales are entered and payments are received. The credit policy should therefore involve quality of trade accounts accepted, length of credit period, cash discounts (if any) for early payment and the collection program. Together, these elements determine the average collection period.

The credit policy can have significant influence on sales. It is also one of the many factors that determine the demand for a product.

## **3. Credit period**

Credit terms specify the length of time credit is extended to a customer and the discount, if any, for early payment. For example, one firm's credit terms might be expressed as "2/10, net 30". The term "2/10" means that a 2 percent discount is given if the bill is paid within 10 days of the invoice date. The term "net 30" means that if a discount is not taken, the full payment is due by the 30<sup>th</sup> date of the invoice date. Thus, the credit period is 30 days.

Let us say, a firm changes its credit terms from "net 30" to "net 40" – thus increasing its credit period from 30 to 40 days. The average collection period for existing customers goes from one month to a month and 10 days. This extension may result in more sales but it will also slow down the collection of receivables. This can lead to a cash flow problem.

## **4. Operating cycle**

It is important for a business to check if its credit customers are paying on time or not. It is also good to find out the average holding days for inventory before they are turned into cash. Operating cycle is the number of days the average inventory item is held and the



number of days the average receivable remains outstanding. The length of the operating cycle is the number of days that the resources are tied up in non-cash assets.

The following equation can be used to calculate the length of the operating cycle.

$$\begin{aligned}\text{Operating cycle} &= \text{days sales outstanding} + \text{days inventory held} \\ &= \frac{\text{accounts receivable}}{\text{daily sales}} + \frac{\text{inventory}}{\text{daily cost of goods sold}}\end{aligned}$$

Figure 3.8: Equation used to calculate length of operation cycle of business.

Source: Business in Melanesia – Book 1-2008.

Let us consider an example. Madang Trading had K250 000 in inventory and K100 000 in receivables. Sales for the year totaled K3 600 000 and cost of goods sold was K900 000.

$$\begin{aligned}\text{Operating cycle} &= \frac{\text{K100 000}}{\text{K3 600 000/360}} + \frac{\text{K250,000}}{\text{K900 000/360}} \\ &= 10 \text{ days} + 100 \text{ days} \\ &= 110 \text{ days}\end{aligned}$$

Figure 3.9: Example of calculating operating cycle of business.

Source: Business in Melanesia – Book 1-2008.

It takes Madang Trading 110 days from the time it stocks an item to receive cash for that item. The operating cycle does not reflect the length of time between cash payments and cash received because Madang Trading purchases its inventory on credit. We can calculate the cash cycle of a business by subtracting the number of days that payables are outstanding from the operating cycle. The cash cycle measures the number of days that lapse or pass from when the business pays out cash for inventory to when it receives cash from the sale of these inventory items. The calculation for the cash cycle is shown below.

$$\begin{aligned}\text{Cash cycle} &= \text{operating cycle} - \text{days payables outstanding} \\ &= \text{operating cycle} - \frac{\text{accounts payable}}{\text{daily purchases}}\end{aligned}$$

Example; Madang Trading purchased K900,000 worth of inventory during 2014, and its ending accounts payable totaled K200,000. Therefore, its cash cycle for 2014 is:

$$\begin{aligned}\text{Cash cycle} &= 110 \text{ days} - \frac{\text{K200, 000}}{\text{K900 000/360 days}} \\ &= 110 \text{ days} - 80 \text{ days} \\ &= 30 \text{ days.}\end{aligned}$$





Madang Trading must finance its operating cycle for 30 days or one month. Although no industry averages are provided for this liquidity measure, the longer the cash cycle, the less liquid the business. In order to improve the cash cycle the business owner should improve the cash collection mechanisms to accelerate cash collection so that fewer funds are tied up in outstanding receivables. This will improve liquidity and enhance profitability. Offering cash discounts is one effective way of encouraging debtors to pay up early.



**Learning Activity 11.3.2b: Complete the activities given below.**

1. Why is a cash flow budget important to a business?

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2. List some possible ways of improving cash flow shortage.

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3. Name the three motives for keeping extra cash in the business.

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4. Johnson Trading has K100 000 in inventory and K50 000 in receivables. Sales for the year totaled K2 500 000 and the Cost of Goods Sold was K1 000 000. What is the operating cycle for this business? (Round off all numbers to the nearest whole number).

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**NOW CHECK YOUR ANSWERS AT THE END OF THE MODULE**



### 11.3.2.3 Business Cash Flow Plan and Budget without Credit Transactions

#### The cash flow plan without Credit Transactions

Cash-based cash flow planning is easier and straight forward. That is because all transactions are cash-based. Payments are made in cash while sales receipts are also in cash. So, when projections are made, it is easy to plot these figures on a cash flow sheet.

Because cash flow planning is such an important part of business planning, the manager or business owner needs to commit enough time to make projections for a given period, say three months, six months, nine months or even twelve months.

Below are the key components of a simple cash-based cash flow statement.

1. Beginning Cash – This is the starting cash for the first month, and the subsequent months.
2. Cash From Sales – is the income expected from sales. There are no credit sales here.
3. Total Cash In – is the combined total (beginning cash + cash from sales).
4. Purchases – represents an important expense for every trading business. Each month money is spent to buy stock and raw materials.
5. Wages/Salaries – is total expenses for workers, including owner in some instances.
6. Electricity – is money to be paid for electricity use.
7. Telephone – is money to be paid for telephone communication.
8. Others – includes all other payments in cash.
9. Total Cash Out – is the total of all cash payments for the month.
10. Ending Cash – is the balance remaining at the end of the month after subtracting 'total cash out' from 'total cash in'.
11. Always remember that the ending cash for one month becomes the beginning cash for the next month. This sequence continues throughout.

#### Example of a cash flow plan without credit transaction

Let us consider an example here.

Take this example: ABC Company has a starting capital of K50 000. Total monthly sales is K50, 000 and total monthly purchases is K30 000. Other monthly expenses are:

Wages – K4000, Electricity – K1000, Rent – K2000, Others – K5000. These projections are expected to remain unchanged for up to six months. Develop a cash flow statement for ABC based on this information from January to June 2015.

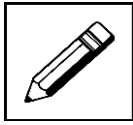
Turn to the next page to see how it is done.



	Jan	Feb	March	April	May	June
<b>Starting Cash</b>	<b>50 000</b>	<b>58 000</b>	<b>66 000</b>	<b>74 000</b>	<b>82 000</b>	<b>90 000</b>
Cash Sales	50 000	50 000	50 000	50 000	50 000	50 000
Others						
<b>Total Cash In</b>	<b>100 000</b>	<b>108 000</b>	<b>116 000</b>	<b>124 000</b>	<b>132 000</b>	<b>140 000</b>
Cash Purchases	30 000	30 000	30 000	30 000	30 000	30 000
Wages	4000	4000	4000	4000	4000	4000
Electricity	1000	1000	1000	1000	1000	1000
Rent	2000	2000	2000	2000	2000	2000
Others	5000	5000	5000	5000	5000	5000
<b>Total Cash Out</b>	<b>42 000</b>	<b>42 000</b>	<b>42 000</b>	<b>42 000</b>	<b>42 000</b>	<b>42 000</b>
<b>Ending Cash</b>	<b>58 000</b>	<b>66 000</b>	<b>74 000</b>	<b>82 000</b>	<b>90 000</b>	<b>98 000</b>

Table 3.5: Cash Flow Plan without credit transactions.

Source: Business in Melanesia – Book 1-2008.



**Learning Activity 11.3.2c: Complete the activities given below.**

1. What is a credit transaction and how does it affect a business' cash flow?

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2. How is 'ending cash' worked out?

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3. How is 'total cash in' and 'total cash out' worked out?

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**NOW CHECK YOUR ANSWERS AT THE END OF THE MODULE**



### 11.3.2.4 Business Cash Flow Plan and Budget with Credit Transactions

#### The cash flow plan with Credit Transactions

**Credit** is a business term which simply means trust. When goods and services are sold on credit to a customer no cash is involved. Instead, the buyer takes possession of the product immediately while payment is made at a later date. There is already some trust between the buyer and the seller so it is easy for a credit transaction to be made. The seller trusts the buyer before releasing the products on credit.

A credit transaction does not involve the immediate transfer of money. Goods and services are sold without the buyer receiving the cash on the spot. In other words, payment is made at a later time, usually within 30 days of the sale.

Many big businesses allow for credit transactions. They either sell or buy on credit. Because cash payment is delayed, it must be shown on the cash flow statement.

#### Difference between cash-based and credit-based cash flow plan

**Cash-based** cash flow statement is straight forward. It is assumed that all buying and selling is cash-based. In other words, cash is exchanged on the spot. So, this is reflected in the cash flow by showing the movement of cash. For a given period, it is easy to see how much cash is expected to be received and how much is expected to be spent. The remaining cash balance is displayed at the end.

**Credit-based** cash flow statements must display two things; cash and credit transactions. Some transactions are for cash and these are shown in a separate column. Then there are credit transactions which must be shown on a separate column. It is credit transactions which add the difference to the cash flow.

The delayed receipt of cash from credit sales is shown in a subsequent period such as one month later. This must be carefully planned and shown on the cash flow sheet.

The delayed cash payment for credit purchases is shown in a subsequent period; for example, one month later. This must be carefully planned and shown on the cash flow sheet.

#### Main components of credit-based cash flow

The layout of cash-based and credit-based cash flows is similar in many aspects except for the inclusion of two columns. One column in the receipts section will be titled 'cash from credit sales'. This column will show the cash received from credit sales for the previous month.

A column in the cash out section will be titled 'cash payment for credit purchases'. This column shows the payment of cash for credit purchases for the previous month.

#### How credit affects cash flow

Credit is a double-edged sword. It affects the cash flow of a business in two major ways. Firstly, it delays the receipt of cash for sales. Secondly, it delays the payment of cash for credit purchases. Delayed cash receipts can seriously affect the liquidity of a business in the short-run. For example, if most of the money is tied up in outstanding receivables, the business will experience a short-term cash crisis. Delayed cash payment is an advantage to



the business. At least there is no interest charged. Meanwhile, the business can generate sufficient sales to pay for the purchases at an agreed time later.

### Example of a cash flow plan with credit transactions

Let us take this example:

ABC Company undertakes credit transactions. Fifty percent of its sales are on credit. Also, fifty percent of its purchases are on credit. A credit term for both purchases and sales is 30 days. It has a starting capital of K50 000. Total monthly sales is K50 000 and total monthly purchases is K30, 000. Other monthly expenses are: Wages – K4000, Electricity – K1000, Rent – K2000, Others – K5000. These projections are expected to remain unchanged for up to six months. Develop a cash flow statement for ABC (January – June) based on this information.

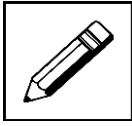
	Jan	Feb	March	April	May	June
<b>Starting Cash</b>	<b>50 000</b>	<b>48 000</b>	<b>56 000</b>	<b>64 000</b>	<b>72 000</b>	<b>80 000</b>
Cash Sales	25 000	25 000	25 000	25 000	25 000	25 000
Cash from Credit Sales		25 000	25 000	25 000	25 000	25 000
Others						
<b>Total Cash In</b>	<b>75 000</b>	<b>98 000</b>	<b>106 000</b>	<b>114 000</b>	<b>122 000</b>	<b>130 000</b>
Cash Purchases	15 000	15 000	15 000	15 000	15 000	15 000
Cash for Credit Purchases		15 000	15 000	15 000	15 000	15 000
Wages	4000	4000	4000	4000	4000	4000
Electricity	1000	1000	1000	1000	1000	1000
Rent	2000	2000	2000	2000	2000	2000
Others	5000	5000	5000	5000	5000	5000
<b>Total Cash Out</b>	<b>27 000</b>	<b>42 000</b>	<b>42 000</b>	<b>42 000</b>	<b>42 000</b>	<b>42 000</b>
<b>Ending Cash</b>	<b>48 000</b>	<b>56 000</b>	<b>64 000</b>	<b>72 000</b>	<b>80 000</b>	<b>88 000</b>

Table 3.6: Cash Flow Plan with credit transactions.

Source: Business in Melanesia – Book 1-2008.

Key points to note:

1. Credit sales of K25000 (50% of total sales) for January is received in February; payment for February is received in March, and so on, based on the credit policy.
2. Payment for credit purchases (50% of total purchases) for January is paid in February; payment for February is made in March, and so on, based on the credit policy.
3. The beginning cash is added to the sales figure to determine the 'total cash in'.
4. The 'total cash out' is subtracted from the 'total cash in' to determine the 'ending cash' for the month.
5. The 'ending cash' for one month becomes the 'starting cash' for the next month. This pattern is continued throughout.
6. Because the above cash flow is for six months, it stops in June. As of June, there is an outstanding sales receipt (credit sales) which is not factored in. However, it will be shown as cash income in July. Likewise, there is an outstanding credit purchase for June which is not shown, but it will be shown in July.
7. The cash flow for ABC is positive for the six months in consideration here.



**Learning Activity 11.3.2d: Complete the activities given below.**

---

1. How is a credit transaction taken care of in a cash flow budget?

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2. How do credit purchases affect a business' cash flow?

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3. How do credit sales affect a business' cash flow budget?

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**NOW CHECK YOUR ANSWERS AT THE END OF THE MODULE**





### 11.3.3 Business Plan

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In this topic you will learn about business planning process. You will learn about the four elements of business plan which are, executive summary, operation marketing, and finance of the business. Furthermore, you will develop a business plan.

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#### **Learning Outcomes;**

On successful completion of this topic, you can be able to;

- Define marketing, discuss the importance of having a market plan and present a market plan.
  - Define finance and discuss the importance of finance in business.
  - Develop a business plan.
  - Define planning process, identify and explain its purpose and components.
  - Define the four elements of business plan and explain their purposes.
  - Write an executive summary and present an operation plan, marketing plan and a business plan.
  - Develop a business plan.
-



### **11.3.3.1 Business Planning Process**

#### **Define Planning, Business and Business Plan**

**Planning** is the process of taking into account the future of a business in order to control its environments and prepare for unexpected outcomes. A plan can be a written document or a series of reports on agreed procedures, actions and understandings.

Planning is the key to the formulation of strategy. Strategy is about planning for the medium to long term future of the business. The routine activities are always part of the business culture. Daily routines can lead to the future being forgotten if everybody is too busy to consider medium to long term problems. So management needs to move away from routine to planning. It is through planning that the future of the organization is at least taken care of.

#### **What is a business plan?**

A business plan is like a road map that guides one to reach his or her destination. It is a written statement that outlines how the business intends to organize itself to satisfy the demands of its clients and thereby develop its business. It contains details of what a business will do, who will do it, when and how the business will conduct its activities. This plan should show how you will put your ideas into operation. A business plan is, therefore, essential for the reasons stated below.

1. The plan gives you a clear idea of the direction you are taking in a step by step manner.
2. A plan will always be required if you wish to borrow money.
3. The plan indicates whether a new business idea will work or not.

#### **The Purpose of Planning in Business**

A business must develop its plans continually for the future. It is through planning that the business knows its customers' requirements, how customer needs and expectations are changing, which way technology is moving and how competitors are serving their customers. The business environment is always changing. Consumer tastes and requirements, competitor actions, technology and legislation are constantly changing. It is logical for every business to know what these changes are and act positively to live with them. The future of the business lies in the hands of planners. Planning coordinates the decisions of the organization to move it in a desired direction. Without a plan, the efforts of an organization will not be coordinated well enough; managers and staff may be heading in different directions. Without a plan there is disunity.

#### **Business Plan Format**

Business plans come in a variety of formats. The structure of the business plan can vary from one writer to another. Despite this fact, most business plans involve a mix of common items or elements. These items represent the common issues which all businesses must deal with.



Table 3.7 below shows a business plan format.

<b>Title, executive summary and description</b> <ul style="list-style-type: none"><li>• <b>Title and Executive summary</b></li><li>• <b>Business description</b></li></ul>
<b>Mission or vision statement</b> <ul style="list-style-type: none"><li>• <b>Briefly states what the business is about.</b></li></ul>
<b>SWOT Analysis</b>
<b>Marketing</b> <ul style="list-style-type: none"><li>• <b>Market analysis</b></li><li>• <b>Sales forecast</b></li><li>• <b>Marketing strategies</b></li></ul>
<b>Operations</b> <ul style="list-style-type: none"><li>• <b>Description of the product</b></li><li>• <b>Personnel requirements, acquisition and development</b></li></ul>
<b>Finance</b> <ul style="list-style-type: none"><li>• <b>Requirements</b></li><li>• <b>Forecasts</b></li><li>• <b>Records</b></li></ul>

Table 3.7: Business Plan Format.  
Business Studies for Grade 11- 2004.

### Brief explanation of each section of a business plan format

- **Title page**

All business plans should have a title page to show the name of the business and the owners, and provide contact details (addresses, phone numbers and email addresses). This page must be neatly and logically laid out.

- **The executive summary**

This is a summarised version of the entire business plan. It summarises the key features that are explained in more detail later in the business plan. Typically, it discusses the following areas:

- *Business ideas and goals.*
- *Marketing.*
- *Operations.*
- *Finances.*

- **Business Description**

A brief description of the business idea describes its name, its main activities, the location and layout of its facilities. Here is an example of a business description:

*Our business is a poultry project specialising in raising and selling live chicken at an affordable price. This business is located at Boundary Road, Lae, Morobe Province.*



- **The mission or vision statement**

This statement simply is what the business is all about. The mission statement generally expresses the overall objectives of the business. It also highlights the beliefs and values of the business. Below is an example of a mission statement:

*This business aims to sell a wide range of high quality and affordable agricultural supplies for the Papua New Guinea market. It intends to have a well-trained sales team that is able to offer quality advice and identify developments in the industry.*

Some business planners also include the business goals. These goals can be short term - usually up to 12 months or long term. Business goals are always specific, time-bound (That is, there is a target date for completion) and measurable. When goals are expressed in measurable terms, it is easier for the owner or manager to evaluate them after some time.

- **Product or service description**

A product or service description gives details of what exactly the business is going to produce or sell. It also states how the product will be produced or sold. The following is a good example of a service description for a Kai Bar outlet.

*Wantok Price kai bar will cater for a wide range of customers by selling cooked food such as beef, lamp flaps, sausages, chicken, vegetables, fried chips, kaukau and fried rice.*

- **SWOT Analysis**

A SWOT analysis covers the *strengths* and *weaknesses* of a business and identifies *opportunities* and *threats* present in a business environment (Refer to table 3.1 in unit 11.3.1.4). Strengths and weaknesses always relate to the internal business environment. It may involve the market share, the quality aspects of resources such as workers, location, finances and competition.

Opportunities and threats are linked to the external business environment. Opportunities may relate to the availability of new technology, market expansion, product development and the general outlook of the economy. A careful analysis of the environment would reveal new threats too. Threats can be any event which can have a negative impact on the business and is brought upon by the external environment. For example, interest rates may rise, or government tax may increase. These two events are likely to affect the business in the future.

- **Appendix**

Most business plans provide an appendix section for any extra information that may support the business plan. This could include copies of the resume of the entrepreneur and key management personnel, quotes for major capital purchases, copies of leases or buy/sell agreements, other legal documents, maps of the business site, floor plans of the business premises, and key statistics collected through a market survey.



- **Detailed planning**

After doing a careful research on the potential of a business idea, it is now time to draw up a detailed plan. This will include how the business idea will be actually put into practice. Before commencing the business the following factors must be considered. The answers provided for the questions in each of the sections will help to put together a business plan.

1. Start-up type

- Will the business be started from scratch, or will an existing business be bought?

2. Man-power or labour

- Will there be a need to employ other people in the business?
- If so, what kind of skills should they possess?
- Can the business afford to pay the wages?
- How about employing family members?

3. Equipment or resources

- What type of equipment will this business idea need?
- How much of these equipment will be needed, and where will they be obtained?
- How much will these equipment cost?

4. Organisation of the business

- How many sections will be created in the business?
- What will be the cost of each section or department?
- Who will take care of each section?
- What will be the tasks for each person?

5. Type of business control

- What type of business organisation is preferable?
- Who will be responsible in the business for management functions?

6. Location

- What is the most suitable area to locate the business?
- Can a suitable location be found within the local area?
- Do you still go ahead with your business idea, even if, the location is not suitable?

7. Finance

- Where will the money come from to start up your business idea?
- How much money is needed to start up or expand your business idea?
- What are the major costs involved in your business idea?
- Do you have enough money to start up your business idea?

8. Supplies

- Where will the business get its supplies such as raw materials?
- Are there enough suppliers in the local area?
- How many suppliers are available for the business?



- How much is each supplier charging?

The detailed plan is more of a 'trial and error' exercise. If there are any faults in the plan then this could be fixed on paper. It will help to avoid failures in the real life.

### **Resources**

A business idea can only be put into practice if the required resources are available. These resources include money, tools, building, vehicles and even workers. The amount of resources needed depends on the type and size of business.

Some people possess the required resources before they start up a business. However, most people do not have everything required to put a business idea into practice. What should these people do in order to acquire the required resources? Below are some options to consider.

Ways of acquiring resources.

#### **i. Purchasing assets**

Assets can be purchased outright if there is sufficient money available. However, you must be careful not to tie up all your funds in one asset. Otherwise, there will be a shortage of funds to pay for other expenses.

#### **ii. Borrowing to purchase assets**

If you do not have enough money to buy your own assets then you can consider borrowing money from others. You can borrow from your family members such as parents, uncles and cousins if they are willing to lend to you.

#### **iii. Leasing**

You can make an agreement with another person who has an asset such as a truck to use it in your business. In return for using the asset you will pay the owner of the asset an agreed sum of money regularly. This is called leasing. Banks and finance companies provide leasing finance to businesses. Leasing has its advantages and disadvantages which you must find out before committing to it.

#### **iv. Hire purchase**

This is a similar arrangement as leasing. Banks and finance companies provide hire purchase finance. However, the purchaser must pay an initial deposit, usually equal to one third or a quarter of the total cost of the equipment value. The balance is usually paid over a certain period of time in installments. The purchaser takes control of the equipment or asset as soon as the initial deposit is paid. However, banks can take back or repossess the equipment if loan repayments are not done. Interest is usually charged on the amount outstanding.



**Learning Activity 11.3.3a: Complete the activities given below.**

1. What similarities can you see between a road map and a business plan?

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2. List some changes in the external environment that demands a business to plan constantly.

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3. What does the executive summary of a business plan cover?

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**NOW CHECK YOUR ANSWERS AT THE END OF THE MODULE**



### 11.3.3.2 Elements of a Business Plan – Executive Summary

#### The Executive Summary

The aim of writing an executive summary is to give a brief but complete picture of the contents of the business plan. It influences a reader's judgement of the whole document. The summary should contain the key points of the plan. It should be accurate and complete. If appealing, the reader will take time to read the whole document.

Presented below is an executive summary for a small, technology-based business named E-Tech. Reading through, you will notice that executive summary covers four main areas of a business. These are: business goals, marketing, operations and finance.

#### Sample executive summary

E-Tech is a technology business specializing in computer sales and periphery items. Its location is Port Moresby. It has been in operation since 2010. The goal of E-Tech is to be the leading technology service provider to institutions, organisations and individuals in PNG. E-Tech aims to be a progressive and profitable company. This goal will be achieved by generating sufficient profits, keeping customers happy and being socially and ecologically friendly.

The objective of E-Tech is to sell 1000 computers every month. The main customers at the moment are educational institutions. E-Tech aims to sell its products at the current market prices. The profit margin will be subject to demand and competition level changes. E-Tech will provide after-sales support for customers.

Competitor activities will be closely monitored. The use of local media outlets will be used to advertise its products. Public relations will be maintained efficiently.

E-Tech is currently located at Boroko, 4<sup>th</sup> Floor Ori Lavi Haus. This is believed to be a central location for various customers. E-Tech has a qualified team of staff; 1 General Manager, 2 line managers, 3 sales representatives, 1 driver, 1 receptionist for the next two years.

E-Tech, since commencing in 2010, has achieved modest growth in profit. Over the past two years E-Tech recorded a positive gross profit to sales outcome (60%) and a net profit to sales of 25%. Today, the rate of return stands at 25 percent. It aims to further improve the rate of return. There has been a steadily positive level of cash flow since 2010. It has always maintained a positive level of liquidity at an average ratio of 1:2. This is expected to continue at a gradually incremental rate over the next two years. To finance the proposed expansion of this business a series of commercial loans will be obtained. The current gearing ratio is 25% meaning that 75% of the assets are owned by E-Tech. That is a strong position for obtaining a commercial loan for expansion purposes.

Figure 3.10.: Sample of Executive Summary.  
Source: Grade 11 Business studies- 2004.





### 11.3.3.3 Elements of a Business Plan – Operations

#### Operations

Operations relate to the daily activities of the business as well as the management of these activities. An operational plan should be developed which should include business goals as well as the organizational structure and the specific roles and responsibilities of every staff of the organization. The operational component of the plan enables the reader to quickly see what product is on offer, the goals and objectives of the organization, where the business is located, the organizational structure and how the business is managed. It also shows the roles and responsibilities of the workers.

Components of operation plans:

- *Business ideas and goals.* This section provides an overview of the business project, what product or service is being sold, the entrepreneur's goals and the future financial position of the business in one or two years.
- *Operations.* This section covers details of the business location, number of staff required and their skills and the organisational structure.
- *Finances.* This section covers the expected profit level, the projected cash flows, details of business finance required, its source and its use or application.

#### Operations and production

This part of the business plan deals with the day-to-day operations and other issues as described below.

- *Legal and licensing requirements* - the business name and the legal structure of the business must be covered here. The cost of obtaining them must also be estimated and included.
- *Management details* – includes the background details about the owners/ managers, their full name, residential address, phone number, date of birth, qualifications, special skills, and job history. Other information about past business experiences, business failure and other information can also be included.
- *Organisational structure and staffing* - the structure will show various areas of responsibilities. Skills and qualifications needed should be decided beforehand. Workers pay and other benefits should be planned for as well. If possible, include an organisational chart for the business.
- *Insurance and security needs* - it is important to decide on insurance cover for the business. The cost involved and other security precautions should also be covered.
- *Business premises* - involves explaining all issues related to: location, where the business will be based, accessibility and convenience, rent or lease terms and other conditions. Specifications for any special facilities such as building size,



specialised customer access, special lighting, air-conditioning or restrooms must be covered in the plan.

- *Plant and equipment required* - this section lists the likely plant and equipment needed, the type and model required, cost, life expectancy, running costs, and service/maintenance requirements.
- *Production processes* - this section briefly explains how the product will be made, including the supply of any raw materials or trading stock and the production processes.

### Implementation schedule

An implementation schedule is a useful tool that is often found in a business plan. It outlines the activities required to set up and run the business. The schedule below provides a good example of a timeframe for a small business – from incorporation through to commencement. It is for the period: January to June 2015. This schedule is called the Gantt chart.

Activities	Jan	Feb	Mar	April	May	June
Register business name with IPA						
Apply for business licenses/permits						
Open operating bank account						
Operational manual						
Insurance policies						
Advertising campaign						
Visit accountant for progress report						
Install computer system						
Prepare promotional brochures						
Print and distribute brochures						
Start operations						
Key						
Starting of an activity						
Successful task completion						
On-going activity						

Table 3.8: An activity schedule.

Source: Business in Melanesia – Book 1-2008.

The use of the different colours is explained by the key at the bottom of the chart. Anyone reading this chart will know what the three colours mean for each task or activity. Some tasks such as IPA registration are one-off. Others such as advertising and trading are on-going. The use of different colours clearly separate these activities according to their nature.



## Sample of an operational plan

### Product description

E-Tech is currently involved in the trading of computers and related IT accessories to the public; including education institutions, individuals, corporate clients, NGOs and Churches

The main computer brands E-Tech sells include: ACER, Toshiba, HP, and other lesser known but durable and quality brands. Accessories include: printers, papers, printing ink cartridges, scanners, external hard drives, flash drives, CDs and memory cards.

E-Tech purchases from two suppliers in Australia; namely Perth IT Solutions and NT Computers.

### BUSINESS ORGANISATION

Staff employed by E Tech is as follows:

Position	Monthly wage (Kina)
Managing Director	5000
Manager – Sales and Marketing	4000
Manager - Administration	4000
Salesperson 1	2000
Salesperson 2	2000
Accounts Officer	1000
Driver	800
Cleaner/Security Guard	600
<b>TOTAL</b>	<b>19 400</b>

Table 3.9: Staff monthly wages.

Source: Business in Melanesia – Book 1-2008.

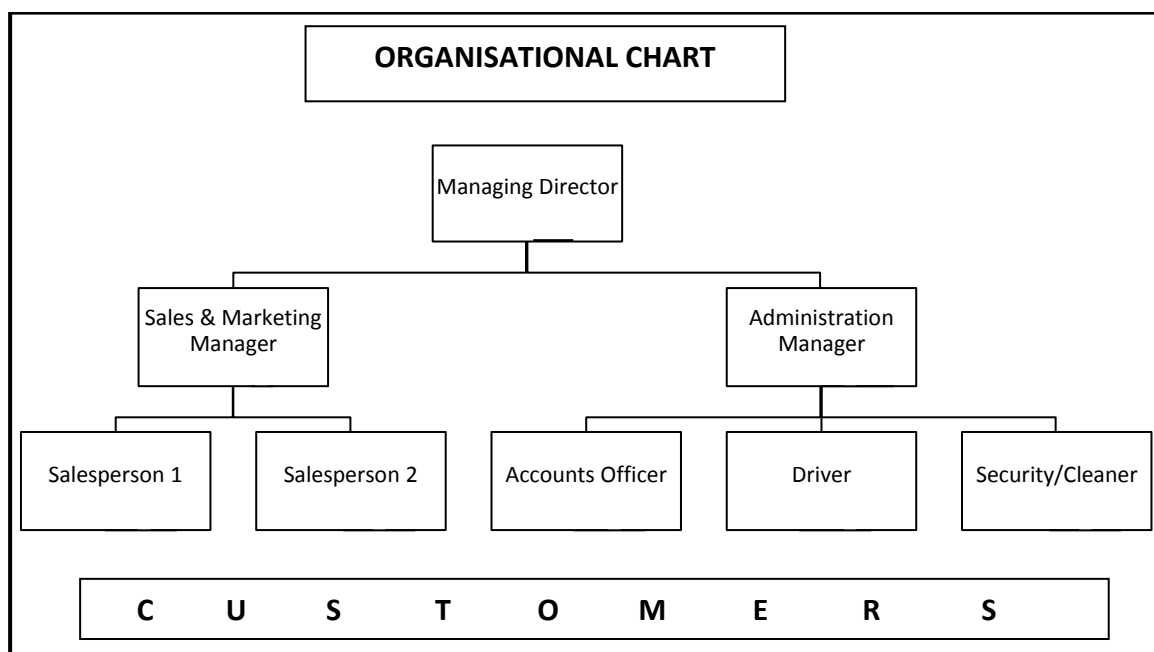


Figure 3.11: Responsibilities of a manager.

Source: Business in Melanesia – Book 1-2008.



## (i) Licenses and permits for the business

Type	Approximate cost
IPA Company registration	K500
IRC Compliance registration	K500
Trading License	K500

## (ii) Business responsibilities (insurance, worker compensation, taxes)

Type	Approximate cost
Insurance policies	
Worker compensation	
Company tax (provisional)	
POSF/NASFUND contribution for staff	

Figure 3.10: (i) Licenses and permits for the business, (ii) Business responsibilities (insurance, worker compensation, taxes)

Source: Business in Melanesia – Book 1-2008.



**Learning Activity 11.3.3b: Complete the activities given below.**

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1. State the main components of the operational section of the business plan.

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2. Why is an implementation schedule needed in a business plan?

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3. What is the usefulness of showing the business obligations such as licenses in a business plan?

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**NOW CHECK YOUR ANSWERS AT THE END OF THE MODULE**



### 11.3.3.4 Elements of a Business Plan – Marketing

#### **Marketing**

Every business plan must include a comprehensive marketing plan that will help promote sales. The marketing plan should identify the business' target market, pricing policy, sales targets, promotion and advertising policy, and distribution methods. It should also state if market research was done, what exactly will be sold by the firm and the intended customers.

#### ***Market research***

This segment should make known the details of the market research which supports the business plan. The type of research, primary or secondary and the data reliability should be mentioned in the plan.

#### **Market analysis**

Here, the results should clearly indicate the characteristics of the industry involved, including the present and future outlook of the industry. A good analysis would also indicate if sales will be affected by seasonal changes. A competition analysis will reveal the competitors and their strengths and weaknesses. Details such as price levels, promotional activities and location must be covered in detail.

#### **Marketing plan**

A marketing plan typically deals with four key marketing concepts, usually referred to as the four Ps of marketing.

- *Product* - means the main product that a business will produce or sell.
- *Place* - involves the channels or means to be used to distribute the product or service.
- *Promotion* - covers how the business' goods and services will be advertised and promoted.
- *Pricing* - pricing plan should show how prices will be charged and managed.

#### **Sample marketing plan**

##### **E-Tech Marketing Plan**

###### **A. Customers**

Type: Educational institutions, Business houses, Individual consumers

Size: The market is small compared to other established competitors such as Able Computing. This is represented by monthly sales of K600 000.

Location: Nearly all customers live/operate within NCD and some parts of Central Province.

Product Comparison Table: Computers



Competitor Characteristics Name' Address	My Product/ Service E-Tech Boroko, NCD	Competitor A  Able Computing Boroko, NCD	Competitor B  Star Computing Boroko, NCD	Competitor C  Seeto Kui Waigani, NCD
Price	1,000	1,000	1,100	1,100
Quality	High/Good	High/Good	Good	High/Good
Customers	Local/NCD	Local/National	NCD/Local	NCD/National
Staff skills	Skillful	Very experienced	Skillful	Skillful
Reputation	Good	Very good	Good	Good
Advertising	Local media	Local media	Local media	Local media
Delivery/Installation	Yes	Yes	Yes	Yes
Location	Good	Good	Good	Good
Special offers	Yes	Yes	No	No
After sales service	Yes	Yes	Yes	Yes
PR	Good	Good	Poor	Good

Figure 3.11: Sample of marketing Plan.

Source: Business in Melanesia – Book 1-2008.

The main strengths of my competitors are:

- Possess experience and capital
- Have larger market share
- Selling quality products
- Good customer service
- Price is competitive

The main weaknesses of my competitors are:

- Unable to adjust quickly when there is a fluctuation in computer prices.
- Two competitors rarely give special offers
- Once competitor has weak PR (people relations)

The main advantages of my service/products are:

- Quality is good
- Stock is purchased from reputable and trusted sellers in Australia
- Staff motivation is very high
- After-sales service is very good



### Promotion and Selling

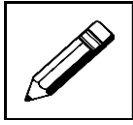
Promotion and advertising methods used in this business will be:

Method	Cost (Monthly) Kina
Television (EMTV, Kundu)	10 000
Radio (Commercial stations)	5000
Newspapers (National & Post Courier)	10 000
Internet (Facebook and Twitter)	5000
<b>Total</b>	<b>30 000</b>

Figure 3.12: Costs of monthly promotions and advertising methods.

Source: Business in Melanesia – Book 1-2008.





**Learning Activity 11.3.3c: Complete the activities given below.**

1. State the main components of the marketing section of the business plan.

---

2. Briefly explain the four (4) Ps of the marketing plan.

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**NOW CHECK YOUR ANSWERS AT THE END OF THE MODULE**



### **11.3.3.5 Elements of a Business Plan – Finance & Conclusion**

#### **What is finance?**

This refers to money or funds for a business. Finance can also cover the activities involved in earning and spending money in a business. It is an asset of the business.

#### **Importance of finance in business planning**

Every business needs finance for their operations. Finance is needed to start the business. Once started, finance is needed to continue the business operations. Finance is like the oil that lubricates the part of a machine so it continues to operate. A business will progress further with finance. Business plans need money in order for the business to be implemented. Without finance or money plans will never be implemented at all.

Because of its significance financial management is important for every business. Finance must be controlled so that the expressed aims of the business can be achieved.

Mismanagement of finance is one of the leading causes of business failure in our country. On the other hand, good financial management has resulted in the growth and success of many PNG businesses.

In the finance section of the business plan, the expected profit level as well as the projected cash flows is stated. It also includes details of the type of business finance required, its source and its use or application.

#### **Financial plan**

This section involves the financial information that supports the financial forecasts. Financial planning can be defined generally as a systematic process of selecting an organisation's financial objectives and the means of achieving those objectives. Its main purpose is:

- (i) to bridge the gap between the existing and the desired financial positions.
- (ii) to make it possible for appropriate financial decisions to be taken.

A financial plan, on the other hand, is a formal document translating the business plan into financial terms. It considers mostly financial matters.

#### **Basic assumptions**

Income and expenditure is often estimated based on certain assumptions or guess works. These assumptions need to be explained also as well as any unusual items, omissions or unusual variations in the figures must be further explained. Common estimations are made about inflation, increases in costs or wages and interest rates.

Sales forecasting involves making assumptions based on the past information as well as what is expected in the future. It generally starts with a review of sales during the past few years. This information can be shown graphically as shown in figure 3.12.

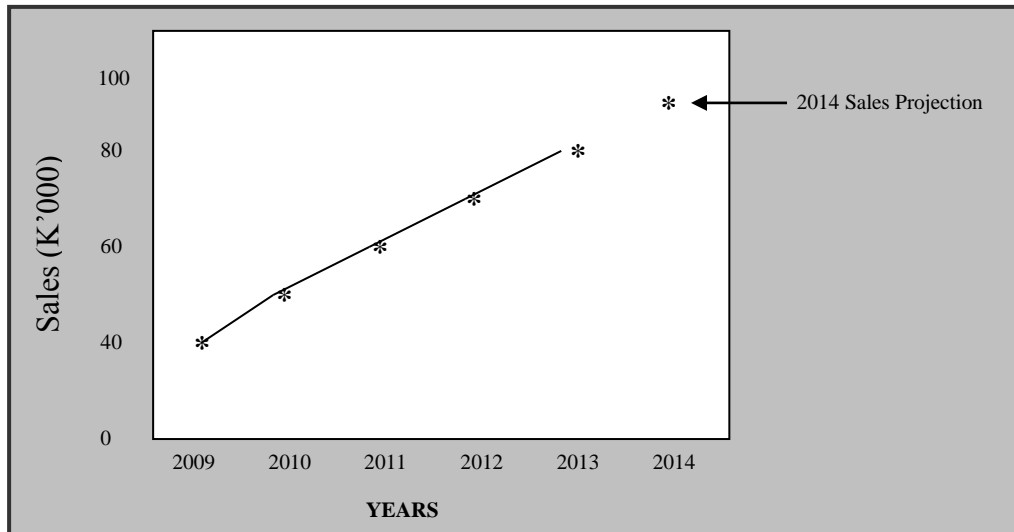


Figure 3.12: Graph showing sales projection of a business.

Source: Business in Melanesia – Book 1-2008.

The above scatter graph shows the sales projection for 2014. It is based on the sales performance of the past years. The graph shows a general trend appearing which indicates that sales have been constantly increasing since 2009 by at least K10 000 each year. Based on that trend it is projected that there is going to be a likely increase of K10 000 in sales in 2014. Similar projections can be easily made for other areas such as expenses. However, it is not possible to make quick projections for a start-up business.

It may be useful to provide details about what bank accounts the business will operate and the necessary bank fees the bank will charge. It is also necessary to cover other banking aspects such as credit access and online or phone banking.

Overdraft facilities and the terms of loans must also be included. For any outstanding loans, it is important to provide the details of the lender, the amount borrowed, the current balance outstanding and the terms of the loan.

Additional funding requirements, if any, must also be included. If this money is to be borrowed, information about the proposed lender, the amount needed, when it is required, monthly repayments due, the interest rate, loan conditions and term of the loan must be included.

### Financial forecasts

Financial forecasting is an important tool for financial management in any business. Sales mix forecast, cash flow forecast, projected profit and loss statement and the balance sheet are all covered in the financial forecasts. Data from market research and/or past performance is used to determine the likely sales revenue for at least the first 12 months. The number of items sold each month, sales income and costs of goods sold are often estimated in order to complete the sales mix forecast.

A **cash flow statement** is needed to indicate cash movement and the resulting cash balances. Cash flow is an important indicator of liquidity – the availability of cash in the business.



The **projected profit and loss statement** shows business revenues, expenses, gross profit and net profit for the forthcoming year. Common expenses are compared against the income stream of each month to show the projected profit for the month. Common operating expenses would include; wages, rent, raw materials, marketing, telephone, electricity, utilities, depreciation, insurance, interest on loans and business licenses. The total operating costs are compared against operating income to give the net profit.

The balance sheet reports a business's financial position at a specific time. It provides details about the assets, liabilities and net worth of the business.

### **Analysis of financial forecasts**

From the financial estimates provided, it may be useful to conduct ratio analysis or other important calculations. It could include an estimation of the break-even point, fixed and variable costs, contribution margins, and mark-ups.

### **Start-up capital**

**Start-up cost** is made up of the capital cost and the initial working capital. Capital costs relate to expenditures needed to acquire non-current assets such as land, buildings, machinery, furniture and fittings.

For a start-up business it is important to determine the working capital before commencing it. The working capital is what the business needs to operate on. It is needed to take care of the daily expenses. Some of these expenses are ongoing while others such as insurance and fees are paid upon commencement and renewed annually.

### **Source of finance**

An evaluation of the possible means of financing the start-up costs is also needed. For a small business, the owner's contribution will form the major source of funding. If there are other sources then those have to be shown, including the amount contributed. For the purpose of a bank loan details including; amount of loan, annual interest rate, loan term, annual principal repayment and the grace period should be included. As a requirement, securities that will be offered for the loan should also be included. These securities are usually personal assets of the owner. The market value of these assets should also be estimated and shown in the plan.

### **Sample Financial Plan for E-Tech Company**

#### **Projections**

Sales projections are based on the following assumptions.

1. 300 computers will be sold in 3 months at a price of K1000 per computer set.
2. 3000 units of periphery units will be sold at an average price of K100
3. All sales will be on cash basis.

Projections for expenses are based on the following assumptions.



1. Monthly wage bill is K30 000
2. Monthly rental is K10 000
3. Monthly stock purchase is K250 000
4. Monthly electricity bill is K5000
5. Monthly transport cost is K20 000
6. Monthly utilities bill is K20 000

### Cash flow statement – 3 Months

	January	February	March
Cash at start	1 000 000	1 265 000	1 530 000
Sales income	600 000	600 000	600 000
Others			
Total income	1 600 000	1 865 000	2 130 000
Stock purchase	250 000	250 000	250 000
Wages	30 000	30 000	30 000
Electricity	5000	5 000	5000
Utilities	20 000	20 000	20 000
Rental	10 000	10 000	10 000
Transport	20 000	20 000	20 000
Total Expenses	335 000	335 000	335 000
Cash at End	1 265 000	1 530 000	1 795 000

Table 3.13: Cash Flow Statement.

Source: Business in Melanesia – Book 1-2008.

### Pro forma Profit and Loss Statement

	January	February	March
Sales income	600 000	600 000	600 000
Less Cost of Goods Sold	250 000	250 000	250 000
Gross Profit	350 000	350 000	350 000
Wages	30 000	30 000	30 000
Electricity	5000	5000	5000
Utilities	20 000	20 000	20 000
Rental	10 000	10 000	10 000
Transport	20 000	20 000	20 000
Total Expenses	85 000	85 000	85 000
<b>Net Profit (Before tax)</b>	<b>265 000</b>	<b>265 000</b>	<b>265 000</b>

Table 3.14: Pro-foma Profit and Loss Statement.

Source: Business in Melanesia – Book 1-2008.

**Basic evaluation of financial statements**

1. Cash Flow
  - a. Cash flow for each month is positive which is good.
  - b. Liquidity is good.
2. Profit and Loss Statement
  - a. Profit is made each month.

**Source of funds**

As can be seen above a starting amount of K1 million is used. This money is part of the retained earnings of the business. The company will use its retained earnings to continue to operate. No money will be borrowed so loan or borrowed funds is not included in this sample cash flow.

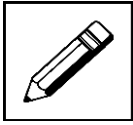
**Application of funds**

The K1 million put up by the business will be used to purchase the stock for trading. Other expenses will be taken care of from this initial amount as well as through the sales of items each month.

**Conclusion**

The conclusion section of the business plan simply restates the key points of the plan. Secondly, it highlights the feasibility of the plan and makes recommendations for the reader to take note and act. Usually, conclusions are made up of less than a page. A short conclusion helps to drive the message home.

An extension of the conclusion is the recommendations made by the person or organization writing the business plan. This is important to convince the reader that this is a good plan worth some consideration.



**Learning Activity 11.3.3d: Complete the activities given below.**

1. Define the term 'finance'.

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2. How important is finance to a business and its plans?

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3. Why is it necessary to make financial forecasts for a business plan?

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**NOW CHECK YOUR ANSWERS AT THE END OF THE MODULE**

### 11.3.3.6 Developing a Business Plan

Step by step process of developing business plan.

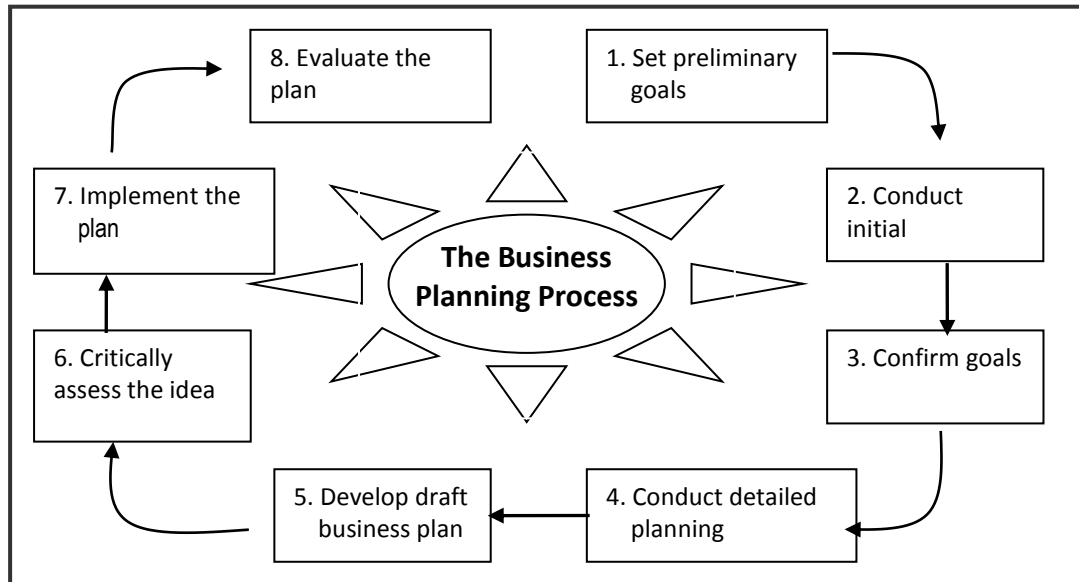


Figure 3.13: The business planning process.

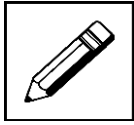
Source: Business in Melanesia – Book 1-2008.

Figure 3.13 above outlines the steps needed to be taken when writing a business plan. This process guides the writing of a business plan. The goal in step 1 relates to the final output and when it is expected. It has nothing to do with the mission or vision statement of your business idea. When enough information is available, the business plan should be developed. The draft business plan should give you some idea, especially about the chances of success. This is where critical assessment (step 6) comes in. If you see that your idea is good enough to make you rich, take the next step to implement it. Step 8 comes in after the implementation of the plan.

Below are ten (10) business planning tips which are meant to help you as well.

1. Business planning is the responsibility of the business owner or manager.
2. Always develop a strong mission or vision statement.
3. Previous plans must be consulted in order to develop new plans.
4. Workers and customers can be consulted during the planning stage.
5. Forecasting is a vital part of business planning. Always have a realistic forecast of income and expenses.
6. Information collected and used in the plan must be real, based on past and current information as well as future forecasts.
7. The plan must have a purpose and an audience. Always know why a plan is developed.
8. Implementation of a plan is important. It serves its purpose when implemented.
9. Evaluation of the plan is necessary to know whether the objectives of planning were achieved or not.
10. A business plan is not a rigid document. It is flexible and can change as circumstances change.





**Learning Activity 11.3.3e: Complete the activities given below.**

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1. Whose job is it to plan for the business?

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2. Why is a 'mission statement' needed in a business plan?

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3. Do you think it is necessary to conduct an evaluation of a business plan? Explain your answer.

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**NOW CHECK YOUR ANSWERS AT THE END OF THE MODULE**



## Summary

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- A business is an organization that aims to make a profit for its owner(s). Apart from generating profits for the owner(s), a business is beneficial in many other ways. Employment, tax revenue and GDP contribution are some of those important benefits to our society. It even serves many peoples' desire to be free and independent.
- Every business starts from ideas. Therefore, ideas are important. Ideas must be properly researched to determine whether they will be successful or not. Various methods of research are available for people to use in order to establish whether an idea will lead to actual business success.
- Business people are also called entrepreneurs. An entrepreneur is a person who takes the risk to start a business. Entrepreneurs have qualities such as confidence, discipline, leadership, independence, drive, determination and honesty.
- Starting and managing a business is a highly demanding activity. Business owners/managers must successfully manage their private lives as well as their business. It requires a manager/owner to find a balance between private and business life. Business failure can result from the lack of balance between business and personal responsibilities.
- The success of a business depends so much on the management of finance. Finance is a limited resource which demands good management. A budget is one such way to effectively manage business and personal finance. By controlling income and expenses, a business is kept on course at all times.
- An important part of business management is business planning. Planning is crucial to business success. The future of the business is determined through a business plan. Planning is an on-going part of business management. Plans can be prepared for a few months to a full year even to a period longer than one year.



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## ANSWERS TO LEARNING ACTIVITIES

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### Activity 11.3.1

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#### Activity 11.3.1a

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1. Can we classify a government-run school as a business? Explain your answer.

*No. A government-run or public school is not a business because it does not aim to make a profit. It is a service provider that is funded by the government for the people.*

2. State one factor which is used to differentiate between a large and a small business.

*Factors include; Number of employees; Ownership/management; Market share; Source of finance; Assets value; and Sales turnover*

3. How do businesses help the economy of PNG? Explain your answer.

*By contributing to GDP (Gross Domestic Product); By providing employment; By redistributing wealth.*

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#### Activity 11.3.1b

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1. Why is it important for you to develop a business idea based on who you are – your hobbies, interests, qualifications, experiences or passion.

*Because your business will succeed when you engage yourself in something which you are familiar with and is related to your interests, experiences and qualification. People who involve in businesses that don't match their interest, passion or experience end up in failure.*

2. Study Table 3.1 and identify a business which suits you. Explain why you think it really suits you.

*The answer to this question depends on your own choice. Whatever business you select must be related to your interest, passion or experience. Try to match it with who you are.*

3. Read the case study of Julius and Angela above and decide whether they are in the right business or not. Explain the position you take on this.

*A majority of you should say 'yes' to this question because this couple has started a business that very much relates to their experiences, interests and passion. By provision of vital goods and services.*

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#### Activity 11.3.1c

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1. How can a market research help a business?

*A market research will help a business by discovering vital information that will give a clue as to whether the business will fail or succeed in reality. As is often said in business, it is better to experiment with an idea on paper before committing money and resources to starting a business.*

2. What is the difference between primary research and secondary research?



*Primary research involves finding out new, unavailable information. This is done by asking potential and existing customers some specific questions.*

*Secondary research involves collecting information that is already available in books and magazines. Such information has been discovered and recorded by others already.*

3. How does a questionnaire help out in the market research process?

*A questionnaire contains a set of questions that are all related to a topic or a business idea. The questionnaire is usually tried out first before giving it out to the selected respondents. The information collected through the questionnaire is analysed and summarized before a final decision is made. For a new business idea, the questionnaire will help collect information that will eventually lead to a decision on it.*

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**Activity 11.3.1d**

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1. Is it easy for someone who doesn't like risks to become a successful entrepreneur? Explain.

*It is not easy because taking risks is part of the process of entrepreneurship.*

2. How is a serial entrepreneur similar to a profit-driven entrepreneur?

- *They both are profit-driven.*
- *They both have the passion and commitment to start a business venture and make it successful.*
- *They both are risk takers.*

3. There are seven (7) important entrepreneurial qualities (see table 3.2). Which one, in your opinion, rank as the most important? Explain.

*This question requires you to determine for yourself which quality you think is important. You are to select one out of the seven and try your best to explain your reason. There is no right or wrong answer to this question. But you must try to prove yourself through your explanation.*

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**Activity 11.3.1e**

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1. List two business commitments which the business owner is obliged to fulfill. How important are these commitments to the business or its owner?

*Family*

*Relatives*

*Customers*

*Workers*

*The general society/community*

*They will help business person when he is need. For example, they will contribute and help with finance if he falls short or needs extra money to expand his business.*

2. How different is the manager's job today in light of technological changes?

*Technological changes are taking place every day. These changes always come with new challenges and opportunities. These changes are part of a greater wave of change known as globalization. Organisations such as businesses must adapt new technology and ways of*



*doing things in order to remain competitive in business. Managers must be fully aware of the various changes in order to take their organisations/businesses through.*

3. Someone once said that all good business ideas have been taken up by clever entrepreneurs. Therefore, there is nothing new for anyone to take up these days. Do you agree with this statement? Explain your opinion.

*This statement is false. As the environment changes, old businesses are phasing out, and new business opportunities arise. That is why there are always many new business ideas which people can identify and take up. For example, the Internet is a relatively new development. With it comes new forms of business that never existed before.*

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**Activity 11.3.1f**

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1. Good managers possess great social skills. What particular management role do you think a manager can fulfill successfully with his/her social skills?

*Your answer could contain one of the five management skills covered in your reading. Again, there is no right or wrong answer here. All you need to do is to try and explain your answer. It is the quality of your explanation or reasoning that matters.*

2. What do you think will happen if a manager fails to cope with or keep up with changes in the external environment such as technological changes?

*The business and its manager will be left behind to do things which are no longer relevant for the changing times. Being out-of-date is no factor for success. In fact it is a ingredient for failure.*

3. Why is it important for a manager to know his/her personal characteristics?

*This is important in order for him/her to adjust to the requirements of managing an organization. Management comes with a set of skills, attitudes, functions and roles. If a manager's personality or attitude does not match the standard management skills and behavior than it is important for him/her to change and adjust in order to fulfill the key functions and roles of a manager.*



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### Activity 11.3.2

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#### Activity 11.3.2a

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1. State the income sources for these income types:

- a. Profit: *Business*
- b. Rent: *Property ownership*
- c. Dividend: *Owning shares*
- d. Interest: *Depositing money in the bank*
- e. Wages: *Working for others*

2. Briefly explain the difference between a 'share' and a 'debenture'.

*A debenture gives its holder the right to earn an interest from a company. A debenture holder is not an owner of the business but only a lender.*

*A share gives its holder the right to earn a dividend from a company. A shareholder is a part owner of the business or company.*

3. How can a budget help prevent impulse buying?

*Impulse buying means buying without any plan at all. A decision to buy is made while at the shop. This is often discouraged because it is unplanned expenditure. Income is limited so a wise consumer or business person must always plan his/her expenditures. A budget takes care of income and expenditure so that everything happens according to plan. It is a very educated way to spend limited income.*

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#### Activity 11.3.2b

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1. Why is a cash flow budget important to a business?

*A cash flow budget helps a business plan its inflow and outflow of cash before it actually happens. Any surpluses or shortages are discovered on the plan and in advance so that necessary actions can be taken to deal with shortages and surpluses before they actually occur. We must not forget that cash is the most important asset a business has. Business failure is often a result of cash shortage. Knowing cash shortages in advance will help a manager/owner of a business to take the right steps to avoid cash shortages before it takes effect.*

2. List some possible ways of improving cash flow shortage.

- *Speed up cash collection for credit sales*
- *Defer cash payments – arrange for credit purchase*
- *Negotiate with suppliers to extend the credit period*
- *Arrange for short term loans from banks*

3. Name the three motives for keeping extra cash in the business.

- *Speculative motive*
- *Transaction motive*
- *Precautionary motive*



4. Johnson Trading has K100 000 in inventory and K50 000 in receivables. Sales for the year totaled K2 500 000 and the Cost of Goods Sold was K1 000 000. What is the operating cycle for this business?

$$\begin{aligned}\text{Operating Cycle} &= \text{Days Outstanding Sales} + \text{Days Inventory Held} \\ &= \frac{\text{Accounts Receivables}}{\text{Daily Sales}} + \frac{\text{Inventory}}{\text{Daily Cost of Goods Sold}} \\ &= \frac{50\,000}{2\,500\,000/360} + \frac{100\,000}{1\,000\,000/360} \\ &= 50\,000/6944 + 100\,000/2778 \\ &= 7 + 40 \\ \text{Operating Cycle} &= 47 \text{ Days}\end{aligned}$$

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**Activity 11.3.2c**

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1. What is a credit transaction and how does it affect a business' cash flow?

*A credit transaction is a transaction that does not involve the immediate exchange of money when goods are purchased or sold. In other words, payment is deferred to a later time. When credit is involved, the flow of cash is also delayed. This delay is also reflected or included in the cash flow statement.*

2. How is 'ending cash' worked out?

*Ending cash is calculated by subtracting total cash out from total cash in.*

3. How is 'total cash in' and 'total cash out' worked out?

- *Total cash in is calculated by adding the beginning cash with income from cash sales and other inflow of cash such as bank loan.*
- *Total cash out is calculated by adding all the individual cash outs or expenses.*

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**Activity 11.3.2d**

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1. How is credit transaction taken care of in a cash flow budget?

- *Credit sales: Cash to be received is usually delayed by a month, so on a monthly cash flow statement, cash from the credit sales component will be included in the month following the sale.*
- *Credit purchase: For a monthly cash flow statement, cash payment for credit purchases is expected to be paid a month later. So this payment will be included in the month following the purchase.*

2. How do credit purchases affect a business' cash flow?

*The payment of cash is delayed, usually by a month. This frees up cash so that it can be used for other immediate needs. It is good for the business.*

3. How do credit sales affect a business' cash flow budget?

*Sales receipts is delayed, usually by a month. Payment in cash does not come in until a month later. This is a risky thing for many businesses. Remember, cash is needed to pay for other immediate expenses. And if cash is not available on time, the business will be in trouble. It can be taken to court or declared bankrupt too.*



### Activity 11.3.3

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#### Activity 11.3.3a

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1. What similarities can you see between a road map and a business plan?

*A road map is a guide that gives direction to someone who is new to a particular area he/she is travelling. It guides the traveller on his/her journey until he/she reaches the desired destination with little or no problems at all.*

*A business plan provides a similar service in that it provides direction to a business. Every business is involved in a journey each financial year. This journey can get out of control if there is nothing to control and direct it. Therefore, a business plan is needed by the management to direct its journey so that the set goals can be achieved at the end of that journey.*

2. List some changes in the external environment that demands a business to plan constantly?

- *Interest rate change*
- *Foreign exchange rate change*
- *Technological change*
- *New government legislation*
- *New labour laws*
- *New methods or systems of production*
- *New markets opening up*

3. What does the executive summary of a business plan cover?

*An executive summary gives a brief but complete picture of the contents of the business plan. It influences a reader's judgement of the whole document. The summary should contain the key points of the plan and should be accurate and complete. Typically, an executive summary discusses the following areas:*

- *Business ideas and goals.*
- *Marketing.*
- *Operations.*
- *Finances.*
- *Human resources management.*

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#### Activity 11.3.3b

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1. State the main components of the operational section of the business plan.

*Operations relate to the daily activities of the business as well as the management of these activities. The operational component of the plan enables the reader to quickly see what product is on offer, the goals and objectives of the organization, where the business is located, the organizational structure and how the business is managed. It also shows the roles and responsibilities of the workers.*

2. Why is an implementation schedule needed in a business plan?





*It gives a clear direction to the implementer of the business plan. Using this schedule the implementer can work towards achieving deadlines which also can enable him to achieve the desired results for each period. It becomes clearer for the manager or owner to see if the activities are going according to plan. Otherwise, revisions can be done quickly to avoid major problems.*

3. What is the usefulness of showing the business obligations such as licenses in a business plan?

*Such obligations are very important as most of these are mandatory or required by law. Others are obligations which, if not fulfilled, will land the business in trouble or major liabilities. Workers' compensation, for example, is mandatory. If not taken out, this alone can lead to the business' downfall when an injured worker sues the business for lack of compensation.*

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**Activity 11.3.3c**

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1. State the main components of the marketing section of the business plan.

The main components are:

- *Results of a market research/survey, if any*
- *Market analysis*
- *Marketing plan*

2. Briefly explain the 4 Ps of the marketing plan.

*The 4 Ps stand for:*

*Product: Description of the product; physical as well as non-tangible factors of a product*

*Price: Price to be charged as well as pricing strategies to deal with sudden price changes*

*Place: Where product will be sold, how it will be distributed or who to buy it from*

*Promotion: How to promote, advertise, or make the product popular with customers.*

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**Activity 11.3.3d**

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1. Define the term 'finance'

*Finance refers to money or funds for a business. Finance can also cover the activities involved in earning and spending money in a business. It is an asset of the business.*

2. How important is finance to a business and its plans?

*Every business needs finance. Without finance, all other business activities will stop. Without finance, there will be no workers; there will be no machinery; the list goes on. So we can see here that finance is very important for the operation of any business. Today, it is like a tractor that pulls its trailer along. Financial planning is very crucial because business success depends totally on it.*

3. Why is it necessary to make financial forecasts for a business plan?

*Financial forecasting is like making a very educated and calculated guess or prediction. This guess is usually assisted by other information either from the past activities or the present as*



*well as the future. Most financial decisions are made based on future forecasts. For example, a budget is made based on expected income and expenditure of the future.*

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### **Activity 11.3.3e**

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1. Whose job is it to plan for the business?

*The most suitable person in a business would have to be the owner of the business or a manager if one is employed.*

2. Why is a 'mission statement' needed in a business plan?

*A mission statement outlines the reason why a business exists. It is usually the profit motive, but some businesses go a bit further to state things like 'making the community a better place', or helping human beings.*

3. Do you think it is necessary to conduct an evaluation of a business plan? Explain your answer.

*Yes, it is absolutely necessary to evaluate a business plan. Evaluation is only done after the plan has been implemented; not before or during its implementation. The evaluation will reveal to the planner if things happened as planned. If there were some variations then the causes of such variations are also identified and corrective action can be taken for future improvements.*

**GLOSSARY**

Accounts receivables	An account kept by the business that records goods purchased on credit.
Assets	Things of value owned by the business.
Budget	A written plan of how to use or spend the income that one earns.
Business	The regular production or purchase and sales of goods and services with an objective of earning profit and acquiring wealth.
Business idea	The idea to start a business.
Cash flow budget	A plan of how the cash flow of the business is earned and used.
Competition	Business competing with each other on marketing and sales.
Credit	In business terms it refers to trust.
Credit transaction	Goods and services provided by the business that has not been paid yet.
Entrepreneurship	To undertake a business activity or project with an intention to earn a profit.
Finance	External funding such as bank loans business acquire to expand their business.
Forecasting	The estimation of the business ' operation in the future.
GDP	Gross Domestic Product.
Globalization	To be part of the changes in the world today in terms of business for instance, online business using the Internet.
Hire purchase	An agreement to use an asset or property from banks or fiancé companies with initial deposits made in the first place. Asset or property in the meantime will be used while payment will be ongoing over a given period of time. The business owns the asset or property once payment is complete.
Income	Money received by an individual, a business an organization or the government.
Investment	Use of money and property to earn income.
Leasing	An agreement to use someone's property while payment for that asset is going on. Once payment is complete an agreement is signed that you now completely own that asset.
Management	Specific set of roles that are performed by a manager.
Market research	Investigating the demand of consumers for the goods and services provided by the business.
Market share	Competition in the market.
Marketing	The plan to identify the business' target market, pricing policy, sales, promotions and advertising and distribution.
Marketing plan	The plan of how to produce, make known and sell your products to customers. Also known as 4 Ps.
Mission statement	Statement which states what the business is all about.
Obligation	Duties of the business.
Operating cycle	The number of days the average inventory item is held and the



	number of days the average receivable remains outstanding.
Operations	The daily activities of the business as well as the management of these activities.
Planning	The process of taking into account the future of a business in order to control its environments and prepare for unexpected outcome.
Profit	The money left after expenses have been deducted.
Questionnaire	Sets of questions.
Risk	Chances of business getting into problems such as losses and damages to their property.
Sales turn over	The annual sales of the business.
Self-employment	Earning your own income.
Start-up capital	The money required to start up business.
Survey	To investigate the market share of the business through market research.
SWOT Analysis	Strength, weaknesses, opportunities and threats conducted by individual business person.
Time management	Use of time to archive productivity.
Wealth	Large amount of money or possession.



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### **Internet Resources:**

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<http://lifehacker.com/how-can-i-get-started-investing-in-the-stock-market-1376782232>

<http://money.cnn.com/magazines/moneymag/money101/lesson5/index6.htm>

[http://www.pomsox.com.pg/share\\_performance.aspx](http://www.pomsox.com.pg/share_performance.aspx)

<http://casnocha.com/2011/02/the-four-types-of-entrepreneurship.html>

<http://www.businessdictionary.com/definition/business.html#ixzz3REQ3Vcw2>

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Sign: .....

Date: .... /...../.....

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Student's Mark : .....

Student's Percentage : .....

Marker's Name : .....

Marker's Signature : .....

Date : .....

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PC NO.	FODE PROVINCIAL CENTRE	ADDRESS	PHONE/FAX	CUG PHONES	CONTACT PERSON		CUG PHONE
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2	KEREMA	P. O. Box 86, Kerema	6481303	72228124	The Coordinator	Senior Clerk	72229049
3	CENTRAL	C/- FODE HQ	3419228	72228110	The Coordinator	Senior Clerk	72229050
4	ALOTAU	P. O. Box 822, Alotau	6411343 / 6419195	72228130	The Coordinator	Senior Clerk	72229051
5	POPONDETTA	P. O. Box 71, Popondetta	6297160 / 6297678	72228138	The Coordinator	Senior Clerk	72229052
6	MENDI	P. O. Box 237, Mendi	5491264 / 72895095	72228142	The Coordinator	Senior Clerk	72229053
7	GOROKA	P. O. Box 990, Goroka	5322085 / 5322321	72228116	The Coordinator	Senior Clerk	72229054
8	KUNDIAWA	P. O. Box 95, Kundiawa	5351612	72228144	The Coordinator	Senior Clerk	72229056
9	MT HAGEN	P. O. Box 418, Mt. Hagen	5421194 / 5423332	72228148	The Coordinator	Senior Clerk	72229057
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11	WEWAK	P. O. Box 583, Wewak	4562231/ 4561114	72228122	The Coordinator	Senior Clerk	72229062
12	MADANG	P. O. Box 2071, Madang	4222418	72228126	The Coordinator	Senior Clerk	72229063
13	LAKE	P. O. Box 4969, Lae	4725508 / 4721162	72228132	The Coordinator	Senior Clerk	72229064
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15	RABAUL	P. O. Box 83, Kokopo	9400314	72228118	The Coordinator	Senior Clerk	72229067
16	KAVIENG	P. O. Box 284, Kavieng	9842183	72228136	The Coordinator	Senior Clerk	72229069
17	BUKA	P. O. Box 154, Buka	9739838	72228108	The Coordinator	Senior Clerk	72229073
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20	WABAG	P. O. Box 259, Wabag	5471114	72228120	The Coordinator	Senior Clerk	72229082
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22	JIWAKA	c/- FODE Hagen		72228143	The Coordinator	Senior Clerk	72229085



**SUBJECT AND GRADE TO STUDY**

GRADE LEVELS	SUBJECTS/COURSES
Grades 7 and 8	1. English
	2. Mathematics
	3. Personal Development
	4. Social Science
	5. Science
	6. Making a Living
Grades 9 and 10	1. English
	2. Mathematics
	3. Personal Development
	4. Science
	5. Social Science
	6. Business Studies
	7. Design and Technology- Computing
Grades 11 and 12	1. English – Applied English/Language & Literature
	2. Mathematics - Mathematics A / Mathematics B
	3. Science – Biology/Chemistry/Physics
	4. Social Science – History/Geography/Economics
	5. Personal Development
	6. Business Studies
	7. Information & Communication Technology

**REMEMBER:**

- For Grades 7 and 8, you are required to do all six (6) courses.
- For Grades 9 and 10, you must study English, Mathematics, Science, Personal Development, Social Science and Commerce. Design and Technology-Computing is optional.
- For Grades 11 and 12, you are required to complete seven (7) out of thirteen (13) courses to be certified.

Your Provincial Coordinator or Supervisor will give you more information regarding each subject.

**GRADES 11 & 12 COURSE PROGRAMMES**

No	Science	Humanities	Business
1	Applied English	Language & Literature	Language & Literature/Applied English
2	Mathematics A/B	Mathematics A/B	Mathematics A/B
3	Personal Development	Personal Development	Personal Development
4	Biology	Biology/Physics/Chemistry	Biology/Physics/Chemistry
5	Chemistry/ Physics	Geography	Economics/Geography/History
6	Geography/History/Economics	History / Economics	Business Studies
7	ICT	ICT	ICT

**Notes:** You must seek advice from your Provincial Coordinator regarding the recommended courses in each stream. Options should be discussed carefully before choosing the stream when enrolling into Grade 11. FODE will certify for the successful completion of seven subjects in Grade 12.

**CERTIFICATE IN MATRICULATION STUDIES**

No	Compulsory Courses	Optional Courses
1	English 1	<b>Science Stream:</b> Biology, Chemistry, Physics
2	English 2	<b>Social Science Stream:</b> Geography, Intro to Economics and Asia and the Modern World
3	Mathematics 1	
4	Mathematics 2	
5	History of Science & Technology	

**REMEMBER:**

You must successfully complete 8 courses: 5 compulsory and 3 optional.