

# **GRADE 10**

## **BUSINESS STUDIES**

### **UNIT 1**

### **STARTING A SMALL BUSINESS ENTERPRISE- MIND YOUR OWN BUSINESS**



### **COURSE BOOK 1**

Name: \_\_\_\_\_

Provincial Study Centre: \_\_\_\_\_

Address: \_\_\_\_\_



**FLEXIBLE, OPEN AND DISTANCE EDUCATION**  
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# **GRADE 10**

## **BUSINESS STUDIES**

### **UNIT 1**

#### **STARTING A SMALL BUSINESS ENTERPRISE- MIND YOUR OWN BUSINESS**

#### **COURSE BOOK 1**

**TOPIC 1: PLANNING AND ESTABLISHING A SMALL BUSINESS**

**TOPIC 2: FINANCING A SMALL BUSINESS**

**TOPIC 3: INSURING THE BUSINESS**

**TOPIC 4: MY SMALL BUSINESS PROJECT**

## **Acknowledgements**

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**DEMAS TONGOGO  
PRINCIPAL**

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## SECRETARY'S MESSAGE

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

This course is part and parcel of the new reformed curriculum. Its learning outcomes are student – centred with demonstrations and activities that can be assessed

It maintains the rationale, goals, aims and principles of the national outcome based curriculum and identifies the knowledge, skills, attitudes and values that students should achieve.

This is a provision by 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 and Government Policies. It is developed in line with the National Education Plans and addresses an increase in the number of school leavers as a result of lack of access to secondary and higher educational institutions.

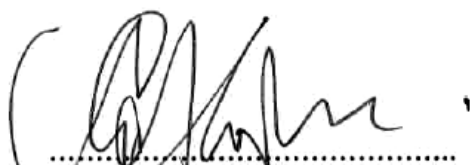
Flexible, Open and Distance Education curriculum is guided by the Department of Education's Mission which is fivefold:

- to facilitate and promote the 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 the education accessible to the poor and physically, mentally and socially handicapped as well as to those who are educationally disadvantaged.

The college is enhanced to provide alternative and comparable pathways for students and adults to complete their education through a one system, many pathways and same outcomes.

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

I commend all the teachers, curriculum writers and instructional designers who have contributed towards the development of this course.



.....  
**DR. UILE KOMBRA, PhD**  
Acting Secretary for Education

## COURSE INTRODUCTION

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Dear Student,  
Welcome to the Grade 10 Business Studies Course. In this course you will learn about:

- The interactions between the producers, the consumers, the government, the financial institutions and other organisations as they conduct businesses locally and globally
- The awareness of the social and the ethical issues arising out of business activities locally, nationally and globally.
- The entrepreneurial skills and appreciate the business culture in order to improve the living standards and become independent and contribute to the development of your community
- How to be creative and explore opportunities that focus on the production skills and management of resources and finance.
- Effective communication which enhances the business's profile and contribution to its success.
- The formalities of business communications in a commercial environment
- The advances in the communication technologies to improve the way organisations conduct business both locally and globally.

### 1. Unit Books

There are six unit books. They are as follows:

- **Unit 1: Starting a Small Business Enterprise- Mind Your Own Business**

In this unit you will use knowledge and skills from other subjects to plan, lead, organise and manage a business activity. You will learn to focus on business opportunities, strengths and weaknesses and other areas in which to improve. You will also learn about different types of business structures.

Furthermore, you will demonstrate basic skills of managing finances, recording, reporting, presenting and evaluating business activities on a daily basis. You will also learn to promote business activities to the community using verbal, written and visual communication. Lastly, you will use knowledge and skills to carry out the following processes of investigating, planning, designing, constructing, manufacturing, marketing and evaluation.

- **Unit 2: Keeping Accounts in a Small Business**

In this unit you will learn the importance of book keeping in a small business. You will identify documents and statements and keep records of both cash and credit transactions using relevant accounting books. You will also understand the significance of keeping source documents and appropriate statements for reconciliation purposes. Lastly, you will acquire skills in calculating profit, taking stock correctly, completing appropriate bank documents and using cheque accounts.

- **Unit 3: Marketing and Distribution**

In this unit you will learn the concept of marketing and distribution as an important aspect of any business organisation. You will also learn the different stages of manufacturing, marketing and the distribution processes for goods, selling of goods and getting paid for goods. Lastly, you will learn that before marketing any product it has to be manufactured or obtained.

- **Unit 4: Law and Business Regulations in Papua New Guinea**

In this unit you will learn about the general outline of government laws and regulations affecting businesses. You will take into consideration particular laws and regulations when planning and operating a business.

- **Unit 5: Preparing for the Workplace**

In this unit you will learn about formal and informal job interviews either in the public or private sector or in the community. This unit enables you to acquire and market your skills to become either potential employees or useful participants.

- **Unit 6: Business Calculations**

In this unit you will learn how to improve your knowledge in business calculations. It is anticipated that the skills you acquire in this unit will assist you as a consumer as well as a business person to make informed decisions about the costs and prices of goods and services. The decisions you make have implications for the accuracy of the calculation and may well cause the success or the failure of a business.

## **2. Assessment**

There are six (6) assessment books and each of them is worth 100 marks.

**Examination:** There will be an examination at the end of the year. It will cover the skills and knowledge from the six units. You will sit for your examination only if you have completed all the assessments for the six units.

The assessment books and examinations are marked by your distance teacher. The marks you score will count towards your final mark and grade.

If your score is less than 50% in any Assignment, you must repeat that Assessment. If you continue to score less than 50% in your assessment three times, then, your enrolment will be cancelled, and you need to re-enroll if you wish to continue this Course.

**Course Duration:** It should take about 8 to 9 weeks to complete one unit.



## UNIT 1 INTRODUCTION

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Welcome to the first Unit in your Grade 10 Business Studies Course.

In this unit, you will use knowledge and skills you learnt in the last unit of Grade 9 and other subjects to plan, implement and manage a small business activity. You will focus on the business opportunities, strengths, and weaknesses and identify the areas in which to improve. You will also learn about the different types of business structures.

Furthermore, you will learn the basic skills of managing finances, recording, reporting, presenting and evaluating your business activities on a daily basis. You will also learn to promote your business activity to the community using verbal, written and visual communication. You will further use your knowledge and skills to carry out the processes of investigation, planning and designing, constructing, manufacturing, marketing and evaluation.

Starting a Small Business Enterprise- Mind Your Own Business (MYOB) incorporates the following topics:

### **Topic 1: Planning and Establishing a Small Business**

In this topic, you will learn about what a small business is, the characteristic of a small business person and ways of how to get into business. You will specifically look at starting a new small business and consider the factors that are involved such as its location.

### **Topic 2: Financing a Small Business**

In this topic, you will learn about the different sources of finances, where you can obtain money to start a business. Furthermore, you will learn about the different methods of obtaining loans and the cost of borrowing money. Lastly, you will learn about cash flow planning.

### **Topic 3: Insuring the Business**

In this topic, you will learn about insurance, the different types of insurance and how to obtain and claim for insurance.

### **Topic 4: My Small Business Project**

In this topic, you will learn about the self-assessment of a business, writing a business plan, making improvements, keeping records and reporting on the business project.



## Study Schedule

Here is a study schedule. It will guide you to complete your Unit 1 Starting A Small Business Enterprise- Mind Your Own Business Course and its assessment.

WEEKS	TOPICS	ASSESSMENT	COMMENTS
1- 2	Topic 1 Lessons, Lesson Activities and Practice Exercise	Topic 1 Test 15 Marks	
3- 4	Topic 2 Lessons, Lesson Activities and Practice Exercise	Topic 2 Test 15 Marks	
5- 6	Topic 3 Lessons, Lesson Activities and Practice Exercise	Topic 3 Test 15 Marks	
7-8	Topic 4 Lessons, Lesson Activities and Practice Exercise	Topic 4 Test 15 Marks	
9		Unit Examination 40 Marks	
10	Submit your Assessment Book 1 to your Provincial Centre for marking.		

## Remember

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

All the best and enjoy your studies with FODE – Business Studies



## **TOPIC 1**

# **PLANNING AND ESTABLISHING A SMALL BUSINESS**

**In this topic, you will learn about:**

- **What is a Small Business?**
- **Self-Analysis for a Successful Business person**
- **The Initial Business Plan**
- **Market Research and Detail Planning**
- **Location of a Business**
- **Buying an Existing Business**
- **Starting a New Business**
- **Franchising**
- **Expanding a Business**

## TOPIC 1 INTRODUCTION

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Welcome to Topic 1, Planning and Establishing a Small Business. It is the first topic of the Unit 1 Course Book. From the title itself, we can say it is about planning a small business. Planning involves a lot of things such as market research, detailed planning and where to locate the business. After the planning process, the business then gets established.

When establishing a business, a person can get into operating different types of businesses such as buying an existing business, starting a new business and franchising. You can also expand your business once you have established it.

Topic 1 has nine (9) lessons: They are:

### **Lesson 1: What is a Small Business?**

This lesson will generally define a small business and further explain the features of a small business in Papua New Guinea. It will explain the importance of a small business in the economy and also describe problems that are encountered in small businesses.

### **Lesson 2: Self-Analysis for a Successful Business Person**

This lesson will discuss the characteristics of a successful business person and explain the factors that cause a business to fail.

### **Lesson 3: The Initial Business Plan**

This lesson teaches you about a business plan and its importance to the business. It will also identify the factors to be considered when planning a small business.

### **Lesson 4: Market Research and Detailed Planning**

This lesson defines the market research and explains its importance. It identifies the value of the market research in planning. Furthermore, the lesson explains the market survey and its features. It also discusses the use of the questionnaire in a market survey.

### **Lesson 5: Location of a Business**

This lesson teaches you about the important factors in deciding the location of a business.

### **Lesson 6: Buying an Existing Business**

This lesson teaches you about buying an existing business and the advantages and disadvantages involved. It will also teach you about the methods used to value an existing business and the importance of a purchase contract.

### **Lesson 7: Starting a New Business**

This lesson teaches you how to differentiate between setting up a new type of business and establishing one similar to an existing type. It also explains the advantages and disadvantages of setting up a new business. Lastly, it teaches you to identify the factors that need to be considered when establishing a business of an existing type.

### **Lesson 8: Franchising**

This lesson explains what franchising is and other related terms. It explains the types of franchises, the importance of the franchise agreement and its purpose. Lastly, it explains the advantages and disadvantages of franchising.

### **Lesson 9: Expanding a Business**

This lesson teaches the reasons for businesses to grow and expand. It also explains the aspects that affect business expansion and the ways to expand business.

## Lesson 1: What is a Small Business?



### Introduction

Welcome to Lesson 1. In this lesson, you are going to look at generally what a small business is. Here you will learn why people go into business and the features of a small business in Papua New Guinea. Furthermore, you will look at the importance of a small business in the economy, and identify the problems small businesses face.



### Your Aims:

- Define a small business
- Outline and explain the reasons why people go into business
- Identify the features of a small business in Papua New Guinea
- Explain the importance of a small business in the economy
- Describe the problems small businesses face

## Definition of a Small Business

A *business* refers to any form of economic or commercial activity that people carry out with the aim of making a *profit*. A small business is independently owned and operated, with a small number of employees even with a relatively low volume of sales.



Figure 1.1: A taxi service is a small business in Papua New Guinea  
Source: Google Images

It is difficult to define a small business in Papua New Guinea or to state exactly how big a small business is.

The definition of a small business will depend partly on the size and level of economic activity of the country where the business is located. For example, a small business in Australia might be considered to be a fairly large enterprise in Papua New Guinea.

## Features of a Small Business in Papua New Guinea

### 1. Ownership

Most businesses are owned and run by only one person or a small number of people. The owners make all the important decisions regarding the management of the business.

### 2. Employment of staff

Small businesses employ only a few staff or sometimes there might be just one owner who carries out all the duties of running the business right down to cleaning and sweeping the floor.

### 3. Finance

The finance needed to set up a business comes mostly from the owners themselves. Some money may be borrowed from a bank or relatives. A person setting up his or her own small business may have problems in obtaining a bank loan. This is because the borrower does not have enough assets to offer as security for a loan.



#### Activity 1.1:

1. What is a business?

---

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2. Why cannot banks and financial institutions lend money to small business people?

---

---

3. State three (3) features you can use to identify small businesses in Papua New Guinea.

- (a) \_\_\_\_\_
- (b) \_\_\_\_\_
- (c) \_\_\_\_\_
- 

### Reasons for setting up a Small Business

#### 1. The profit motive

The main reason for starting a business activity is the desire to make a profit. This profit can be made by manufacturing and selling a product, by buying and reselling a product made by someone else, or by providing a useful service.

#### 2. Independence

Some people go into business purposely to run and own businesses and to be independent. They want to be their own boss by making their own decisions regarding all aspects of the business. However, no firm is completely independent. Its actions will be determined to a great extent by:

- The National and Provincial government bodies
- Firms that control the supply of goods or materials
- Financial backers and creditors
- The customers

#### 3. Possession of certain skills

People may have certain skills that they consider could be used profitably to produce goods and/or provide some services. For example a trained teacher may set up a business to write and sell text books, whilst a doctor may set up a private hospital or clinic to make money.



#### 4. Putting a hobby to productive use

Some people have set up a business by using skills they developed as a hobby. Examples of such hobbies or spare time activities may be woodworking or other handicrafts, photography, dressmaking or cooking.



Figure 1.2: Knitting billums is a hobby that can be put to productive use.

Source: Google images

It is very important that people in business actually *like* what they are doing. If they do they are likely to be more enthusiastic about the business, willing to put in a lot of time, and therefore have a greater chance of being successful.

#### 5. Possession of capital or other assets

*Assets* refer to things of value owned by the business. They are used to generate income. *Capital* is the value of assets used to start the business. The assets can be either the owner's savings or money borrowed from relatives or from the bank. People with money or other assets available may choose to invest in a business.

In Papua New Guinea one of the most common types of business activity is commercial farming. People make use of their main asset, the land to grow cash crops to earn income for themselves.

#### 6. Taking over a family business

Many people have entered business by simply taking over their already established family firms. They will be familiar with the firm and be aware of all its problems, due to their close association with the business.

#### 7. New business opportunities

The large mines in this country have created many such linkages with firms in the area, and have resulted in the creation of many new small businesses. For example, the local farmers are encouraged to grow and sell vegetables to the mines, contracts are made with other companies for security services, catering, and cleaning services.

#### 8. Price Changes

The increase in the prices of certain products may result in more people attracted to set up and run businesses. For example, price increases in coffee in the highlands, have encouraged farmers to increase coffee production.

#### 9. Prestige

Some people establish businesses, or become part of a business group simply to be recognised as *'big men'* in their community. These businesses have to make profits so that the owners will continue to operate and retain their status.

**Activity 1.2:**

1. What is the main reason people decide to set up their businesses?

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2. Differentiate between assets and capital.

---

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3. Give one condition that would make a person enter a family business that is already established?

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**Problems of Small Businesses**

Some problems of small businesses are because of their small size.

**1. Variety of skills needed**

In a small business, especially in the beginning of its operation, one person often carries out all the managerial responsibility without any assistance. This is known as ‘wearing many hats’ – performing more than one task at the same time by one person. It can be a disadvantage to the business, as not every person is skilled in all aspects of a business.

**2. Obtaining capital**

Some small businesses will not have much internal capital. When they are set up, they may only have available resources at hand. They will often have difficulty borrowing money from commercial banks because they lack sufficient money or assets to provide security for loans. Security refers to something of value in regard to money for the lender to hold onto and sell to get his money back if the borrower cannot repay the loan.

**Importance of small businesses in the economy**

Small businesses are important in the economy because they:

- create employment,
- are flexible and respond easily to changes in demand,
- often cater for local demands,
- provide competition to larger firms through providing customised goods and services,
- provide products and services to a certain group of people or customers which a larger firm might not be able to.

**Activity 1.3:**

1. In your own words, explain the major problems faced by small businesses.

---

---

2. Name at least three (3) benefits or contributions of a small business in an economy

(a) \_\_\_\_\_

(b) \_\_\_\_\_

(c) \_\_\_\_\_

3. Give three (3) examples of a good or service that is provided by a small business in your area which the government or a bigger business cannot provide.

(a) \_\_\_\_\_

(b) \_\_\_\_\_

(c) \_\_\_\_\_

---

**How the Government helps to promote business**

Small businesses are not functioning alone. There are introduced measures and authorised bodies set up to help them to be successful. Authorised bodies are organisations set up by the government to help businesses. For instance, Investment Promotion Authority. The government tries to help small businesses in different ways. (You can refer to Gr. 9 Unit 1-Lesson 6 for further notes)

Below are some of these ways in which the government and authorised bodies help to support businesses:

- providing infrastructure
- tax exemptions and credits
- protection of industry through tariffs and quotas
- loan guarantee schemes through National Development Bank(NDB)
- Micro Finance Schemes
- advice to farmers through the Fresh Produce Development Agency (FPDA)
- government regulations, policy and licensing

## Summary

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You have come to the end of Lesson 1. In this lesson you learnt that:

- A business is a commercial activity aimed at making a profit
- A small business in Papua New Guinea would have the following features;
  - The owner is the ultimate boss
  - Finance is provided by the owner
  - Few workers are employed, and sometimes it is only the owner who works in the business.
- The main reason in setting up a business is to make a profit.
- Major problems faced by small businesses are lack of certain skills and difficulty in obtaining capital.
- The government acknowledges the importance of goods and services provided by the small businesses in the economy.

---

<b>NOW DO PRACTICE EXERCISE 1 ON THE NEXT PAGE</b>
--



## Practice Exercise 1

- 
1. Ramah Trading is one of the major retail and wholesale suppliers of groceries and hardware in the centre of Wabag Town. To the residents in the province, Ramah Trading is a big business. Can it be referred to as a big business if it was in Australia? Explain your answer.  

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---
  2. Why do we regard owners of small businesses as wearing many hats'?  

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  3. The second important reason why people get into business is the desire to be independent. In reality, they are never truly independent. Name at least two (2) organisations in Papua New Guinea that control the businessperson and explain how they do this.
    - (a) 

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    - (b) 

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  4. What would the cocoa farmers do if the price of cocoa drops?  

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  5. Obtaining capital to do business is a major problem faced by small businesses. Why is it impossible for small businesses to obtain loans from financial institutions and commercial banks? Explain.  

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  6. Explain what a security is in business loans.  

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- 

<b>CHECK YOUR WORK. ANSWERS AT THE END OF TOPIC 1</b>
---



## Lesson 2: Self Analysis for a Successful Business Person



### Introduction

Welcome to Lesson 2. In your first lesson, you looked at what a small business is. In this lesson you will be looking at the characteristics of a successful businessperson and the factors that cause a business to fail.



### Your Aims:

- Identify and describe the characteristics of a successful business person
- Describe the factors that cause a business to fail

## Characteristics of a Successful Businessperson

Most business people have certain characteristics or traits that stand out. They are very independent people – or at least have a strong desire to be independent. They have a strong desire to put their own ideas and abilities to effective use, and they often have a strong dislike of routines and following orders or instructions. Because of their independent nature, they can feel too restricted, or tied down, if they are working for others.

The following characteristics are common among most successful business people.

### 1. Drive and Energy

Successful small business people are generally recognised as having a high degree of personal energy and drive. They possess an ability to work for long hours, sometimes continually for several days with little sleep.

### 2. Self – Confidence

Successful small- business people believe strongly in themselves and their ability to achieve the goals they set. They set themselves clear goals, which are usually challenging, but also realistic. They are not put off by difficult situations. They have strong ‘will power’ and the ability to finish the job at hand.

Many successful business people have been involved in failed business ventures in the past. But they use their failure as their learning experience to avoid similar problems in the future. They do not become easily disappointed or depressed by a setback or failure.

### 3. Ability to take moderate risks

Successful business people like the challenge of a situation in which a certain amount of risk is involved. They are able to operate under conditions of uncertainty. They are prepared to take up risks.



Figure 2.2: A new business is like a small plant in your hand that you can make it grow or die.  
Source: Google images

#### 4. Ability to Take the Long -Term View

Successful small-business people set up firms and make them grow. They want to build and expand their businesses, rather than simply get in and out in a hurry, once they have made a certain amount of money.

---



##### Activity 2.1

List the four (4) characteristics of a successful business person. Explain each of them.

1. \_\_\_\_\_
  2. \_\_\_\_\_
  3. \_\_\_\_\_
  4. \_\_\_\_\_
- 

#### Why Do Some Small Businesses Fail?

Small businesses do fail in their first to second year of operation due to reasons such as; fluctuating economic reasons, unfriendly cultural practices, restrictive government policies, cash flow problems, poor marketing and management problems. You will learn more about some of these reasons as you advance your studies into the remaining grade 10, 11 and 12 studies. At present, mismanagement is mainly the common internal problem for many small businesses.

#### What is Mismanagement?

Management is about planning, leading, organising and controlling the events or activities of a business. When businesses are poorly managed, then, this causes problems to the running of the businesses. This is a result of inexperienced and incompetent owners.

#### Why are some Small Businesses Successful?

Some small businesses are successful because the owners have a wide range of experiences. They have knowledge, skills and experiences in such areas as:

- buying products and/or raw materials
- the buying habits of the public
- selling of goods
- layout of stock on the shelves
- finance and legal matters

Inexperience in these or other areas will lead to a variety of problems, which may result in the business failing in the end.



## Mismanagement Problems that Lead to Business Failure

### 1. Sales and Inventory Problems

- Stock (inventory) that is slow to sell may be purchased because of poor judgement. The owners may be out of touch with market trends. *Market trend* means the changes in demand for a particular product by the public.
- Owners may also be tempted to overstock certain items because their suppliers have offered them a special price. Holding on – moving items' in stock cost business money because the money that could be profitably used elsewhere is '*tied up*'.
- Likewise, not having in stock goods that customers want costs money because it means lost sales, as well as the loss of future customers.

### 2. Lack of initial planning

- Lack of proper planning at the start is one of the main reasons why some businesses fail in their early years. Some people may be so enthusiastic about establishing a business as quickly as possible that they plan to do anything in the beginning. As a result, they may have no real idea of the likely success of their business until the money and assets are already committed. What often happens in such a situation is that if the financial needs of the business are much greater than expected, the firm soon finds itself with a serious cash shortage.
- Similarly, a *location* might be chosen without the owner seriously considering its suitability from a business point of view. It may simply be where a person wants to live, or the first location that becomes available.

### 3. Lack of Proper Records

Small business people sometimes do not see the need for or recognise the importance of keeping accounting records of their operation. Their past experience may not have been in this area. For example, some processing firms are often set up by skilled tradesman or technicians, and small retail and wholesale enterprises are often established by successful sales people. These people may have no experience of keeping accounting records. As a result, it may not be possible to know if a business is operating profitably. Owners may not be aware of their losses until the losses become so great that the future of their businesses is in serious danger.

### 4. Owners not running their own business

In Papua New Guinea it is common for owners not personally managing their own business. Instead they get their relatives to run the business for them. These relatives may not be closely supervised. Often the owners may not live in the same town or area. In this situation, people running the business does things their own way, and not serving the interest of the owner. For example, they may sell goods on credit to their relatives.

**Activity 2.2**

1. What is the main reason why small businesses fail?

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2. What is the other name for inventory? Explain it.

---

---

3. Explain non-moving items.

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**Summary**

You have come to the end of Lesson 2. In this lesson you learnt that:

- The characteristics of a businessperson are; drive and energy, self-confidence, ability to take moderate risks and ability to take long term views.
- Some businesses fail because of mismanagement problems such as; the lack of proper records, the lack of initial planning, sales and inventory problems and owners not running their own businesses.

**NOW DO PRACTICE EXERCISE 2 ON THE NEXT PAGE**



## Practice Exercise 2

---

1. Study the characteristics of the following successful business people and name the particular trait they possess.

- (a) Paul Kurai, is the owner of Neneo Construction. He invests big amounts of money in challenging projects though there may be criticisms that he will fail.
- 

- (b) Jonathan Waki is a successful businessman who currently has assets valued at millions of kina. He started from a small poultry project in his village.
- 

- (c) Saa Sakos has a small trade store in his village. He purchases stock from the town wholesalers and walks with his wife up the mountain to his village store because of transportation problems.
- 

- (d) Api Mason has recently achieved his goal to build a double storey rental accomodation from his trade store savings. He is now planning to build a bigger store.
- 

2. Study the following stories of some failed business people. Identify their management problems.

- (a) Kaino and Epeam were given K1000 as land compensation by the provincial government for road constructions. They spent the money to buy a bale of second hand clothes. However they never made any sales, as there was no demand for clothes in that area.
- 

- (b) Auperae has a store in Wabag Town which was fully stocked when he commenced business. However he had to shut down his business. He never kept a record of all the credits sales he was making to customers.
- 

- (c) Kemanend was successful in her poultry project in the village. It was not long before she bought a coaster bus which was left to his son in Port Moresby to operate. However, her son spent the daily income on beer and pokies that he was unable to earn enough to make up for the cost.
- 

<b>CHECK YOUR WORK. ANSWERS ARE AT THE END OF TOPIC 1</b>
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## Lesson 3: The Initial Business Plan

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### Introduction:

Welcome to Lesson 3. In your previous lesson, you learnt about how to analyse yourself to become a successful business person. In this lesson, you will learn about the business plan, the importance of planning for a business and the factors involved when planning for a business.



### Your Aims:

- Define the business plan
  - Identify the importance of planning for a business
  - Identify the factors to be considered when planning
- 

### Definition of a Business Plan

A business plan helps a business to look ahead, allocate resources, focus on key points, and prepare for problems and opportunities in order to be successful. It is a decision-making tool that covers all aspects of a business such as the vision, the goal, the strategies of marketing, the finance, the operations, the human resources and the legal requirements.

### Importance of Planning for a Business

The reason why a business plan is so important is that it provides a pathway for the business to follow. The easiest way to think about a business plan is like having a roadmap for the business. It is about being able to map out where the business should be and the steps that are needed to get there.

The question on many business owners' mind is, —how do I get started?" Below are five easy steps to plan a business:

#### 1. The vision

The first step is to review the current plan, if there is one. This is not only to check that the person has achieved his goals, but to ensure that it captures the persons vision for the business.

#### 2. Set goals

A plan should have concrete goals. Develop specific, achievable and measurable goals and work towards achieving them. Create an action plan, and then regularly follow up to ensure the business stays on track. Update the plan with specific, measurable goals for the year ahead. Measure everything about the business for each month to the profitability of each product that the business sells.

#### 3. Check the finances

Now that the goals are set, the businessperson needs to make sure that the resources are in place to achieve them.

This can be done by saving some of the excess cash flow, or by talking to the bank about a loan. The best time to arrange with the bank is when the business is performing well. Then aim to keep between two and six months expenses in reserve. Put finance in place ahead of time, rather than waiting until conditions tighten.

#### 4. Keep cash flowing

Create a cash flow forecast and track the business cash flow position each week. Review the accounts receivables process. Make sure the invoicing is done promptly and follow up of overdue accounts is done. Make it easy for the customers to pay electronically through direct debit, funds transfer or card. This helps to put money into the account quickly.

#### 5. Put it into action

With the plan in place, it is now act time. Inform the business vision and goals to your staff, clients, suppliers, bank and the accountant who works for you. Write them on the walls, print them on the mouse pads, and sign off your emails with them, until everyone can repeat them in their sleep. If circumstances change, do not be slow to update the business plans and goals — it's a living document.

It is also important to remember the partners of the business. The partners can be the banks it deals with, accountant, lawyer or even sales coach. They are key sources of important insight when putting together or updating the business plan.



#### Activity 3.1

1. Define a business plan

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---

2. List five points to consider when planning for a business

(a) 

---

(b) 

---

(c) 

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(d) 

---

(e) 

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3. What is one of the main reasons why some businesses fail?

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<p><b>One of the reasons why some small businesses fail is because proper planning has not been carried out before they are set up.</b></p>
---

## Factors to consider when planning for a business

A person's first approach to setting up in business will depend on the type of business plan that is drawn up. There are three main approaches:

1. Researching the market in order to discover exactly which of the people's needs and wants are not being sufficiently provided for by the existing business.
2. Finding ways of selling the product or service that has already been decided upon in point (1) above.
3. Finding the best location to set up your particular kind of business.

The first important decision to reach will be the type of *business to be in*. The type of business chosen-whether it be retail, wholesale, service or manufacture, will depend on a person's business experience and background. For example:

- People with experience in retailing may be expected to establish their own retail store.
- An employee with training and with an interest in the mechanical field may want to set up a garage to fix motor vehicles.
- A builder employed by a contractor might consider establishing his own building firm.
- An employee who finds satisfaction working closely with people may consider setting up a service-type business.

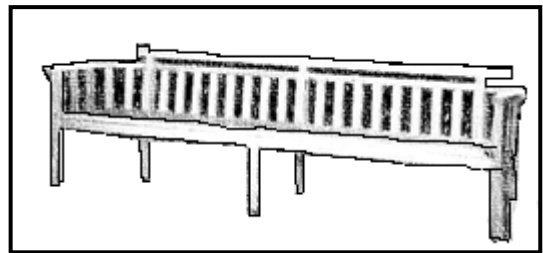


Figure 3.1: A chair made from timber and cane  
Source: Google Images

The materials that are available locally will also help to determine the type of products someone is likely to build a business around. There are opportunities in many parts of this country. For example:

- Making products out of wood, cane, coconut husks and shells.
- Fibre from a coconut husk can be used to make such things as ropes, mattresses, slippers, bags, carpets and mats.



### Activity 3.2:

1. List the three main factors to consider when planning for a business

- (a) \_\_\_\_\_
- (b) \_\_\_\_\_
- (c) \_\_\_\_\_

2. The type of business chosen will depend on the person's:

- (a) \_\_\_\_\_
- (b) \_\_\_\_\_

3. List two examples of products that can be made from coconut husks

- (a) \_\_\_\_\_
- (b) \_\_\_\_\_

## Product or Service area

A 'product line' is a product range that consists of products having similar characteristics and uses. For example, the product line in a clothes store would include shirts, Tee-shirts, long trousers, shorts, dresses and underwear. A decision has to be made at the beginning regarding how wide, or extensive, the product line will be.

## The Market

The main features and size of the market for a product or service must be known. The following types of questions should be asked:

- Is the market growing or declining? Obviously if the market for a product is declining it is wise not to operate this business
- Are there plans for any major new developments in the area? If a major new industry is about to be established, this should benefit business generally in the area.
- Are there seasonal changes in demand for the product?
- What is the level of income for most people in the area? If most people earn low incomes then, meat shops, for example, should concentrate on supplying meat that people can afford with their income.
- What is the intended market area for the business? Will it be confined to a:
  - neighbourhood
  - town
  - province or
  - the entire country?
- Within a particular area, what section of the market is being aimed at? The business may be hoping to sell to:
  - everyone, both rich and poor
  - low-income earners
  - expatriates mainly
  - tourists mainly

The size of the total market will help to determine the size of the premises and storage space, and/or the type and quantity of production as well as machinery to be used.



**Activity 3.3**

1. What product lines are likely to be found in the following shops?

(a) A meat store:

\_\_\_\_\_

(b) An electrical store:

\_\_\_\_\_

(c) A hardware store:

\_\_\_\_\_

2. List three (3) examples of the product line found in a clothes store.

(a) \_\_\_\_\_

(b) \_\_\_\_\_

(c) \_\_\_\_\_

---

**Summary**

You have come to the end of Lesson 3. In this lesson you learnt that:

- A business plan is any plan that works for a business to look ahead, allocate resources, focus on key points and prepare for problems and opportunities in order to operate a successful business.
- Planning provides a good structure and frame work for the business to follow.
- Factors to consider when planning are; the market, the product line, the competition and the location of the business.
- Some businesses fail because proper planning has not been carried out before setting up the business and they are not properly managed.

---

<b>NOW DO PRACTICE EXERCISE 3 ON THE NEXT PAGE</b>
--



### Practice Exercise 3

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1. What is the importance of a business plan?  
\_\_\_\_\_  
\_\_\_\_\_
  2. How would you meet the demand of your consumers in an area where they are only low income earners?  
\_\_\_\_\_  
\_\_\_\_\_
  3. List three (3) products that can be made from raw materials such as wood.  
(a) \_\_\_\_\_  
(b) \_\_\_\_\_  
(c) \_\_\_\_\_
  4. What happens to a business that does not plan?  
\_\_\_\_\_  
\_\_\_\_\_
- 

<b>CHECK YOUR WORK. ANSWERS ARE AT THE END OF TOPIC 1</b>
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## Lesson 4: Market Research and Detail Planning

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### Introduction:

Welcome to Lesson 4. In your previous lesson, you learnt about the business plan and the importance of planning for a business. In this lesson, you will learn about the market research and planning and the importance of doing the market survey using the survey questionnaire.



### Your Aims:

- Define the market research and its importance
  - Identify the place of the market research in planning
  - Define the market survey
  - Identify the features of the market survey
  - Design a market survey using a questionnaire
- 

### What is a Market Research?

It is an organised effort to gather information about markets or customers. It is a very important component of a business strategy or plan.

### Importance of the Market Research in Planning

The market research provides the important information to identify and analyse the market need, the market size and the competition. The information gathered helps to analyse and build the foundation of the business. Based on the information, planning is done on the type of product or service to be provided, where the business should be located, and the demand for the product in a particular area.

Market research is a valuable tool for all businesses. Statistics and other market research data will help the business owner make informed decisions about marketing their business products. The research will also help the business to understand who its potential customers are and their needs. Furthermore, It will identify what the other competitors are doing in order to be competitive.

### Detailed Planning

Once the business person is satisfied after a careful research then, a detailed plan must be drawn up. This will set out how the business will actually be set up and managed. There are many factors to consider when doing detailed planning. Some of these factors are listed below:

1. Will the business be started from scratch or will an existing business be taken over?
2. What about labour:
  - How many employees to will be employed?
  - Are regular or seasonal workers required?
  - What sort of skills should the workers possess?
  - Do workers in the area possess these skills?
  - Can the business afford to pay the necessary wages?

- Should friends/relatives be employed?

### 3. Equipment

- What type of equipment does the business need?
- What is the use of the equipment?
- How much will this equipment cost?
- Can it be purchased second hand?
- Where will this equipment be purchased? Is it available within the area, or in the country?



### 4. Organisation of the business

- How many departments will be included?
- What particular departments will be included?

### 5. Type of business control

- What type of business organisation is preferable, for example, sole trader, partnership, business group, etc.?
- Will one person own and control the business, or will there be shared ownership?
- If there will be partners, how many?
- If there is a need for one or more partners with money or know how are these people actually available? If so, has the matter been discussed with them?

### 6. What is the most suitable area to locate the business? Which site in that area would be the best?

### 7. Will the business premises be owned outright, leased or rented?

### 8. Getting supplies

- What are the sources of supply? Whether raw materials or finished goods for resale are required, the location of suppliers must be known.
- How much choice of suppliers is available, and what are their prices and trade terms?
- How much will be the transport cost which will add to total costs of the business operation?

### 9. Finance

- Where will the money come from to pay for the set up and its running costs? The most important part of the plan will be to estimate the finances required to meet these costs.

The careful preparation of a detailed business plan presents a great opportunity to consider all aspects of operating a business. Planning provides a person with the chance to examine the likely results of different marketing, production and financing policies. This will help to decide how much money and labour and other resources are needed to start or expand a business.

All these can be done on paper without the expense of the 'trial and error' method in the real world. A business plan can help to avoid setting up a business that is bound to fail. If a planned business enterprise is very risky, the business plan should show why.

A business plan also provides evidence to banks and organisations from which money will be required that the business has been properly planned. This gives them confidence that money lent to the firm will be repaid.

**Activity 4.1**

1. What is a market research?

---

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2. List five (5) factors to consider when setting up and managing a business.

- (a) \_\_\_\_\_
- (b) \_\_\_\_\_
- (c) \_\_\_\_\_
- (d) \_\_\_\_\_
- (e) \_\_\_\_\_

3. Explain why a business plan is important to banks and money lenders?

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**What is a Market Survey?**

A market survey is an activity undertaken to determine the customers' demand on a product. It involves the act of asking people questions, collecting and recording their responses to the questions. After the market survey, the results must be analysed in order to finalise a business plan for the intended product.

A market survey has the following features; an aim, method to use, results, conclusion and recommendations.

Now turn to the next page. You will see Table 4.1. It is a description of a market survey carried out by a small part-time furniture making business. After you study Table 4.1, then, come back to this page and do Activity 4.2.

**Activity 4.2**

- 1. A market survey is based on \_\_\_\_\_ attitudes and \_\_\_\_\_ preferences.
- 2. A market survey is basically to ask people \_\_\_\_\_ about their \_\_\_\_\_ on certain products.
- 3. Explain what happens after the market survey has been done:

---

### FURNITURE MARKET SURVEY REPORT

Aim	To find out what items of furniture the community in the surrounding area was likely to buy.																																				
Method	A questionnaire was prepared, and people with houses in the areas were asked the questions on the form. The questions asked about personal particulars, present furniture in their houses and furniture needed.																																				
Result	<div>1. Number of people surveyed</div> <table><tr><td>Men</td><td>54</td></tr><tr><td>Women</td><td>52</td></tr><tr><td>Total</td><td>08</td></tr></table> <div>2. Occupation:</div> <table><tr><td>Wage eaners</td><td>30</td></tr><tr><td>Subsistence farmers</td><td>52</td></tr><tr><td>Other</td><td>08</td></tr></table> <div>3. Furniture in the House</div> <table><tr><td>Item</td><td>Stool</td><td>Chair</td><td>Table</td><td>Bed</td><td>Cassette Racks</td></tr><tr><td>Number</td><td>52</td><td>72</td><td>86</td><td>14</td><td>4</td></tr></table> <div>4. Furniture they would like to buy:</div> <table><tr><td>Item</td><td>Stool</td><td>Chair</td><td>Table</td><td>Bed</td><td>Cassette Racks</td></tr><tr><td>Number</td><td>42</td><td>66</td><td>52</td><td>22</td><td>74</td></tr></table>	Men	54	Women	52	Total	08	Wage eaners	30	Subsistence farmers	52	Other	08	Item	Stool	Chair	Table	Bed	Cassette Racks	Number	52	72	86	14	4	Item	Stool	Chair	Table	Bed	Cassette Racks	Number	42	66	52	22	74
Men	54																																				
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Number	52	72	86	14	4																																
Item	Stool	Chair	Table	Bed	Cassette Racks																																
Number	42	66	52	22	74																																
Conclusion	<div>From the result we say:</div> <div>1. The majority of the people surveyed were subsistence farmers</div> <div>2. Most of the people surveyed have tables and chairs in their houses but few have beds or racks</div> <div>3. These people would like to buy cassette racks and chairs particularly, but would also be interested in tables and stools. Beds could also be sold but they are expensive items and subsistence farmers may not have sufficient cash.</div>																																				
Recommendations	<div>1. That the business constructs several acts of sample cassette racks or shelving and offer the product to the public at prices they can afford.</div> <div>2. If the sales from the first recommendation were good, then, the business could proceed to make tables and/or chairs to sell.</div> <div>3. At this stage it would then be wise to conduct a further needs-survey to find out what furniture items are still in high demand.</div>																																				

Table 4.1 Furniture Market Survey

Source: Adapted from Edgar O'Neil. 1990. Liklik Bisnis. pg 10 & 11

### Using a Questionnaire for a Market Survey on Chicken Production

The market survey questionnaire on the next page is targeting the poultry farmers in the community who are raising chicken as a source of income.

From the survey, results will be analysed and used for planning purposes of the poultry business. This will lead into establishing a chicken processing factory for the local farmers to sell their live chickens to.

**QUESTIONNAIRE FORM****PART A: PERSONAL DETAILS**

1. Name of the farmer: \_\_\_\_\_ Gender: M/F  
2. Place of residence: \_\_\_\_\_  
(Location of the Poultry house)

**Place a tick in one of the boxes**

3. Employment details:  
☐ self      ☐ Part time      ☐ Full time      ☐ Unemployed
4. Educational Qualification:  
☐ None      ☐ Gr.6-8      ☐ Gr 10-12      ☐ College/University
5. Marital Status:  
☐ Single      ☐ Married      ☐ Widower      ☐ Divorced      ☐ Separated

**PART B: PRODUCTION****Place a tick in one of the boxes**

6. What influenced you to get into poultry farming?  
☐ Meat      ☐ Income      ☐ Hobby      ☐ Business Activity
7. How often do you order your day old chicken?  
☐ Weekly      ☐ Fortnightly      ☐ Monthly
8. How many boxes of chicken do you normally get per order?  
☐ One      ☐ Two      ☐ Three      ☐ Four
9. Where do you raise your chickens?  
☐ underneath family house      ☐ Separate poultry house      ☐ Car shed
10. Is the poultry house permanent?  
☐ Yes      ☐ No
11. Who normally helps you to look after the chickens?  
☐ Yourself      ☐ Family members      ☐ Labourer

**PART C: EXTENSION SERVICES****Place a tick in one of the boxes**

12. Do Agriculture Extension Officers come and visit your chicken farm?  
☐ Yes      ☐ No
13. If yes, how often do they visit your farm?  
☐ Weekly      ☐ Monthly      ☐ Quarterly      ☐ Yearly
14. Have you experienced any mortality (death) of your chickens?  
☐ Yes      ☐ No      ☐ Not sure
15. What do you feed your chickens with?  
☐ Commercial feed only      ☐ Local Organic Feed      ☐ Both

**PART D: MARKETING****Place a tick in one of the boxes**

16. How often do you sell your chickens?

☐ After 4 weeks    ☐ After 6 weeks    ☐ After 8 weeks    ☐ After 10 weeks

17. What is your current selling price for a chicken?

☐ K20    ☐ K25    ☐ K30    ☐ K35

18. Where do you normally sell your chickens?

☐ Among the Neighbours    ☐ In the community    ☐ At the local market    ☐ To the company

19. How do you sell your chickens?

☐ Live    ☐ Dressed    ☐ Both

20. In a year, what is your estimated profit?

☐ K10 000    ☐ K30 000    ☐ K40 000    ☐ K50 000 plus

21. Are there any problems that you face with your poultry farming?

☐ Yes    ☐ No

22. If yes, what are the problems or difficulties you face?

☐ Water    ☐ Housing    ☐ Market    ☐ Theft    ☐ others

23. Do you have any future plans to improve and increase your chicken production?

☐ Yes    ☐ No    ☐ Not sure

**Thank you for your time. We wish you all the Best in your Poultry Production!**

Table 4.1: Chicken Production Survey  
Source: Waikali.D (2013)

**Activity 4.3:**

Refer to the market survey on the chicken production to answer these questions.

1. Who is the market survey targeted at?

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2. What is the market survey based on?

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3. Explain the purpose of this market survey

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## Summary:

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You have come to the end of Lesson 4. In this lesson you learnt that:

- A market research is any organised effort to gather information about markets and customers.
  - Information gathered from market research helps to analyse and build the foundation of the business.
  - Market research provides important information to identify and analyse the market need, the market size and the competition.
  - A market survey aims to collect information on various aspects. It asks people questions about their opinions on certain things.
  - A market survey has the following; an aim, method to use, results, a conclusion and recommendations.
- 

<b>NOW DO PRACTICE EXERCISE 4 ON THE NEXT PAGE</b>
--

**Practice Exercise 4**

---

1. What is a market survey?

---

---

2. What is the importance of a market survey?

---

---

3. List five (5) features that make up a market survey report.

- (a) 

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- (b) 

---
- (c) 

---
- (d) 

---
- (e) 

---

4. Explain the importance of a market research in a business plan.

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5. Explain the importance of a detailed business plan.

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**CHECK YOUR WORK. ANSWERS ARE AT THE END OF TOPIC 1**

## Lesson 5: Location of the Business

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### Introduction

Welcome to Lesson 5. In the previous lesson you learnt how to prepare and carry out a market research. In this lesson, you will learn about finding a good location to set up a small business. The market research alone identifies areas that have a lot of potential customers and what is demanded by the customers.



### Your aims:

- Discuss and explain the location of a business and its importance
  - Identify the factors to be considered when selecting a business site
- 

Many small business owners prefer to locate their businesses in their own areas. For example, when Henry Ford began his business career, he chose Detroit (USA) as the location for his motor firm because it was his home town.

### Reasons for choosing own particular area to set up your business

The reasons are:

- to remain with friends and families
- lack of knowledge of other areas
- limited funds to investigate other places

### Advantages of choosing your own area

The advantages are:

- you have good knowledge of the people in your community – buying habits, likes and dislikes and income level.
  - credit will be easier to obtain, since you are well known
- 



### Activity 5.1

Identify and interview at least one or two business people in your local area and find out reasons why they have decided to set up businesses in their own area. Use a separate piece of paper to answer this question.

### Factors to consider when selecting a business location

The factors to consider are:

#### 1. Economic characteristics

The economic characteristics should be examined by asking the following questions:

- Is the population increasing or decreasing?
- Are there other new businesses setting up in that area?
- Are older businesses growing or moving out of that area?
- Is employment easy to find in that area?

It is best for you to set up your business in an area that is growing economically. If there are a lot of construction activities and new firms are opening, these are favourable signs that the business has the potential to grow.

## **2. Potential Customers**

The characteristics of the population in a particular area should be examined by asking the following questions:

- Is the population young or old?
- Is the income level high or low?
- Is the population made up of mostly native people or are there a lot of foreigners?

Setting up a dance club or an amusement centre for instance, would not be wise if the bulk of the population is made up of older people. Setting up an expensive jewellery shop would not be advisable if the population has a lot of low income earners.

## **3. Location of Competitors**

It is desirable to be situated away from competitors. It may be difficult, for example for a small business to compete against a large chain of stores. Chain stores usually offer strong price competition, they make a lot of profit because they sell a variety of items.

If a business decides to set up in an area where there is a lot of competition, it should conduct a market research to know how well the existing businesses are supplying the market. It will also indicate whether or not products are likely to flood the market.

There are certain situations where similar businesses grow successfully. An area that has a high population will experience this taking place. Examples of this would include clothing shops and electrical shops.

Firms may also choose to set up in an area that has a good name for producing certain products. New firms will also gain from the reputation that the area has gained.

## **4. Development Plans for the Area**

A check should be made to find out if there are plans for new roads or other developments that could affect business in that area. For example, there may be plans for a large shopping centre in a particular area. It would be wise to wait and lease a shop or an office space in this shopping centre rather than setting up somewhere else. Lease means using another person's property on a legal contract for a specific time and in return you pay for using the space.

If a new road is to be built in the future, offices may be pulled down to make way for the road. It is better to wait until the road construction is completed. A new road will usually turn traffic away from some areas and these areas should be avoided as much as possible.

## **5. Town Planning Regulations**

The zoning laws in force in a particular area should be examined. There are zoning regulations in most urban areas. These laws state which areas may be used for certain business activities and which areas are reserved for residential or recreational purposes. Factories may only operate in certain areas – usually some distance away from residential areas.

## **6. Local Rates and Taxes**

Businesses in all areas must pay a tariff for water use and garbage collection. These tariff rates vary in different areas. Goods and Services Tax (GST) is also levied by provincial governments.

## **7. Seasonality**

There may be seasonal changes in economic activities in a particular area. This will affect people's income and their demand for goods in these areas. For example, in the coffee growing areas of the Highlands, demand for goods and services will be the highest in the months between May and September, which is the coffee buying season when the beans are harvested.

## **8. Law and Order**

If there are a lot of crimes in a particular area, it will add to the cost of the business because insurance premium against theft will be higher and extra security measures will be necessary. These will include putting up security fencing, installing alarm and burglary systems and engaging security services from security firms.

## **9. Nature of the Business**

The sort of area suitable for a business will depend on the nature of the business. For example, retailers and other service business should be located near the market or near passing traffic. Firms involved in processing, manufacturing or constructions should consider the following factors:

- The availability of suppliers of raw materials
- The presence of skilled workers
- Easy means of entry for heavy vehicles to the business area

## **10. Site History**

The site history of a particular location should be checked before a final decision is made. If a building is empty, information about the previous tenants should be obtained. What was the real reason they left? It may be that the trading area was not large enough to provide the previous business with a reasonable income. It may be due to bad management. However, if there had been a number of business failures there, then the site should be avoided.

**Activity 1.2:**

Study the picture carefully and answer the questions



Figure 5.2: Air pollution in Brazil.  
Source: Google Images

1. According to the picture, what are the effects of having a factory built in the middle of a town area?

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2. What are zoning laws?

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## Summary

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You have come to the end of Lesson 5. You learnt that:

- The location is one of the most important factors affecting the success of a small business
- Reasons for choosing own particular areas to set up your business are:
  - to remain with friends and families
  - lack knowledge of other areas and /or provinces
  - limited funds to investigate other places and possibilities
- Advantages of your own area are:
  - Have good knowledge of the people in your community – buying habits, likes and dislikes and income level.
  - Credit will be easier to obtain, since you are well known
- When selecting the location of your business, the following factors should be considered:
  - Economic characteristics
  - Potential customers
  - Location of competitors
  - Development plans for the area
  - Town planning regulations
  - Local rates and taxes
  - Seasonal changes in demand
  - Law and order problems
  - Nature of the business
  - Site history

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<b>NOW DO PRACTICE EXERCISE 5 ON THE NEXT PAGE</b>
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## Practice Exercise 5

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1. What signs would indicate that an area is growing economically well?

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2. What do we mean by the 'potential customers'?

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3. If a business is going to be set up in an area that has a lot of competition, what should the owner do to help the business?

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4. Why is it important to investigate road development or constructions in an area?

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5. List two (2) possible reasons why certain businesses are sold.

- (a) \_\_\_\_\_
- (b) \_\_\_\_\_

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<b>CHECK YOUR WORK. ANSWERS ARE AT THE END OF TOPIC 1</b>
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## Lesson 6: Buying an Existing Business

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### Introduction

Welcome to Lesson 6. In the previous lesson you learnt about finding a suitable location for your business and the factors to be considered when finding a good location. In this lesson you will learn about buying an existing business



### Your aims:

- Define the term 'existing business'
  - Explain the advantages and disadvantages of buying an existing business
  - Identify the process involved in valuing a business
  - Calculate the business values using the given methods
  - Explain the importance of a purchase contract.
- 

## Buying an Existing Business

When you buy an existing business, it means that you are also buying the location, premises, equipment, stock, staff and goodwill that have already been established. Goodwill is talking about the business' good name or reputation with the public. If the business has already set a good name and reputation, then, it will become easier to operate. It will save time and effort needed to equip and stock the business. There will also be an immediate income from the existing customers

A business up for sale however must be looked at carefully as you might be buying someone's mistake. The very fact that a business is up for sale indicates that the business may have some problems. Possible problems would include:

- Location is no longer suitable
- Equipment may be out dated or worn out
- Much of the stock may no longer be saleable or there are not enough customers.

When considering the value of the business, buyers must be able to recognise the good and bad signs of the business they are trying to buy. They must be able to understand the information provided by past accounting records.

The following are guide questions that should be asked when buying an existing business:

- How long has the business been in operation? How many owners has it had? Why have others moved on?
- What is the profit record?
- What is the condition of the trading stock?
- Are the equipment in working conditions?
- Are the suppliers reliable?
- What is the competition like from the past and the present?

To get satisfactory answers, interested buyers should talk to people – local bankers, and suppliers living within the area that the business is located in.

### How to value a business?

The most common method of valuing a business is to calculate the value of its assets. These assets are generally stock, equipment and fixtures and goodwill. Trading debts owed to the business maybe another asset that a buyer may purchase. If the stock is being sold at its original cost price that means it has not decreased and can still be sold. The price of the equipment should indicate the age and the amount of use. Equipment that are out of date should not be given any value. This is because this equipment will not have a trade in value when it is replaced.

Buyers should make sure that all trade creditors must be settled by the previous owner. Trade creditors are liabilities to a business; that is if the business owes people money it should pay them off before selling the business. The total value of the creditors should be subtracted from the value of the business assets if the seller of the business has not paid them off. Creditors are businesses or individuals to whom the business owes money.

Furthermore, buyers must check if the business for sale owes money in tax. The buyer should also check if some assets of the business have been used as securities to secure a bank loan, they may be repossessed by the bank if a loan is not completely repaid.

If the selling price of a business is greater than the value of its physical assets, the difference may be valued as the firm's goodwill. This asset represents the ability of the business to earn greater profits compared to someone commencing business because of its good standing in the community.

### Example of Valuing an Existing Business

If the value of the net physical assets is K50 000 and the value of goodwill is K20 000, what is the selling price of the good concern?

$$\begin{aligned}\text{Selling Price} &= \text{Value of Net Asset} + \text{Value of Goodwill} \\ &= \text{K50 000} + \text{K20 000} \\ &= \text{K70 000}\end{aligned}$$



#### Activity 6.1:

1. Explain the way in which a business is valued.

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2. Why are trade creditors seen as liabilities to a business?

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## The Purchase Contract

The purchase contract can only be signed if the seller and the buyer agree on a selling price for the business. The price of the business may not entirely depend on the value of the business. The owner's desire to sell may be stronger than the buyer's desire to buy.

In such situation, the value that the buyer receives may be greater than the price paid. For example, the owner may want to sell quickly for financial or health reasons. On the otherhand, the buyer may want to buy but may not have enough money. In this case, the seller might agree to sell on credit if the buyer agrees to a higher price. Although this can take place, it involves taking risks.

The assistance of lawyers, accountants or business development officers should be obtained to draw up the contract covering the details of the purchase. Certain extra clauses should be written into the contract to protect the interest of the buyer. This will take care of problems like:

- The business has more debts than the buyer stated
- Some assets in the business do not belong to the seller – such as assets that have been be leased not fully paid for
- Sudden changes for the worse in the business after the signing of the contract, but before the new owner takes over
- The seller may try to open a similar business close to the business he has sold

These and other clauses should be included in the contract to give the buyer all the protection that is necessary. When completely satisfied about all aspects of the business, a 'water tight' contract should be drawn up to protect the buyer in case the seller has supplied the wrong information or is holding back some information. A 'water tight' contract is a legal agreement that will be written by the seller to inform the buyer very carefully in every detail so that nothing is uncertain or in doubt. Purchasing a business is like purchasing a property or a second hand car – sellers may be out to make an easy profit at the expense of the inexperienced buyer.



### Activity 6.2:

1. When buying an existing business, what are some of the questions you should ask about the business? List five (5)

- (a) \_\_\_\_\_
- (b) \_\_\_\_\_
- (c) \_\_\_\_\_
- (d) \_\_\_\_\_
- (e) \_\_\_\_\_

2. If you do not have enough information about buying a business, who can you see for assistance?

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## Summary

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You have come to the end of Lesson 6. You have learnt that:

- Buying an existing business also means that you are buying the location, premises, equipment, stock, staff and goodwill that have already been established. It is therefore easier to operate. It will save time and effort needed to equip and stock the business. There will also be an immediate income from the existing customers
  - A business up for sale however must be looked at carefully as you might be buying someone's mistake
  - Possible problems would include:
    - Location is no longer suitable
    - Equipment may be out dated or worn out
    - Much of the stock may no longer be saleable
  - To get satisfactory answers, interested buyers should talk to people – local bankers, suppliers, etc living within the area that the business is located in.
  - The most common method of valuing a business is to calculate the value of its assets. These assets are generally stock, equipment and fixtures and goodwill
  - The purchase contract can only be signed if the seller and the buyer have come up with an agreed selling price for the business.
  - The buyer should always carefully double check the facts

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<b>NOW DO PRACTICE EXERCISE 6 ON THE NEXT PAGE</b>
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## Practice Exercise 6

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1. Apart from buying the business, what else are you also buying?  
\_\_\_\_\_
2. Businesses are sold for various reasons. State one (1) possible reason  
\_\_\_\_\_  
\_\_\_\_\_
3. What is a water tight contract?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
4. What is the purpose of a water tight contract?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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CHECK YOUR WORK. ANSWERS ARE AT THE END OF TOPIC 1
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## Lesson 7: Starting a New Business



### Introduction

Welcome to Lesson 7. In the previous lesson, you learnt about *Buying an Existing Business*. Some very important information covered include; how to buy an existing business, the advantages and disadvantages of buying an existing business, the processes involved in valuing a business, how to calculate business values using the given methods and knowing the importance of a purchase contract. In this lesson, you will learn about Starting a New Business.



### Your Aims:

- To explain the difference between setting up a new type of business and establishing one of an existing type
- To state and explain the advantages and disadvantages of setting up a new business
- To identify the factors that need to be considered when establishing a business of an existing type

### Examples of Small Businesses



Figure 7.1 Cane Chair Business

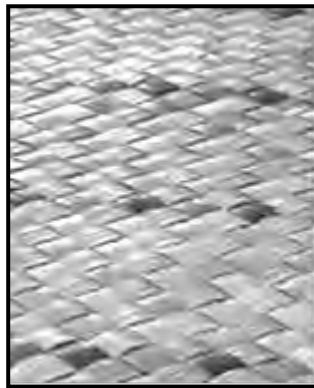


Figure 7.2 Pandanus Mat Business



Figure 7.3 Sweet Potatoes Business

### Example of Big Businesses



Figure 7.4 Logging Business



Figure 7.5 Fish Canning Business



Figure 7.6 Small Scale Coffee Businesses

Source: Google Images

## **The Difference Between Setting Up a New Type of Business and Establishing one of an Existing Type**

All businesses whether new or existing type is set up with the intention of providing the best service, making profit and probably expand in future.

The main difference between setting up a new type of business and establishing one of an existing type is, a new business is one where an entrepreneur begins on a new idea and takes it all the way from the planning stage to actually running the business. There is no business in the area similar to it. The business is usually thought of as, still in the start-up stage until it begins to produce sufficient revenue or sales to cover the cost of supplies and operating cost. The other is starting a same business as those in the area. For example, setting up another store with two stores already in operation.

On the other hand, because new businesses are sometimes unsuccessful, the chance to buy a firm already in operation will appeal to many people. They will buy everything including land, premises, equipment, stock, staff and goodwill that have been already established. They can continue on with the existing business or set up something similar to the existing one.



### **Activity 7.1**

Why set up a new business? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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## **Setting Up a New Type of Business**

Starting or setting a new business is good, however people need to consider factors like the initial capital, the type of business, the location, who and how many to employ.

A new business may be concerned with making or selling an already well known product, or it may introduce a new product or service for the first time. A new business of a new type may make or import a new product.

Starting a new business involves a lot of risk, therefore research of the product and a detailed business plan should be in place first. Sometimes with a new product, the general public would not know until it is actually sold on the market.

Smart observers can easily develop or construct ideas of a new business after careful observation. They observe and carefully study to recognize the need of a product not being fully supplied. Because they are smart they know exactly a way out to meet that need or demand.

Many new beginners choose the business they like because it may be a business which they have experience, knowledge and skills in, probably their former employment or the current demand on the market. This may be goods or services. They will also choose the best location to attract customers.



Market trends within the community should be carefully examined. Most successful businesses in large towns and cities are also progressing very well. In some towns the future is looking good. When people travel from their villages to town to buy goods and services, it means the home town market is big enough to supply goods and services.



### Activity 7.2

1. When starting up a new business, what factors should you consider?

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2. What are the two very important elements that should be in place before starting a new business?

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### Advantages of Setting Up a New Business

- Starting a new business using your own initiative has an advantage over buying an existing one. You have the privilege and upper hand regarding the type of business you want to establish or set up. That includes the writing up of your own work place policies for employees and some other important guidelines for your business. You can also decide exactly on:
  - what products to sell
  - the pricing policy
  - the business set up
  - staff recruitment
  - the type of equipment to use.
- Your creativity as an individual can play a big part in starting and operating the business.
- The owner is in control of all aspects of the business including the location and what the operation is to look like.
- The entrepreneur may draw from previous job experience, skills and passion in establishing the business.

### Disadvantages of Starting Up a New Business

- There is the risk of failure because of the uncertainty about the market demand for the goods or services to be provided
- Starting up a new business is typically more costly and risky since there is no proven formula.
- In order to obtain capital to fund the business, a detailed business plan must be put together.
- All the details of starting the business, including marketing, naming the business and finding the product sources are the responsibilities of the owner.

## Factors for Consideration When Establishing a Business of an Existing Type

There will sometimes be opportunities for a firm to set up a business similar to the businesses already existing. For example, there may be room for more business of the same type because of the growing market or the high demand for a particular product. Stores in a particular location or area may be overcrowded and progressing very well. In this situation, it will create an opportunity for another store to be open to sell the similar line of goods.

Another opportunity may arise where customers in an area are not being properly served because of poor management of existing firms. Some of the factors are:

- high prices of goods and services
- poorly kept premises
- dirty or old merchandise
- goods are often out of stock
- lack of spare parts when required
- many consumers shopping in other areas

When this happens it provides an opportunity for a new person to start up. The best way to discover the type of situation in an area or location is for you to personally investigate.



### Activity 7.3

1. State two advantages of setting up a new business.

- (a) \_\_\_\_\_
- (b) \_\_\_\_\_

2. State two disadvantages of setting up a new business.

- (a) \_\_\_\_\_
- (b) \_\_\_\_\_
- \_\_\_\_\_

3. State at least two reasons for establishing a new business

- (a) \_\_\_\_\_
- (b) \_\_\_\_\_
- \_\_\_\_\_

## Summary

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You have come to the end of Lesson 7. In this lesson you learnt about the:

- The difference between setting up a new type of business and establishing one of an existing type is; a new business is one where an entrepreneur begins on a new idea and takes it all the way from the planning stage to actually running the business. The other is starting the same business as those in the area. For example, setting up another store with two stores already built.
- People who want to start or set a new business need to consider factors like the initial capital, the type of business, the location, who and how many to employ etc.
- Starting a new business involves a lot of risk, therefore research of the product and a detailed business plan should be in place first.
- There are advantages and disadvantages of setting up a new business

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<b>NOW DO PRACTICE EXERCISE 7 ON THE NEXT PAGE</b>
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## Practice Exercise 7

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1. Give two examples each of :

(a) A small business

(i) \_\_\_\_\_

(ii) \_\_\_\_\_

(b) A large business

(i) \_\_\_\_\_

(ii) \_\_\_\_\_

2. What is the difference between setting up a new type of business and establishing one of an existing type?

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3. State at least five (5) reasons for establishing a business of an existing type.

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<b>CHECK YOUR ANSWERS AT THE END OF THE TOPIC</b>
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## Lesson 8: Franchising

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### Introduction:

Welcome to Lesson 8. In the last lesson, you learnt about *Starting a new Business*. The important points covered were the differences between setting up a new type of business to establishing one of an existing type, knowing the advantages and disadvantages of setting up a new business and identifying the factors that needs to be considered when establishing a business of an existing type. In this lesson you will learn about franchising. You will look at the definition and other related information that are associated with this type of lesson.



### Your Aims:

- Define franchising and other related terms
  - Identify the different types of franchising
  - Explain the franchise agreement and its purpose
  - Identify the advantages and disadvantages of franchising
- 

### What is Franchising?

It is the practice of giving permission to another business to sell a company's goods and services in another area. For example, permission is given to interested businesses to use the name Big Rooster to get into selling big rooster food product in Papua New Guinea.

### What is Franchise?

It is a business system in which one business (usually a bigger and established one) gives another business (usually a smaller one) the rights to sell its products and to operate under its brand name. The bigger company that gives out its products to be sold and its trademarks to be used is referred to as the franchiser, whereas the smaller company is called a franchisee.

### What is a Franchiser?

A franchiser is the business controlling the franchise. The franchiser gives individual franchisees or licence holders the right to sell a product or service using the franchiser's name. In return of this right, the franchisee usually agrees to pay a sum of money called a **franchisee fee** and a commission based on the sales of the business. The franchisee may also agree to purchase equipment and supplies from the franchiser.

### What is a Brand?

It is the —~~name~~ name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers. A brand is often the most valuable asset of a company. Examples of brands in tinned fish are, Diana Tuna, Dolly, Ocean Blue, Besta, 777, to name are few.

## What is a Patent?

It is a set of exclusive rights granted by a sovereign state to an inventor or their assignee for a limited period of time, in exchange for the public disclosure of the invention. An invention is a solution to a specific technological problem, and may be a product or a process. Patents are a form of intellectual property.

The simpler meaning is the government authority to manufacture something invented and protect it from imitation.

An example of a patent is shown below.



Figure 8.1: United State Patent  
Source: <http://www.shewchukip.com/cover.htm>

## What is a Trademark?

A trademark is a recognisable sign, design or expression which identifies products or services of a particular source from those of others. The trademark owner can be an individual, business organisation, or any legal entity. A trademark may be located on a package, a label, a voucher or on the product itself. For example, the Trukai Rice Company has its trademark displaced on the left.



Figure 8.2 Symbol for Big Rooster  
Source: Google images



### Activity 8.1:

1. What is franchising?

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2. Who is a franchiser?

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3. What is a trademark?

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## Different types of franchise

There are a number of different types of franchise, and the number seems to increase into different areas of business activity.

### 1. Dealership or Distribution

In a dealership or distribution franchise, a business pays for the sole right to sell well-known products in a particular area. Some examples are:

- Motor car dealers
- Fuel stations
- Suppliers of electrical goods.

Franchising began in the early 1900s in the motor industry in the United State of America. This franchise system was first used by Henry Ford and was closely followed by his competitors. He found this was the most suitable method of sales

distribution. At that time he did not have enough money to set up large retail outlets to sell his vehicles. In addition, he also lacked the man power or trained staff to manage these sales outlets and to provide after-sales and repair services.

In Papua New Guinea, Japanese motor vehicle manufacturers have franchise agreements with motor vehicle dealers such as Boroko Motors and ELA Motors. Also, the major oil companies have distribution or sales agents to sell their oil throughout the country. In many cases the service stations are actually owned by the oil companies, and leased out to the franchise. For example, the fuel and service stations in Papua New Guinea are owned by Puma Energy and franchised to different operators.



Figure 8.2: Motor Vehicle Dealer in Papua New Guinea  
Source: <http://www.elamotors.com.pg>

## 2. Manufacturing Franchises

The franchise in this instance generally buys a licence to produce and sell a product. The franchiser supplies the patents and production methods, and some component parts to make the goods. Patents give a business the sole legal right to make or sell a particular invention.



Figure 8.3: Coca-Cola, a manufacturing franchise in Papua New Guinea  
Source: [pngexposed.wordpress.com](http://pngexposed.wordpress.com).

Examples of manufacturing franchise include ice cream, soft drinks, tinned meat and tinned fish. One good example will be the soft drink industry. The franchisee purchases syrup from the franchiser, adds water and carbon dioxide, and cans the complete product for sale to retailers. In Papua New Guinea, Coca cola is manufactured by local firms like Papua New Guinea Coca Cola Amatil Pty Ltd that hold a franchise licence.

## 3. Retail Stores

Another form of franchising involves retail stores. Retail stores are independently owned, but they agree to stock and sell merchandise supplied by the franchisor. These goods will often have the franchiser's own private brand or label. The franchiser will either be a wholesaler or manufacturer of this merchandise. Each retail store in a franchise organisation is likely to have a similar store front and interior.

Franchise operations are found in many areas of retailing, for example: Chemists, Vehicle parts suppliers and Sports equipment stores. In Papua New Guinea, a successful example of this type of franchise is Courts that sells a wide range of household items and furniture.

## Service Businesses

A service business is one that sells services directly to consumers or other business. The service sector is active all over the world, and many people have interactions with such businesses on a daily basis.



In the case of a service business, the franchisee runs the business according to a system that has been developed by the franchiser. The franchisee is allowed to use a trade name or sell a product and run the business according to a particular formula. These are franchisees operating on an international scale, for example hire car companies (such as Budget or Avis rent-a-car), major accounting firms such as Price Water House Coopers and other employment agencies.

In the recent years, the best type of service franchising, is the fast food outlets. Fast food outlets provide takeaway food such as rice and stew, chicken and chips, pizzas just to name a few. Examples include Big Rooster and Kenmaity Fried Chicken.

All outlets in this type of franchise chain are completely standardised:

- they are very similar
- they provide the same product or service
- their operational methods are the same
- business operating times, that is hours are the same. The opening and closing times are same.
- their stock control and accounting methods are very similar.

Each franchisee has the same operational manual covering every detail of the business practice. Some of the information contained in the manual will include:

- recipes
- portions
- menus
- food storage
- handling instructions.

The franchisor's field representatives will visit each franchise regularly to make sure that these standardised methods are being practised.

Running a service business is also appealing to many people who are interested in working independently. Such businesses can often be operated by a single person, who may expand the business later as needed, and it allow people to put skills to work in a variety of ways.

### **The franchise agreement**

It is most important that all details of a franchise arrangement are included in a written franchise contract.

### **Cost of the franchise**

The franchise costs may include a lump sum fee at the beginning and a percentage royalty payable on all sales.

Some franchisers do not charge any kind of fees. If they do, a small charge will be imposed at the beginning. Their income is earned solely from the sale of their products to the franchisees. Other franchisers earn all their profits from selling ingredients, supplies and equipment to their franchisees. In recent years, franchisors earned much of their income from renting premises to their franchisees.

Right from the beginning the franchisee should find out whether there are franchise costs involved, if yes, then what exactly will these costs cover. If the charge is fairly high at the beginning then this means that many of the start-up costs of the business are covered. Some of the start-up costs include:

- complete operating manuals covering all aspects of running the business
- on-the-job help from experts from head office
- an opening supply of goods
- equipment and shop fittings for the business

When franchisees know exactly what is covered and not covered in the franchise fees, then they will be in a better position to calculate their total start-up costs.

If franchisees must pay a certain percentage of their sales to the franchise company, then they must calculate to see if this extra expense can be covered in their expected income.

In addition, if the franchisee is paying a regular commission to the franchiser, the franchisee expects to receive regular, continuing advice and assistance from the franchising company in terms of managerial help and national advertising campaigns may also be carried out regularly.



### Activity 8.2:

1. State the different types of franchise.

- (a) \_\_\_\_\_
- (b) \_\_\_\_\_
- (c) \_\_\_\_\_
- (d) \_\_\_\_\_

2. What is a service business? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. What do franchise costs include? \_\_\_\_\_

4. What are the start-up costs? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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### How 'exclusive' is the franchise?

Total expected sales will depend on the size of the market area. An exclusive franchise is one that gives the franchisee the sole right to sell in a particular area. In some cases the franchiser company will maintain its right to sell in the franchise area as well and selling in more than one franchise. Obviously, the more franchisees in a particular area, the smaller will be the expected sales. Therefore, franchisees should know exactly how 'exclusive' their franchise will be. In other words, franchisees should know exactly how many franchises have been sold to other people in the same market area before they join the chain.

## **What the franchiser will supply**

In some franchise arrangements, the franchiser company supplies all the goods to be sold as well as supplying equipment, and fixtures and fittings. This sort of arrangement is satisfactory, provided that a regular supply is maintained with no other cheaper source of supply available to the franchisee. In the franchise agreement, it should state if the franchisee can purchase supplies elsewhere and be allowed to sell goods of his or her own choice.

## **Sale of the franchise**

Franchisees have a choice to sell their franchise if they wish and get back whatever they have invested in the business. They should also be able to obtain benefit if any from the goodwill they have developed during the term of the franchise.

However, franchisees do not normally have all the freedom to sell or transfer their franchise in any way they want or wish. For this matter, their rights should be clearly spelt out or stated in the franchise contract.

## **Bringing a franchise agreement to an end**

There should be a clause in the agreement covering how a franchise contract may be brought to an end. The franchise agreement should clearly state:

- the duration of the agreement
- whether or not the franchise agreement can continue
- the reasons why the franchiser may bring the agreement to end.

Many franchisers maintain the right to buy back a business outlet at the end of the contract period. Franchisees must be fully aware and be able to renew their contracts without difficulties. If the franchise agreement suddenly ends, the franchisee may receive little or no compensation for having developed the business.

The normal practice for the franchise agreements are written by the franchiser company. The firm will draw up a fairly standard contract to be offered to all franchise members. Franchisees should try to change these clauses they consider not in their interest. It is very important to have an expert probably a lawyer, if possible to give advice and help in explaining the clauses of a franchise contract.

## **Advantages of a franchise**

The following are advantages of franchise:

- The franchisers get the opportunity to market their products in new markets where it would have cost them considerable amounts of money and effort to set up their own self-managed branches. It will also give them the opportunity to earn some money from licenses.
- The franchisees, on the other hand, get the opportunity to benefit from the already-established brand name and goodwill of the franchiser. This is a considerable advantage because often it can be very hard for a new business to build up from scratch.
- From the franchiser guidelines, which a franchisee is expected to operate under, the franchisee also gets to benefit from tried and proven business systems that

might have taken the franchiser years to develop. Often, it could take the franchisee a considerable period of time to build up on its own. The customers, on the other hand, have services and goods brought nearer to them.

- Franchising is not for everyone, as there are businesses in which franchising works while there are those in which it does not work. Businesses that can be easily duplicated are among those for which franchising works best. There are those that appeal across geographical regions. For example, Big Rooster is appealing across regions.

### Disadvantages of a franchise

The following are disadvantages of franchise:

- Of course, as a franchiser gives licenses to other businesses to use their trademarks, they run the risk of having the reputation of their brand ruined by incompetent franchisees.
- The franchisee on the other hand, has to be content with having to operate within the franchiser's guidelines, as well as the fixed cost of license fees for using the franchiser's trademarks. This is not to mention the fact that agreements into which franchisees enter with franchisers are usually highly skewed in favour of the franchisers, putting a franchisee (which is usually a smaller organisation) in a risky position in the event of a dispute between franchisor and franchisee.



#### Activity 8.3:

1. State two advantages of a franchise.

- (a) \_\_\_\_\_
- (b) \_\_\_\_\_

2. State two disadvantages of a franchise.

- (a) \_\_\_\_\_
- (b) \_\_\_\_\_

## Summary

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You have come to the end of Lesson 8. In this lesson, you learnt that:

- Franchising is the practice of giving permission to another company to sell the first company's goods and services in another area.
- Brand is the name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers.
- Patent is a set of exclusive rights granted by a sovereign state to an inventor or their assignee for a limited period of time, in exchange for the public disclosure of the invention.
- Trademark is a recognizable sign, design or expression which identifies products or services of a particular source from those of others.
- Franchisee is the individual licence holder.
- Franchiser is the business controlling the franchise. It gives individual franchisees (or licence holders) the right to sell a product or service using the franchiser's name. In return of this right, the franchisee usually agrees to pay a sum of money and a commission based on the sales of the business.
- There are different types of franchise and they are;
  - Dealership or distribution
  - Manufacturing Franchises
  - Retail Stores
  - Service Businesses
- All details of a franchise arrangement are included in a written franchise contract.
- The franchise costs may include a lump sum fee at the beginning and a percentage royalty payable on all sales.
- Total expected sales in the franchise will depend on the size of the market area.
- What the franchisor will supply will depend on the franchise arrangement.
- Franchisees have a choice to sell their franchise if they wish and get back whatever they have invested in the business.
- Franchise agreement should include clauses that cover for the bringing of the franchising agreement to an end.
- There are advantages and disadvantages of franchise agreements

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<b>NOW DO PRACTICE EXERCISE 8 ON THE NEXT PAGE</b>
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## Practice Exercise 8

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1. Explain the following words.

(a) Franchisee

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(b) Franchiser

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(c) Brand

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(d) Patent

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2. List three (3) examples of dealership or distribution franchise?

- (a) \_\_\_\_\_  
(b) \_\_\_\_\_  
(c) \_\_\_\_\_

3. List four (4) examples of a manufacturing franchise?

- (a) \_\_\_\_\_  
(b) \_\_\_\_\_  
(c) \_\_\_\_\_  
(d) \_\_\_\_\_

4. Do all franchisers sell their franchise? \_\_\_\_\_

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5. Can a franchise agreement come to an end? \_\_\_\_\_

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<b>CHECK YOUR WORK. ANSWERS AT THE END OF THE TOPIC</b>
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## Lesson 9: Expanding a Business

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### Introduction:

Welcome to Lesson 9. In your last lesson, you learnt about the franchise business. You learnt the different types of franchise and the methods applied to each franchise agreements. In this lesson, you will study how the franchise or any other businesses can expand from a small beginning into a large business and factors involved in expanding.



### Your Aims:

- Explain the reasons why a business grows or expands
  - Explain the aspects that affect a business expansion
  - Identify ways to expand a business
- 

A business usually starts small but can grow into a big business, supermarket or into a large company. If you study the big businesses that are operating in the world today, you will find that they started from very small businesses.

### Reasons why a business grows or expands

It is true to say that a business can expand or grow but it cannot simply grow itself. It is like a tree or any plant. It needs good soil, good source of water and caring from people, otherwise animals may destroy it. In the same manner, a business needs proper care by the owner so that it can grow or expand into a big business.

Like water and soil for plants, a business needs money to grow. The owner needs to provide the money required as capital. When capital is committed it requires commitment by the owner to manage it well without misusing it. Misuse in business is like stopping the flow of water to the plant. When that happens, the plant dies.

Similarly, if money invested in the business is removed through misuse then a business cannot survive. The money invested into the business makes more money through sales and other business investments. It is reused to buy more product for sale and in this way the business expands.

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### Activity 9.1

1. Who contributes most of the capital to start a small business?

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2. List any business in your community which is successful and is expanding or growing.

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## **How Small Businesses Expand into Big Businesses**

There are many ways how a small business expands to a bigger business and even a big business expanding to a large company. In this unit we will only consider the major reasons why and how businesses grow.

### **Owner's Action**

The business depends on the management skills of the owner and its employees. The owner needs to be more committed in caring for the business. The risk involved in managing a business is huge. The owner needs to be skilled in all areas to overcome the problems and manage the business well.

The owners' need skills in finance, management of stock, control of employees and any other knowledge to run the business. If the owners do not possess all these skills, then they need to hire well trained employees to manage and control the business. Hard work and commitment by owners result in the business expansion.

### **Capital and Resources**

Money is referred to as the life blood of the business. In other words, a business needs money to operate and function. Therefore, owners of businesses invest enough to make sure that their businesses have enough resources so that they continue to progress well. When a business operates with enough cash, it increases the working capital. When more working capital is used more money is generated and the business expands and grows.

A business owner can secure additional fund from outside if the business needs finance to operate. There are some areas where the owners can seek additional finance to expand their business. Here are some ways:

- Profit made is ploughed back as working capital
- Seek loans from financial institutions and banks
- Invite business partners with capital to become partnership in the business
- Sale of assets or business properties that are not making money and invest it into the business.
- Arrange with suppliers for credit facilities to allow the business to use more cash as its working capital.

Basing on the availability of resources, businesses can expand from a small business to a big business.

### **Business Opportunities**

The owners of business are termed as risk takers. This means that they look for business opportunities every time. They have the will power to extend and expand. They are prepared to lose money if the business fails. Therefore, when there is an option available the owners invest in new businesses to expand. Some examples include new mining developments or other major government projects that are coming up. Business people can open a branch of their existing businesses or go into different types of businesses. They can even increase their business activity at a larger scale and this is where their businesses expand and grow.



**Activity 9.2**

1. What is the term that means; —profit made in a business is not used but is kept in the business to add to the working capital?”  
\_\_\_\_\_
2. What is one of the main reasons why rural towns and districts do not have big businesses like the ones you see in major towns?  
\_\_\_\_\_
3. List down three (3) reasons why some small businesses cannot expand or grow.  
\_\_\_\_\_  
\_\_\_\_\_

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**Problems Affecting the Expansion of Business**

All business owners have dreams and plans to expand their business. However, not all businesses grow well as expected. You will observe that some businesses close down in their first three years of operation. Others start well and expand but somewhere during their life span they tend to do poorly and close down. Some businesses will remain small for a very long time and eventually close down or sell out.

We will learn about the major reasons why some businesses do not expand and grow like other businesses. Here are only few but there could be many other reasons.

**1. Mismanagement**

The foremost factor affecting the expansion is poor management. Owners without management skills tend to run into problems when they mismanage the business finance. Therefore, the business cannot continue. Sometimes there is lack of other skills such as:

- Lack in record keeping
- Proper control of stock
- Out of touch with market trend
- Poor planning
- Over commitment in personal and family matters

**2. Natural Disaster**

Some businesses can be affected by natural disaster like landslide, volcanic eruptions, drought, floods and others. The businesses that do not take up insurance cover or have enough financial back-ups may tend to lose their business even when they have good management skills.

### 3. Man-made Disaster

Fire, tribal fights, civil war or crisis will also affect people by, not conducting business. Such activities will greatly affect business expansion. These can be avoided by choosing safer sites.

### 4. Law and order problem

Most businesses which could expand into big businesses are affected by increasing law and order problems. Hold-ups and break and enter, road blocks, tribal fighting, civil unrest and petty crimes hinder businesses from growing and expanding.

### 5. Environmental condition

Some businesses cannot expand and move onto new locations due to poor infrastructures and market situation like the rural setting. If locations are hard to reach, and if there are no government services there, then it is difficult for businesses to operate. Land issue is another major obstacle for business growth.

### 6. Laws and Regulations

Some laws passed by the government are not suitable for businesses. Some laws are not understood by business owners and this also affect business progress. Some examples include value added taxes, minimum wages and registrations which are very costly for small businesses.

Take note that, all businesses aim to expand and grow but there are also other factors such as lack of commitment, less will power, lack of self-control and no proper planning that slow or stop business growth.



#### Activity 9.3

1. Give one example of how a new business can be affected by a natural disaster.

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2. What is one law set by the government that makes the business difficult to grow?

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## Summary

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You have come to the end of Lesson 9. In this lesson you learnt that:

- All businesses need money to expand and grow so owners need to invest enough to make the business successful.
- Hard work and commitment by owners result in the business expansion.
- When owners' invest more working capital, then, more money is generated and the business expands and grows
- The owners of the business are risk takers. They look out for business opportunities.
- When there is an opportunity available the owners invest in a new business to expand.
- Mismanagement is the key factor that affects business growth.
- Owners without management skills tend to run into problems when they mismanage the business finance.
- There are factors that stop businesses expanding like natural disasters, man-made disaster, law and order problems, environmental conditions and laws and regulations.
- Lack of commitment, will power, self-control and proper planning also slow or stop business growth.

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<b>NOW DO PRACTICE EXERCISE 9 ON THE NEXT PAGE</b>
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## Practice Exercise 9

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1. Why is money important for the business expansion?

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2. The owner of a small business wanted to expand his business but has less money. Suggest some ways in which he can get additional working capital.

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3. Explain how businesses can grow when there is a major development taking place like mining.

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4. If the owner is not skilled but has the resources (money), what advice can you give him so that his business can be successful?

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5. Explain how fighting in the Highlands stops businesses from expanding.

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6. State one major problem associated with relatives that contribute to affecting the business expansion.

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<b>CHECK YOUR WORK. ANSWERS AT THE END OF THE TOPIC</b>
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# **ANSWERS TO**

## **TOPIC 1**

### **PRACTICE EXERCISES 1- 9**

## ANSWERS TO PRACTICE EXERCISE 1 TO 9

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### Practice Exercise 1

1. Ramah Trading is one of the major retail and wholesale suppliers of groceries and hardware in the centre of Wabag town. To the residents in the province, Ramah Trading is a big business. Can it be referred to as a big business if it was in Australia?

*Explain your answer.*

*No because the level or standard of economic activity in Australia is very high compared to Papua New Guinea. Therefore a business may be regarded as big in Papua New Guinea or in other developing nations but will be only a small business in Australia or other developed countries like New Zealand, Japan or the United States of America.*

2. Why do we regard owners of small businesses as wearing many hats'?

*They are regarded as 'wearing many hats' because they perform most of the responsibilities themselves. 'Wearing many hats' means one person doing many things at the same time.*

3. The second important reason why people get into business is the desire to be independent. In reality, they are never truly independent. Name at least two (2) organisations in Papua New Guinea that control the businessperson and explain how they do this.

- (a) Independent Consumer and Competitions Commission (ICCC) controls the prices of goods and services*
- (b) The government makes sure that businesses do not harm the environment through the 'Environmental Planning Act 1978.*

4. What would cocoa farmers do if the price of cocoa drops?

*They would not produce more, because they would not make enough profit.*

5. Obtaining capital to do business is a major problem faced by small businesses. Why is it impossible for small businesses to obtain loans from financial institutions like banks? Explain.

*Most small businesses are unable to provide money or other assets as security to guarantee the loan repayment.*

6. Explain what a security is in business loans.

*A valuable item of value such as money, land and property which is used as a guarantee that it will be sold to recover money if the business fails to pay off a loan.*

## Practice Exercise 2

1. Study the characteristics of the following successful business people and name the particular trait they possess.

- (a) Paul Kurai, is the owner of Neneo Construction. He invests big amounts of money in challenging projects though there may be criticisms that he will fail.

*He has the ability to take risks.*

- (b) Jonathan Waki is a successful businessman who currently owns assets valued at millions of kina. He started from a small poultry project in his village.

*He has the ability to take the long term view.*

- (c) Saa Sakos has a small trade store in his village. He purchases stock from the town wholesalers and walks with his wife up the mountain to his village store because of transportation problems.

*He possesses drive and energy*

- (d) Api Mason has recently achieved his goal to build a double storey rental accomodation from his trade store savings. He is now planning to build a bigger store.

*He has self-confidence and motivation to expand*

2. Study the following stories of some failed business people. Identify their management problems.

- (a) Kaino and Epeam were given K1, 000 as land compensation money from the provincial government for road constructions. They spent the money to buy a second hand bale. However, they never made any sales, as there was no demand for clothes in that area.

*Sales and inventory problems – (They did not study the need in the area before buying the bale of clothes.)*

- (b) Auperae has a store in Wabag Town which was fully stocked when he commenced business. However, he had to shut down his business. He never kept a record of all the credit sales he allowed to customers.

*Lack of proper records*

- (c) Kemanend was successful in her poultry project in the village. It was not long before she bought a coaster bus. She left the bus to her son in Port Moresby to operate. However, her son spent the daily income on beer and pokies that he was unable to earn enough to make up for the cost.

*Owner not running her own business*

### Practice Exercise 3

1. What is the importance of a business plan?

*It provides a good roadmap and framework for the business to follow to be successful.*

2. How would you meet the demand of your consumers in an area where they are only low income earners?

*The products sold there must be cheap or sold at an affordable price.*

3. List three (3) products that can be made from raw materials such as wood

- tables

- shelves

- chairs

- beds

4. What happens to a business that does not plan? *The business fails*
- 

### Practice Exercise 4

1. What is a market survey?

*It is an activity undertaken to determine customers' demand on a product. It involves the act of asking people questions, collecting and recording their responses to the questions.*

2. What is the importance of a market survey?

*It is an important part of the planning stage for a business. After the market survey, the results must be analysed in order to finalise a business plan.*

3. List five (5) features that make up a market survey report.

(a) Aim of the survey

(b) Method of collecting data

(c) Analysing the Results

(d) Conclusions from the analysis

(e) Recommendations or conclusions for the entrepreneur

4. Explain the importance of a market research in a business plan.

*It provides important information to identify and analyse the market need, market size and competition. Based on the information, planning is done about the type of product or service to provide, where the business should be located and the demand for the product in a particular area.*

5. Explain the importance of a detailed business plan.

*A detailed plan sets out how the business will be actually set up and managed. Planning provides a person with the chance to examine the likely results of different marketing, production and financing policies. These will help to decide*



*how much money and labour and other resources are needed to start or expand a business.*

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## Practice Exercise 5

*Note: Answers to the practice exercises may not be exactly the same, as long as they are similar.*

1. What signs would indicate that an area is growing economically well?
  - *A lot of construction activities*
  - *New firms/businesses opening*

2. What do we mean by the 'potential customers'?

*They are people who are likely to buy the products or people who will be attracted to the product or service provided.*

3. If a business is going to be set up in an area that has a lot of competition, what should the owner do to help the business?

*The business owner should conduct a market research*

4. Why is it important to investigate road development or constructions in an area?

*It is important to investigate road development or constructions in a new area because a new road will usually turn traffic away from some areas and these areas should be avoided as much as possible.*

5. List two (2) possible reasons why certain businesses are sold.

- (a) *It may be that the trading area was not large enough to provide the previous business with a reasonable income.*
  - (b) *It may be due to bad management or*
  - (c) *The business is not doing well so it sells out.*
- 

## Practice Exercise 6

*Note: Answers to the practice exercises may not be exactly the same, as long as they are similar*

1. Apart from buying the business, what else are you also buying?

- *The location of the business*
- *The staff*
- *The goodwill*

2. Businesses are sold for various reasons. State one (1) possible reason.

- *The location may no longer be suitable*
- *The equipment may be out of date*
- *The stock cannot be sold anymore*

- *The owners are retiring or moving away*

3. What is a 'water tight' contract?

It is a legal agreement that will be written by the seller to inform the buyer very carefully in every detail so that nothing is uncertain or in doubt.

4. What is the purpose of a water tight contract?

*It is a contract that is drawn up to protect the buyer in case the seller has supplied the wrong or false information or is holding back some information about the business to be sold.*

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## Practice Exercise 7

1. Give two examples each.

- |                                  |                              |
|----------------------------------|------------------------------|
| (a) Small business and           | (b) Large business           |
| (i) <i>Trade store/ canteens</i> | (i) <i>Coffee business</i>   |
| (ii) <i>Cane chair business</i>  | (ii) <i>Logging business</i> |

2. What is the difference between setting up a new type of business and establishing one of an existing type?

*The main difference between setting up a new type of business to establishing one of an existing type is, a business is considered a start-up if an entrepreneur begins a new business based on a unique idea and takes it all the way from the planning stage to actually running the business. The business is usually thought of as still in the start-up stage until it begins to produce sufficient revenue or sales to cover the cost of supplies and the operating cost.*

*On the other hand, because a new business is sometimes unsuccessful, the chance to buy a firm already in operation will appear to many people. They will buy everything including the land, premises, equipment, stock, staff and goodwill that have been already established. They can continue on with the existing business or set up something similar to the existing one.*

Q3. State at least five (5) reasons for establishing a business of an existing type.

*The reasons for starting a business are;*

- *High prices in an existing business*
  - *Poorly kept premises*
  - *Dirty or old merchandise*
  - *Goods often being out of stock*
  - *Lack of spare parts when required*
  - *Many consumers shopping in other areas which provide opportunity for other businesses*
-

## Practice Exercise 8

1. Explain the following words.

- (a) *Franchisee is a licence holders who deal with a particular business produce.*
- (b) *A franchise is a business system in which one business usually a bigger and established one gives another business usually a smaller one the rights to sell its products and to operate under its brand name.*
- (c) *A Brand is the "name, term, design, symbol, or any other feature that identify one seller's good or service as distinct from those of other sellers. A brand is often the most valuable asset of a Corporation.*
- (d) *A patent is a set of exclusive rights granted by a sovereign state to an inventor or their assignee for a limited period of time, in exchange for the public disclosure of the invention.*

2. What are some examples of dealership or distribution franchise?

- (a) *Motor Vehicle Dealers*
- (b) *Service (fuel) stations*
- (c) *Suppliers of electrical goods.*

3. What are examples of a manufacturing franchise?

*Examples of manufacturing franchise include ice cream, coca-cola, tinned meat and tinned fish. One good example will be the soft drink industry, the franchise purchase syrup from the franchiser, adds water and carbon dioxide, and cans the complete product for sale to the retailers.*

4. Do all franchisers sell their franchise?

*Franchisees have a choice to sell their franchise if they wish and get back whatever they have invested in the business. They should also be able to obtain benefit if any from the goodwill they have developed during the term of the franchise.*

5. Can a franchise agreement come to an end?

*There should be a clause in the agreement covering how a franchise contract may be brought to an end. The franchise agreement should clearly state:*

- *the duration of the agreement*
- *whether or not the franchise agreement can continue*
- *the reasons why the franchisor may bring the agreement to end.*

*Many franchisors maintain the right to buy back a business outlet at the end of the contract period. Hence, some franchisees constantly fear of their contracts not being renewed. If the franchise agreement suddenly ends, the franchisee may receive little or no compensation for having developed the business.*

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## Practice Exercise 9

1. Why is money important for the business expansion?

*Money is important for business expansion because it is a resource that is needed to buy stock for resale. It is also used to pay for other expenses like the rent, electricity, wages and others that connect to the operations of extending a business.*

2. The owner of a small business wanted to expand his business but has less money. Suggest some ways in which he can get additional working capital.

*The owner can obtain extra finance from: loans from banks, ask for new partners to join him and sell other assets to get money to expand.*

3. Explain how businesses can grow when there is a major development taking place like mining.

*Such development creates businesses like contract work, building business or other spin-off businesses. This will help business to earn more money and businesses grow.*

4. If the owner is not skilled but has the resources (money) what advice can you give him so that his business can be successful.

*Such advices like hiring a manager to manage the business, appoint trusted employees to assist or encourage the owner to attend short management courses.*

5. Explain how fighting in the Highlands stop businesses from expanding.

*The business will be destroyed, owners may sometimes get killed, closure to business during fights means flow of income is slow and less.*

6. State one problem associated with family members that affect the business from expansion.

*They use business items for free, get money for personal use without repaying and other family obligations affect the business finance.*

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<b>END OF ANSWERS TO PRACTICE EXERCISES 1-9.</b>
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## **TOPIC 2**

### **FINANCING A SMALL BUSINESS**

**In this topic, you will learn about:**

- **The Finance for a Small Business**
- **The Methods of Obtaining Finance**
- **The Cost of Borrowed Money**
- **The Cash Budget**

## TOPIC 2 INTRODUCTION

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### Introduction

Welcome to Topic 2, Financing a Small Business. It is the second topic of the Unit 1 Course Book. This topic will teach you about where to obtain money to finance your small business. It will also teach you about the methods of obtaining the money and the cost involved in borrowing money. Finally, it will teach you about the cash budget. A cash budget is about the flow of money in and out of the business.

Topic 2 has four (4) lessons: They are:

#### **Lesson 10: Finance for a Small Business**

This lesson explains capital and its importance for a small business. It also explains the available sources of finance. The lesson continues to explain trade credit and the reasons for using it. It also explains creditworthiness and how it is measured.

#### **Lesson 11: Methods of Obtaining Finance**

This lesson discusses the availability of different types of loans. It specifically describes the different types of loans given by the banks and the different financial institutions that provide finance for different purposes.

#### **Lesson 12: Cost of Borrowed Money**

This lesson explains the cost of borrowed money. It also explains the terms; interest, principal, flat-rate loans and the reducing balance loans. Furthermore, it teaches how interest is calculated using given methods.

#### **Lesson 13: Cash Budget**

This lesson defines cash budget and explains its importance and the different parts of the cash budget. It also identifies the possible cash budget problems and how they can be dealt with.

## Lesson 10: Finance for a Small Business

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### Introduction:

Welcome to Lesson 10. In your last lesson, you learnt about business expansion. You also looked at the reasons why business grows or expands and the different factors that affect business expansion. Lastly, you identified and discussed the different ways to expand a business. In this lesson, you will study the finance for a small business.



### Your Aims:

- Define capital and discuss its importance for a small business
  - Identify available sources of finance for a business
  - Define trade credit and identify the reasons for using credit
  - Define credit worthiness and explain how it is measured
- 

### What is Seed Capital?

It refers to the money or assets that the owner contributes in the early stage of establishing the small business.

### Importance of capital for a small business

A small business cannot survive without money. Money is required to:

- set up a business
- cover the normal running expenses of the business
- pay for the possible expansion of the business in the future

Money is required for fixed capital and working capital requirements. Fixed capital refers to fixed assets such as:

- land and buildings
- fixtures and fittings
- equipment for processing goods into finished products
- vehicles

Money is invested as fixed capital in the hope that this investment will produce a flow of income in the future. Money that is required to finance the setting up of a business is known as seed capital.

Working capital refers to money that is needed to pay for the day-to-day running expenses of a business, such as:

- Trading stock/raw materials purchase
- Wages
- Insurance
- Repairs
- Electricity
- Telephone expenses

A firm needs to have sufficient money when starting up. If a business fails it is often because the owner has not put enough capital to put the business in a good position when starting off. Most firms run at loss in the beginning. They do so until they have become established and have gained a larger share of their market. They will need to have enough money to operate during this period of loss.



### Activity 10.1

1. Distinguish between the working capital and the fixed capital

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2. Classify the following expenses as fixed capital or working capital.

*Tractor, coffee pulper, stock of goods for resale, stationery, raw materials for processing, business premises*

Fixed capital	Working capital

3. What is meant by *seed capital*? What sort of items would seed capital normally pay for?

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### Available Sources of Finance

It is important that a business knows its sources of finance. Most firms will need money in addition to what is in the business.

Money will often be borrowed to help pay for the setting up of a business. Usually the owner will contribute a lot of his or her own money but may need to borrow an additional amount.

#### (a) Owner's equity

Equity refers to money invested in a business by the owner(s) of that business. When setting up a business, the most important source of funds will be the owner's own money. Small businesses will find it difficult to borrow large amounts of money in the early stages. However, they are likely to obtain bank loans if the owners have put a lot of their own money into the business.



**(b) External equity**

External equity is the additional money put into a business by new partners or shareholders. These extra funds will help the business to grow. In return, however, the owner will have to share profits made with the contributors of this capital and the power will have to be shared with new partners who join the business.

Many small business people in Papua New Guinea obtain extra cash from friends and relatives. They may obtain money from relatives and give them a share in the business in return. Yet, before deciding to bring relatives into the business, they should consider very carefully if these people are likely to be an asset or a liability to the business. Assets are things of value and liabilities are things that business owes to others.

**Activity 10.2:**

1. Why is it difficult for small businesses to borrow large amounts of money in the early stages of business?

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2. Under what conditions, can a small business be allowed to borrow money from a bank?

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3. Explain equity

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4. Explain external equity.

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**(c) Trade credit**

Trade credit is an indirect way of obtaining capital for most businesses. When firms purchase goods from suppliers, they will often be given trade credit terms of, say, two weeks or 30 days. In other words, they do not have to pay what they owe until a few weeks later. These credit terms are similar in a way to short-term loans. If a business is setting up for the first time it will not be granted trade credit right away. It will first have to become known and trusted by its suppliers. If a firm gains a good credit reputation with its suppliers, it may obtain credit terms for longer than the normal periods.

For example, suppose a business has debts of K7000 on average each month, which it pays all off within one month and its suppliers agree to increase the credit period to 60 days, the business will have more money available. It will have K7000 of working capital available to use for other purposes. Extending credits terms in this way is very useful for a business that needs extra working capital for a short period.

The cost of credit, however, must not be forgotten. The actual cost will be the trade discounts for early payment that the business will not receive. Small businesses generally use accounts payable as their largest source of financing. Accounts payable or trade credit, are what businesses owe to their suppliers for inventory, products and other types of goods that are necessary to operate the business. It is estimated by most experts that small businesses usually have as much as 40 percent of their financing from trade credit - what they owe their suppliers. It is certainly the single largest operating current liability on a small business' balance sheet.

### **How does trade credit work?**

When a business buys from a supplier, that supplier is often willing to allow the business to delay payment. When the supplier allows delayed payment, effectively the supplier is extending financing to the business. This credit becomes a source of working capital financing for the business. For very small businesses and start-up companies, trade credit may literally be the only financing they have. Suppliers know this and they keep an eye on their accounts receivable and the businesses or companies that hold credit with them.

### **(d) Financial Institutions**

Financial institutions like the commercial banks, the National Development Bank and the finance companies also provide finance for small businesses. You will learn more about financial institutions and the types of loans they give in Lesson 11.

### **Creditworthiness**

Creditworthiness is an assessment of the likelihood that a borrower will default on their debt obligations. It is based upon factors, such as their history of repayment and their credit value yet to be repaid. Lending institutions also consider the availability of the assets and the extent of the liabilities to determine the probability of non-payment of debts by the borrowers. Therefore, it is important for financial institutions to develop different computerised strategies to avoid and easily track down borrowers from escaping to repay outstanding debts owing to them.

Some measures currently used by financial institution in Papua New Guinea are;

- Personal details like the full name, gender, age, status and contact number
- Confirm letter of employment contract and employment number
- Confirmation letter signed and approved with current identification card from their respective employers,
- Two recent wages and salaries pay slip,
- Retirement saving financial records and financial institution
- Personal bank account name and number

All these requirements must be met by the potential borrowers because this will act as security to confirm the eligibility for the borrower to receive credits as requested.



### Activity 10.3

1. What is an owner's equity?

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2. Define creditworthiness?

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### Summary:

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You have come to the end of Lesson 10. In this lesson you learnt that:

- The owners' capital contribution is sub-divided into two main categories. These are the fixed capital and the working capital.
- Other sources of financing small business can be through the trade credit and the loans from the financial institutions.
- Before confirming funding from other sources, all necessary requirements for borrowing must be met by the business owner.
- If all the required documents are in-place then the creditworthiness is measured accurately.

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<b>NOW DO PRACTICE EXERCISE 10 ON THE NEXT PAGE</b>
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## Practice Exercise 10

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Soya Trading is a known and trusted business. It has gained a good credit reputation with its suppliers. Therefore, a trade credit term of 60 days was given to Soya Trading when it purchased goods worth K10 000 on credit. This is an advantage to Soya Trading.

1. Explain how it is an advantage to Soya Trading.

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2. List possible ways for a first time small business owner to obtain its seed capital.

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3. List three (3) ways of how creditworthiness is measured by different financial institutions before authorizing credits to borrowers.

- (a) \_\_\_\_\_  
(b) \_\_\_\_\_  
(c) \_\_\_\_\_

4. List three (3) examples of fixed capital and working capital.

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<b>CHECK YOUR WORK. ANSWERS AT THE END OF THE TOPIC</b>
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## Lesson 11: Methods of Obtaining Finance

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### Introduction:

Welcome to Lesson 11. In your last lesson, you have learnt about the different types of capital and their importance for a small business. You also looked at the different sources of finance for a business, and defined credit worthiness and how it is measured. In this lesson you will study the methods of obtaining finance by a small business.



### Your Aims:

- Explain the different forms of loans available to a business
  - Identify the different types of bank loans available
  - Identify the different financial institutions that provide loans for different purposes
- 

## Different Forms of Loans Available to a Business

There are two main forms of loans available to a business. They are a private loans and institutional loans.

### Private loans

These are loans that are made privately with friends, family members, and informal lenders. Private loans are made based on relationship. This means the person lending the money knows the other person who is asking for the loan and therefore, based on the relationship that they have, they are able to lend money (loan) and repay the loan easily.

In a private loan, a lender may verbally state the conditions of the loan or even get the borrower to sign an agreement highlighting the conditions of the loan if it involves a large amount of money. The condition of the loan would include the time period and the agreed interest that would be paid. When the date of repayment is due, the lender usually reminds the person who has borrowed to pay up. Most often the borrowers are honest and pay up as agreed. However, a few may not pay up due to some difficult situations such as death or long illnesses. In such cases, other arrangements are made to recover the loan.

A private loan is much easier to obtain compared to an institutional loan which would require proper documents and procedural rules.

### Institutional loan

Institutional loans refer to the loans given by the commercial banks, the National Development Bank, Micro-Finance Banks, Finance Companies and Savings and Loans Societies. Institutional loans require proper documents and procedures. For instance, with the banks, one of the main requirements is that a business has to have „security’ to obtain a loan. A „security’ is a valuable asset such as land, building, vehicles, machineries and cash that provides the protection against the loss of not repaying the loan. This means that if a person does not repay the loan due to any

difficult situations, his or her security will be taken by the bank to repay the loan. With finance companies, the main requirement is to have a salary or wage where the loan repayment will be made possible. With the Savings and Loans and Societies, the main requirement is to be a member with a constant savings to the society so a loan against the members savings can be made.



### Activity 11.1

1. Explain what a private loan is and give an example.

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2. Explain what a bank loan is and give an example.

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3. Why is a private loan much easier to obtain than an institutional loan?

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## Types of Bank Loans

There are varieties types of bank loans that banks can offer to small businesses. Some of these loans are:

1. Mortgage Loans
2. Investment loans
3. Working capital financial loans
4. Bank loans

### 1. Mortgage loan

It is a long term house or property loan that comes in an agreement. The agreement states that the borrower gives the lender the legal right to take possession of the property given as security if the loan is not repaid.

A mortgage loan is always less than the market value of the property given as security. This is so that, in the event that the borrower fails to complete the loan payment, the financial institution is able to sell the mortgaged asset which is higher in value to recover the loan amount.

For example, Taita borrows one million kina (K1 million) from the Bank of South Pacific. Taita uses her private school as a security for the loan. The bank approves the loan because the property (school) given as a security is worth more than one

million kina (K1 million). Apart from that, Taita also has more than enough savings in her business account which can be drawn from to repay the loan.

## 2. Investment loans

These are loans used for investment purposes such as the purchase of an investment property or buying shares. Commercial banks provide loans to businesses as well as to the general public. The conditions which apply to investment loans depend on the customer's credit worthiness – or their expected ability to repay the loan. For a business this will depend greatly on the cash flow of the firm – or the expected income. A credit worthy customer will get better terms, such as a lower interest rate than someone considered a risk.

Investment loans are normally repayable over five years, although sometimes repayment may be spread over 10 years. To obtain loans, the owner should have equity in the business.

## 3. Working capital financing loans and bank overdrafts

These are short term financial arrangements to ease temporary cash flow or working capital problems.

**A bank overdraft** is a short term loan for cheque account holders, which is given to a cheque holder on request. When the overdraft is approved by the bank, the cheque holder can draw cheques and withdraw money from the account over and above the amount in the bank account. The highest amount that the cheque holder can withdraw is the credit balance plus the overdraft value. For example, if a cheque holder has K10 500 in his cheque account but, he or she needs K20 000, then, through a bank overdraft the bank would allow him or her to withdraw another K10 000 so he would be able to use a total of K20 500 for his or her business needs.



### Activity 11.2

1. Explain what a mortgage loan is.

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2. Give three examples of „securities“ in a mortgage loan.

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3. Explain investment loans.

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4. Who can have access to a bank overdraft?

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## **Financial Institutions that provide finance for businesses**

There are different financial institutions that provide financial solutions to the general public and the businesses in Papua New Guinea. We will study them below.

### **1. Commercial Banks**

All commercial banks in Papua New Guinea are financial institutions. They are financial institutions because they deal with money. They allow deposits and withdrawals from individuals and business men and women who hold accounts with them. Examples of commercial banks are; Bank of South Pacific, ANZ (Australia and New Zealand Bank), Wespac Bank and People's Micro Bank.

Commercial banks provide business loans and personal loans to businesses and individuals. Business loans are available for the purpose of business. Personal loans are for smaller amounts ranging from K500-K5000 and they are available for personal purposes. Personal loans are repayable over a period of no more than three years. Security of some sort may be required. Remember, security is something that the lender can turn into cash when the loan is not paid. Cash security, job guarantees and assets are common forms of security.

### **2. National Development Bank**

The National Development Bank provides agriculture loans, commercial loans and Micro-finance loans. Agriculture loans are for projects such as raising cattle, piggery, poultry, growing oil palm, coffee, tea, rice farming and vegetable farming. Commercial loans are for industrial and service business purposes and micro finance loans are small loans to help people to set up their small income generating activities.

The National Development Bank has also established a new micro bank within itself. This micro bank is called People's Micro-Bank. The NDB-People's Micro-Bank provides loans to individuals as well as business men and women to start-up businesses or to support the cash-flow of their business for expansion.

### **3. Microfinance Institutions**

Microfinance Institutions provide loans to small business men and women who hold accounts with them. Examples of microfinance institutions are; PNG Microfinance Ltd, Nationwide Micro-Bank Ltd, Mi Bank, and Papua New Guinea Business Women's Micro-Bank.

### **4. Financial Companies**

Finance companies function a bit like banks. They accept investment deposits and ensure the investment deposits grow. They, then, pay dividends to those who invested in their company. They also lend funds or loans to individuals and business men and women who need it. There are many finance companies operating in Papua New Guinea. Some of them are foreign owned and others are operated by Papua New Guineans. Examples of financial companies in Papua New Guinea are Moni-



plus, Finance Corporation (Fincorp), Easiloan Finance, Kina Finance, Credit Corporation and Norman Finance.

These financial institutions provide financial services such as;

- personal loans for the reason of school fee loans, medical fees, customary obligation and refinancing
- asset financing for things like purchase of motor vehicles, building, equipment and machinery for factories
- term deposits for business and personal deposits
- foreign currency payments which includes buying online business and foreign currency exchange rate and,
- other worthwhile purposes involving money

Financial companies in Papua New Guinea have their own set of policies that the businesses or general public who want to seek financial help from them must abide by before they can access loans.

## **5. Savings and Loans Societies**

A Savings and Loan Society is a saving institution. It is established by twenty (20) or more people. These groups of people usually have a common interest or a similar back ground. For example, they may be from the same village, or community, or employees of a government department, or a statutory body, or members of the same denominations.

Examples of Savings and Loan Societies in Papua New Guinea are; Teachers Savings and Loans Societies, Nasfund, Nambawan Super, Police Savings and Loan Society, Defence Savings and Loans society, East New Britain Savings and Loans Society.

Savings and Loan Societies provide two main financial assistances to their members. They are:

- **Savings**  
All public servants and companies are members of one of these Savings and Loans societies because they become members by agreeing to deduct a portion of their wages and salaries using the pay as you earn system. The portion that is deducted is kept in their personal account as their savings for them until they retire or decide to withdraw their membership. Then the institution calculates their total saving plus interest and hand it over to the respective members.
- **Loans**  
Some of these savings and loans societies allow their members to get loans with minimal interest from their saving account when the members agree with the terms and condition set by the society.

**Activity 11.3**

1. Name three types of loans that are offered by the National Development Bank.

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2. Explain how financial companies operate and provide three examples of financial companies.

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3. Explain in your own words, how Savings and Loans Societies give loans.

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**Summary**

You have come to the end of Lesson 11. In this lesson you learnt that:

- There are two main types of loans available to a business and these are private loans and institutional loans.
- The types of bank loans are personal loans and business loans.
- Private loans are loans that are arranged privately with friends, family members, and informal lenders
- Personal loans are available for smaller amounts ranging from K500-K20 000. It is a loan for personal use.
- Institutional loans refer to the loans given by the Commercial Banks, the National Development Bank and the Micro-Finance Banks.
- The business loan is a loan take for the reason of business use like the renovation for the business property.
- There are varieties of bank loans that banks can offer to small businesses and these are mortgage loans, investment loans, working capital financing loans and bank overdrafts.
- Financial Institutions and Savings and Loans Societies provide loans to the general public and the businesses in Papua New Guinea.

**NOW DO PRACTICE EXERCISE 11 ON THE NEXT PAGE**



## Practice Exercise 11

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1. Explain what a private loan is in your own words.

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2. What are institutional loans?

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3. What is a bank overdraft?

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4. List three (3) financial institutions that give finances to businesses.

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5. List the four main products that the financial companies provide for their clients and businesses.

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6. List two examples of finance companies that are operating in Papua New Guinea

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7. On what bases is a loan given to the members of a Savings and Loans Society.

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8. List two examples of Savings and Loan Societies in Papua New Guinea.

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9. Research and find out the following information about the National Development Bank.

(a) Its functions

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(b) The types of loans it gives

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(c) Its target customers

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<b>CHECK YOUR WORK. ANSWERS AT THE END OF THE TOPIC</b>
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## Lesson 12: Cost of Borrowed Money

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### Introduction:

Welcome to Lesson 12. In your last lesson, you learnt about the different methods of obtaining finance for small business. In that lesson you also learnt about obtaining different types of loans to finance the business operation. You also learnt the different types of financial institutions where businesses can obtain loans. In this lesson you will learn how the money borrowed is paid back with interest.



### Your Aims:

- Discuss the cost of borrowed money
  - Define the interest, the principal, the flat-rate loan and reducing balancing loan.
  - Calculate interests using given methods
- 

### Payment for Money Borrowed

Cost of borrowed money is actually the extra amount of money paid to a lender. This extra money is called the interest. The money borrowed is paid back with interest. Now you need to understand the terms used before working out the interest.

### The Interest

It is the extra or additional money repaid in addition to the borrowed money. The main reason for businesses to lend money to people is to make this additional money. The interest is calculated based on the amount borrowed and the time taken to repay the loan. The actual rate of interest is decided at the time of the event of arranging the loan.

### The Principal

It is the actual amount borrowed. The principal amount borrowed is paid back with interest. For example, if you get a loan of K2000 from a bank then this amount is your principal. When repaying, the principal is paid back with extra money known as the interest.

### Terms of loan

The terms of a loan refers to the period of time it takes the borrower to repay the loan. The period of time depends on the amount borrowed. If more money is borrowed then the term of the loan will be longer and the amount of interest to be paid will be higher. If less money is borrowed then, it takes a shorter time to repay and the amount of interest to be paid will be lower.

### Interest Rate

Interest rate on the loan is usually expressed as a percentage. It is the rate at which the interest is repaid. The interest rate depends on the amount of money borrowed.

We will now consider how to calculate the interest charged and decide which rates are better than others.



### Activity 12.1

Define the following words or terms with reference to borrowing money.

1. Principal amount of the loan

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2. Interest

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3. Terms of a loan

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### Interest rates and loan repayments

Interest rates are decided by the banks and advertised. The exact rate for your loan is given at the time of your loan application and the rate is applied when you repay the loan. Normally a loan is repaid monthly, although sometimes quarterly or half-yearly payments are arranged. This repayment is calculated by the bank, and is made up of the principal and the interest payments.

The full cost of a bank loan depends not only on the rate of interest but on whether the interest is charged at a flat rate or a reducing rate.

Now you will learn about how the flat-rate and the reducing balance rate works. We will start with the flat-rate loans then proceed to reducing balance rate.

### Flat-rate loans

With the flat-rate loans, the rate of interest is charged on the full amount of the loan over the term of the loan.

Example

A loan of K10 000 taken out at a flat rate of 12% is to be repaid over eight months. The loan repayment each month and the total will be:

<i>Repayment Period</i>	<i>Principal (K)</i>	<i>Interest (K)</i>
Month 1	1250	100
Month 2	1250	100
Month 3	1250	100
Month 4	1250	100
Month 5	1250	100
Month 6	1250	100
Month 7	1250	100
Month 8	1250	100
<b>Total</b>		<b>K 10 800</b>

The simple interest formula is:  $\text{Interest} = \text{Principal} \times \text{Rate} \times \text{Time}$

Each month interest of K100 is payable. This is 12% of K10 000 per month:

$$K10\ 000 \times 12/100 \times 8/12 = K100$$

In the final month, only K1250 remains to be paid however the interest is still charged on the full amount (K10 000) of the loan. This is the disadvantage of the Flat-Rate Method.

### Reducing-balance rate

With the reducing-balance method, the rate of interest paid is charged on the amount of the loan left owing. Owing means outstanding and yet to be paid. Therefore the less amount of the loan to be paid off, the less the interest will be.

Consider the loan of K10 000 described earlier, if it had a reducing interest rate. The money paid each month would be:

<i>Repayment Period</i>	<i>Principal (K)</i>	<i>Interest (K)</i>
Month 1	1250	100
Month 2	1250	87.50
Month 3	1250	75
Month 4	1250	62.50
Month 5	1250	50
Month 6	1250	37.50
Month 7	1250	25
Month 8	1250	12.50
<b>Total</b>		<b>K 10 450</b>

Interest payable per month is calculated on the amount of the principal owing at the time. In the final month K1250 is yet to be paid.

Interest payable is:

$$K1250 \times 12/100 \times 1/12 = K12.50$$

In this example, the reducing-balance loan interest is only K450 which is less than the flat-rate loan. For large commercial loans the saving would be much greater. It is very important, therefore, to know whether a loan has a reducing or flat rate of interest when calculating its full cost. Personal loans often tend to have flat interest rates.



### Activity 12.2

1. Define Flat-rate interest.

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2. State the formula for calculating simple interest.

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### 3. Explain Reducing – Balance Rate.

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#### True rate of interest

To calculate the true rate of interest on the flat –rate loans, the interest is calculated on the total amount of debts over the whole period of repayment. It is calculated this way, even though the amount is reduced at each payment. In the example just given, the borrower paid K100 in interest under the flat rate in the final month even though only K1250 remains owing. This represents an annual interest rate of 108%. Over the course of the eight months, the total interest payment of K800 represents a „true“ rate of interest.

The true rate of interest may be found as follows:

Interest = Principal x rate x time/100

Therefore

The rate of interest = interest x 100 /principal x time.

*In order to find the principal figure, the ‘average amount’ owing during the course of the loan must be calculated:*

*K10 000 is the amount owed in the first month*

*K8 750 is the amount owed in the second month (10 000 – 1250)*

*K7 500 is the amount owed in the third month (8750 -1250)*

*K6 250 is the amount owed in the fourth month (7500- 1250)*

*K5 000 is the amount owed in the fifth month (6250-1250)*

*K3 750 is the amount owed in the sixth month (5000-1250)*

*K2 500 is the amount owed in the seventh month (3750-1250)*

*Therefore, the average amount owed over the course of the loan is:*

*$$\frac{K10000 + K8750 + K7500 + K6250 + K5000 + K3750 + K2500 + K1250}{8}$$*

*= K 44100 divided by 8 months = K5512.50*

*If K800 is the interest paid on loan of K5512.5, the true rate of interest is:*

*Rate of interest = interest x 100/principal x time*

*= 800 x 100/5512.50 x 8months*

*= 800 x 100/ 5512.50 x 0.67*

*= 80 000 / 3693.38*

*= **21.66% or 22%***

The true rate of interest is 22%.It always works out at a little less than twice the flat rate of interest.

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**Activity 12.3**

1. Which rate is cheaper and better to deal with when seeking loans?

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2. What is the main difference between the flat-rate and the reducing- balance method?

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**Up- Front charges**

Normally when the bank loan is approved, the borrower must also pay an extra initial charge for the loan. This charge is called an establishment fee or a bank handling fee, or some other terms. Again, this charge will have the effect of making the loan cost more than it may appear to be.

Borrowers should always calculate in advance the full cost of a loan. They should work out the true interest rate and enquire in advance what extra „up-front“ charges are attached to a loan.

**Summary**

You have come to the end of Lesson 12. In this lesson you learnt about:

- The loans borrowed by people cost extra money known as interest.
- The banks and financial institutions using the flat-rate interest and/ or the reducing-balance rate method.
- The flat rate interest is expensive than the reducing balance rate method.
- The true rates of interest will actually show that the flat rate interest is higher.
- The other costs like loan establishment fee or handling fees added to the actual loan which the borrower needs to know before seeking any type of loans
- Formula for calculating simple interest is:  
 $\text{Interest} = \text{Principal} \times \text{Rate} \times \text{Time}$

**NOW DO PRACTICE EXERCISE 12 ON THE NEXT PAGE**



## Practice Exercise 12

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1. Define the term loan.

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2. State one advantage and one disadvantage of obtaining loans.

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3. What is the purpose of the commercial loans?

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**Refer to this information to answer Questions 4 and 5.**

The Micro Bank is offering a loan to customers at 14% reducing interest rate. The Bank of South Pacific is offering a loan at 9% flat rate interest. The loans are repaid in monthly instalments for a period of six months.

4. Calculate the cost of borrowing K500 for four months from both banks.

5. Calculate the true rate of interest for the Bank of South Pacific.

6. Calculate the true rate of interest for K3000 borrowed for six months at 10% each loan is repaid in monthly instalment of K500.

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<b>CHECK YOUR WORK. ANSWERS AT THE END OF TOPIC 2</b>
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## Lesson 13: Cash Flow Budget

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### Introduction:

Welcome to Lesson 13. In the previous lesson you learnt about the cost of borrowed money. You defined interest, principal, flat-rate loan and reducing balance loan. You also calculated interest using given methods. In this lesson you will learn about cash flow budget, its importance and parts. You will also learn about possible cash flow problems and how to deal with these problems when they arise.



### Your Aims:

- Define the cash flow budget and state its importance
  - Identify the parts of a cash flow budget
  - Identify the possible cash flow budget problems
  - Discuss how a business can deal with a cash flow budget problems
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### What is a Cash Flow Budget?

It is a plan that shows how much cash is expected to come in and how much is expected to flow out of the business. Every business, whether big or small, should draw up a cash plan or cash budget. It is the forecast of the future cash position of a business.

A cash flow is the lifeblood of any business. Lifeblood is described as something very essential which one must have to survive. In the case of a business, it should ensure that cash moves around so that the business will keep on going and always have cash in circulation. This is essential for the business to survive.

Cash is the main element of the working capital. It is the money needed to pay for the day to day running expenses of the business. It is necessary for the management to ensure that the business trades within its cash cycle. The cause of bankruptcy can be traced to poor understanding of the need for adequate cash to pay bills. Bankruptcy refers to the situation when a business has insufficient cash or loan facilities to pay debts or liabilities. Liability is also referred to as a debt. It is money owed to other businesses.

The type of cash budget will not be the same for every business. It will depend on the kind of activity a business is involved in.

### Importance of a cash flow budget

A cash flow plan focuses on the cash position of the business on a monthly basis. It also indicates when a business will need to raise extra finance. For example, if the business runs short of cash in April, it will probably make arrangements for an overdraft or seek short term loans or other financial assistance from friends or financial institutions.

### Example of a cash flow budget

You should be aware that the type of cash flow budget will not be the same for every business. It will depend on the kind of activity a business is involved in. Therefore, in this lesson, you will be taught the details of a cash flow budget for a trading business. A trading business deals with buying and selling goods, as a retailer or wholesaler.

A cash flow budget used in a trading business is shown below.

#### Cash Flow Budget

		Jan (K)	Feb (K)	March (K)	April (K)	May (K)	June (K)
1	Cash balance at start of month	3000	4300	4400	1700	1180	4770
2	Total sales	(10 000)	(10 000)	(10 000)	(10 000)	(12 000)	(13 000)
3	Cash sales	8000	8000	8000	8000	8000	8000
4	Cash from credit sales	2000	2000	2000	2000	2400	2600
			2000	2000	2000	2000	2400
5	Other receipts					3750	
6	Total cash	11000	14 300	14 400	11 700	14 930	15 170
7	Total purchases	(4500)	(4500)	(4500)	(5460)	(6360)	(7320)
8	Cash purchases	1500	1500	1500	1820	2120	2440
9	Cash paid for credit purchases	3000	3000	3000	3640	4240	4880
			3000	3000	3000	3640	4240
10	Wages	1850	1850	1850	1850	1850	1850
11	Drawings	1500	1500	1500	1500	1500	1500
12	Loan repayments	250	250	250	250	250	250
13	Other payments	1600	1800	4600	2100	800	1200
14	Total cash payments	6700	9900	12700	10520	10160	11480
15	Cash Balance at end of month	4300	4400	1700	1180	4770	3690

Figure 13.1 A Cash Flow Budget

Source: Adapted from Edgar O'Neil. 1990. Liklik Bisnis Second Edition.pg 56

Take note that in Row 4, it shows the cash being received after 30 days and in Row 9, the cash being paid after 30 days.

Now let us continue with more explanation on a cash flow budget.

A cash flow budget is often made for a (12) twelve months period. It is better not to wait until the end of (12) twelve months before planning another one. A new budget should be drawn up midway through the first budget for the following (12) twelve

months. For example, if the first budget was for the period January to December 2013, a second one should be drawn up in midyear, say, in June, for the period June 2013 to June 2014. If this is done, the figures on the old budget may have to be revised, because the actual cash inflows and outflows may be different from those estimated in the original budget. In this way, cash budgets will become more accurate as time goes on.

The information for a cash flow budget comes from a business' bookkeeping records. By studying what has happened in the past, a business can forecast what may happen in the future. The longer good records are kept, the better the budgets will be.

### Definition of Cash Inflow and Outflow

- Cash inflow means cash received by the business. In the cash flow budget, it is labelled receipts.
- Cash outflows refer to the cash spent by the business. In the budget, it is labelled expenses or expenditure.



#### Activity 13.1:

1. Explain why the cash flow budget is referred to as the „life blood“ of a business.

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2. What is bankruptcy?

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### Parts of a Cash-Flow Budget

There are two parts of a cash flow budget. The receipts part consists of rows 1 to 6 and the expenditure part consists of rows 7 to 14. We will begin with the receipts part. Refer to Figure 13.1 on page 104.

#### Row 1: Cash balance at start of month

The Cash balance at the beginning of February is:		
Cash balance at beginning of January		K3000
	Add total receipts for February	<u>8000</u>
		11000
	Less total payments for February	<u>6700</u>
	Cash balance for February:	<u>4300</u>

Figure 13.2 Cash Balance at Start of February

Source: Adapted from Edgar O'Neil. 1990. Liklik Bisnis. Second Edition.pg 60

In the example, the sum of money both in the bank and in the cash box of the business is K3000, at the beginning of January. The sum of money will change each month, depending on the amount of money coming in and going out. To calculate the expected cash balance at the start of each month, you add the cash balance for the

start of the previous month to the total receipts; then subtract the total payments. For example:

Notice that the cash balance for (row 15) the previous month becomes the cash balance for the following month.

### Row 2: Total sales

What are sales? They are the value of goods sold both for cash and on credit shown in the Figure 13.3 below.

	Jan	Feb	March	April	May	June
Total sales	(10 000)	(10 000)	(10 000)	(10 000)	(12 000)	(13 000)

Figure 13.3: Total Sales (Row 2) of the Cash Flow Budget

Source: Adapted from Edgar O'Neil. 1990. Liklik Bisnis Second Edition.pg 56

The figures in row 2 above shows estimated monthly sales. Past sales records should be checked in order to estimate the level of monthly sales. It may tend to change in certain months. For example, at harvest times sales in rural areas should be higher. People will have more money to spend during these times.

Parentheses ( ) are put around the total monthly sales figures, to show that these figures are not to be added with the other cash receipt figures because the amount includes credit sales.

### Row 3: Cash sales

	Jan	Feb	March	April	May	June
Cash sales	8000	8000	8000	8000	9600	10 400

Figure 13.4: Cash Sales (Row 3) of Cash the Flow Budget

Source: Adapted from Edgar O'Neil. 1990. Liklik Bisnis Second Edition.pg 56

The figures in row 3 above shows expected cash sales for each month. Cash receipts records should be checked to estimate what level of cash sales is likely to be.

In the cash budget, cash receipt is expected to be 80% or four-fifths of total sales. For example, in January cash sales = 80% of K10 000 = K8000.

### Row 4: Cash from credit sales

	Jan	Feb	March	April	May	June
Cash from credit sales	2000	2000	2000	2000	2400	2600
		2000	2000	2000	2000	2400

Figure 13.5: Cash from Credit Sales (Row 4) of the Cash Flow Budget

Source: Adapted from Edgar O'Neil. 1990. Liklik Bisnis Second Edition.pg 56

The figures in row 4 show the estimated credit sales from total sales. The amount of cash received each month from credit sales must also be estimated.

In the example, credit sales are estimated to be one-fifth or 20% of the total sales. Payment for credit sales are written in the top left hand corner of Row 4. In January, for example, credit sales amount to K2000 (20% of K10 000 = K2000). Receipts from these credit sales will be paid one month later, in February. Thus the K2000 appears under February at the bottom.

### Row 5: Other receipts

	Jan	Feb	March	April	May	June
Other receipts					3750	

Figure 13.6: Other Receipts (Row 5) of the Cash Flow Budget

Source: Adapted from Edgar O'Neil. 1990. Liklik Bisnis Second Edition.pg 56

The figure in row 5 show expected income from other sources; this income should be entered in the other receipts row. In the example, "other receipts" in May amount to K3750. This could be from the sales of some assets such as a vehicle or equipment or it could be interest from Interest Bearing Deposit (IBD) or a dividend from some shares help in a company.

### Row 6: Total cash

	Jan	Feb	March	April	May	June
Total cash	11 000	14 300	14 400	11 700	14 930	15 170

Figure 13.7: Total Cash (Row 6) of Cash Flow Budget

Source: Adapted from Edgar O'Neil. 1990. Liklik Bisnis Second Edition.pg 56

In row 6, the total cash is simply added for each month including the opening balance. Note that the credit sales for that particular month are not added in, because all credit sales are paid one month later. It is the amount of credit sales in the previous month that is added to this particular month's cash sales and the opening balance as well as the other receipts.

Take note also that the figures in the total sales row should not be included.

Let us now move onto the expenditure part (row 7 to row 14).

### Row 7: Total purchases

What are purchases? They are goods that are bought with cash or on credit to be sold.

	Jan	Feb	March	April	May	June
Total purchases	(4500)	(4500)	(4500)	(5460)	(6360)	(7320)

Figure 13.8: Total Purchase (Row 7) of the Cash Flow Budget

Source: Adapted from Edgar O'Neil. 1990. Liklik Bisnis Second Edition.pg 56

In row 7, it shows estimated monthly purchases. Past purchases records should be checked in order to estimate the level of monthly purchases. It may change in certain months. For example, during harvesting times purchases in urban areas should be higher because people have more money to purchase or buy what they need and want during this period. Again, parentheses are placed around the figures to show that these are not to be included with the other cash payment figures. This is because both cash and credit purchase are combined in these figures. Thus in the example:



### Activity 13.2:

Explain the following terms

1. Sales \_\_\_\_\_
2. Purchases \_\_\_\_\_
3. Cash inflow \_\_\_\_\_
4. Cash outflow \_\_\_\_\_

### Row 8: Cash purchases

	Jan	Feb	March	April	May	June
Cash purchases	1500	1500	1500	1820	2120	2440

Figure 13.9: Cash Purchases (Row 8) of the Cash Flow Budget

Source: Adapted from Edgar O'Neil. 1990. Liklik Bisnis Second Edition.pg 56

The figures in row 8 shows estimated cash purchases for the following 6 months. For a trading business, purchases will be for stock. This will be sold in the following months. Therefore, purchases for each month should be closely related to the estimated sales figures. If sales are expected to rise, the estimated purchases should start rising in a month or two months before the sale. In the example, notice that sales are expected to increase in May. Expected purchases, therefore, start to increase in April.

For a manufacturing business, purchases will be for materials and spare parts. In this case, purchases will have to increase well in advance of expected increases in sales. Supplies will have to be bought in well ahead because it will take time to produce goods and have them available for sale.

Be aware that cash purchases are goods paid for in cash.

### Row 9: Cash paid for credit purchases

Cash paid for credit purchases	3000	3000	3000	3640	4240	4880
		3000	3000	3000	3640	4240

Figure 13.1.0: Cash Payment for Credit Purchase (Row 9) of the Cash Flow Budget

Source: Adapted from Edgar O'Neil. 1990. Liklik Bisnis Second Edition.pg 56

Take note that credit purchases are goods bought on credit.



Again, the expected actual figures for credit purchases appear in the top left-corner. In the example, payment for credit purchases is one month later. For example, credit purchases of K3000 in January are paid for one month later, in February. Payment for credit purchases will normally vary from 2 weeks to one month or longer.

Cash purchases are goods paid for in cash and credit purchases are goods bought on credit and paid later.



### Row 10: Wages

	Jan	Feb	March	April	May	June
Wages	1850	1850	1850	1850	1850	1850

Figure 13.1.1: Wages (Row 10) of the Cash Flow Budget

Source: Adapted from Edgar O'Neil. 1990. Liklik Bisnis Second Edition.pg 56

The figure in row 10 shows the estimated wages for the number of workers required over the period to be covered by the cash budget.

### Row 11: Drawings

	Jan	Feb	March	April	May	June
Drawings	1500	1500	1500	1500	1500	1500

Figure 13.1.2 Drawings (Row 11) of the Cash Flow Budget

Source: Adapted from Edgar O'Neil. 1990. Liklik Bisnis Second Edition.pg 56

The figures in row 11 shows the estimated amount the owner will draw from his business for his or her own personal and family use. Some bigger than normal payment may have to be made in the future, and this should not be overlooked. For example, the owner may be planning to renovate a house, repair a motor vehicle, or pay a bride price for the marriage of one of his/her sons.

Remember that the business is distinct from its owner or owners. Therefore, any amount that is taken out by the owner from the business should be recorded in drawings.

### Row 12: Loan repayments

	Jan	Feb	March	April	May	June
Loan repayments	250	250	250	250	250	250

Figure 13.1.3: Loan Repayment (Row 12) of the Cash Flow Budget

Source: Adapted from Edgar O'Neil. 1990. Liklik Bisnis Second Edition.pg 56

The figures in row 12 shows monthly loan repayments that is made on a bank loan previously borrowed.

### Row 13: Other payments

	Jan	Feb	March	April	May	June
Other payments	1600	1800	4600	2100	800	1200

Figure 13.1.4: Other Payments (Row 13) of the Cash Flow Budget

Source: Adapted from Edgar O'Neil. 1990. Liklik Bisnis Second Edition.pg 56

The figures in row 13 shows estimated amount of money that will be spent each month on all other business expenses likely to occur. These expenses will include payment for items such as fuel, electricity, telephone charges and insurance.

The figures may also include payments for exceptional items such as making repairs or alterations to the premises and purchasing new equipment or vehicles. In the example, other payments are higher than normal in the months of March and April.

#### Row 14: Total cash payments

	Jan	Feb	March	April	May	June
Total cash payments	6700	9900	12700	10520	10160	11480

Figure 13.1.5: Total Cash Payments (Row 14) of the Cash Flow Budget

Source: Adapted from Edgar O'Neil. 1990. Liklik Bisnis Second Edition.pg 56

The figures in row 14 show the total of all payments from rows 8 to 13.

#### Row 15: Cash balance at end of month

	Jan	Feb	March	April	May	June
Cash Balance at end of month	4300	4400	1700	1180	4770	3690

Figure 13.1.6: Cash Balance at End of Month (Row 15) of the Cash Flow Budget

Source: Adapted from Edgar O'Neil. 1990. Liklik Bisnis Second Edition.pg 56

The figures in row 15 show the cash balance at the end of the month. That is total cash for the month minus total payments for the month. This figure is carried forward to be the cash balance for the start of the following month.

### Cash Flow Problems

A cash flow budget will indicate if a business is likely to have enough cash for each month during the period covered by the budget. In figure 13.1 cash flow budget, it shows that the total receipts are greater than the total payments by a small amount. In March and April, however, payments are expected to be greater than the actual cash receipts. This reduces the cash balance at the end of April to only K1180.

If the business is facing a serious cash-flow problem, the management has to do something to overcome the shortage of cash in the business budget. You will look at this after doing activity 13:3.



#### Activity 13.3:

If you were a businessman running a trade store, how would you know that you are already having a cash flow problem?

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## Available Choices to Help Ease Cash-Flow Problems

These choices are:

### 1. Borrow money

Money may be borrowed on a short or medium-term basis. A short-term loan is advisable if a business is facing short-term cash difficulties. In most cases, a short-term loan is the first line of option in financing his/her business. This can be used to satisfy temporary cash needs of the business.

### 2. Cutting costs

If the receipts are less than the payments on a continuous basis, then borrowing money is not the solution. In such a situation, a business must either cut its cost, or increase its sales, or both.

If normal running costs can be reduced, then a large amount of money can be saved in the long run. One must ask questions such as:

- Can the wage bill be lowered?
- Can the owner do with fewer drawings each month?
- Can the power bills be reduced?

In the cash-flow example, it would be wise for this particular business to try to reduce its running costs as the difference between the receipts and payments for each month should be greater.

This is just a friendly advice. Why not get rid of unnecessary expenses like the travelling costs and having parties just to inform people about your business. Instead think of cheaper ways to advertise your products.



### 3. Increase receipts or revenues

The total receipts can be increased each month by increasing sales. There are many ways to achieve this. For example, is the business carrying too many „slow- moving“ goods, or non – saleable goods or poor quality goods? A change in the selection of goods stocked may lead to increased sales for the business.

Increased sales will also increase the working capital because you need to spend more money in producing more products of high quality and saleable items to motivate customers to purchase the goods.

However, in a competitive business environment the firm might have to increase total sales by decreasing prices.

### 4. Change credit terms with suppliers

One way for a business to improve its cash-flow position is to ask its supplies to grant longer credit terms. The credit period could, for example, be extended from 2 weeks

to one month, or longer. Sometimes, firms facing temporary cash-flow problems change their credit arrangements with suppliers. They may change back to the old credit terms once their cash position is satisfactory.

### **5. Change credit terms with customers**

Some businesses may improve their cash-flow position by granting less credit to their customers; or they may ask them to make earlier payments. Businesses that trade with other businesses often do so on a credit basis. But businesses that sell direct to the people normally sell on a cash basis only. Small businesses should only sell for cash.

### **6. Postpone or drop expensive plans**

Business owners may have expenditure plans requiring a considerable sum of money. For example, they may have plans to expand or renovate their business premises. If these plans will result in a shortage of cash, then the plans should be reconsidered. It might be advisable for this business to delay its considerable expenditure plans for March. It could postpone its plans to a later month when it might be able to spend the money without reducing its cash balance to a low level in case of an emergency.

## Summary:

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You have come to the end of Lesson 13. In this lesson you learnt that:

- A cash budget is a plan that shows how much cash is expected to come in and how much is expected to flow out of the business over the months ahead.
- A cash flow plan forecasts on the future cash position of the business on a monthly basis.
- The type of cash budget will not be the same for every business. It will depend on the kind of activity a business is involved in.
- Parts of a cash budget include;
  1. cash balance at start of month
  2. total sales
  3. cash sales
  4. cash from credit sales
  5. other receipt (s)
  6. total cash
  7. total purchases
  8. cash purchases
  9. cash paid for credit purchases
  10. wages
  11. drawings
  12. loan repayments
  13. other payments
  14. total cash payments
  15. cash balance at end of month
- A cash flow problem can be dealt with through these following ways;
  1. Borrow money
  2. Cutting costs
  3. Increase receipts or revenue
  4. Change credit terms with suppliers
  5. Change credit terms with customers
  6. Postpone or drop expensive plans

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<b>NOW DO PRACTICE EXERCISE 13 ON THE NEXT PAGE</b>
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**Practice Exercise 13**

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1. Where is the information obtained to construct a cash flow budget?

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2. Explain in your own words the term „drawings“

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3. How can a business address a serious cash-flow problem?

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4.(a) What problems are likely to arise when the cash receipts are less than the cash payments on a continuous basis?

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(b) How should such a problem be corrected?

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<b>CHECK YOUR WORK. ANSWERS AT THE END OF TOPIC 2</b>
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**ANSWERS TO**

**TOPIC 2**

**PRACTICE EXERCISES 10-13**

**ANSWER TO PRACTICE EXERCISE 10 TO 13**

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**Practice Exercise 10**

Soya Trading is a known and trusted business. It has gained a good credit reputation with its suppliers. Therefore, a trade credit term of 60 days was given when it purchased goods worth K10 000 on credit. This is an advantage to Soya Trading.

4. Explain how it is an advantage to Soya Trading.

*It will still have money (K10 000) available as working capital within that time period to be used for other purposes relating to business that will generate some income to the business.*

2. List possible ways for a first time small business owner to obtain its seed capital.

(Any of these)

- (a) Owner saves all the money from his or her salary package or perhaps sell some food items for extra money and save it all for the purpose of starting a business*
- (b) Owner saves enough money and uses that saving as a security to take a bank loan*
- (c) Owner obtains extra money from his or her relatives*

3. List three ways in which creditworthiness are measured by different financial institutions before authorising credits to borrowers.

- Personal details like the full name, gender, age, status, contact number*
- Confirmation letter of employment contract, employment number*
- Confirmation letter signed and approved with the current identification card from their respective employers,*
- Two recent wages or salaries pay slips,*
- Retirement saving and financial records from financial institutions*
- Personal bank account name and number*
- For a person who is not employed, then, his or her proposal is studied for visibility.*

4. List three examples of fixed capital and working capital

*Examples of fixed capital: Land and buildings, fixtures and fittings, equipment for processing goods into finished products and vehicles*

*Examples of working capital: Trading stock/raw materials, wages, insurance, repairs, electricity and telephone expenses*



## Practice Exercise 11

1. Explain what a private loan is in your own words.

*It is a loan that is arranged privately with friends, family members, and informal lenders. A private loan is obtained based on the relationship.*

2. What are institutional loans?

*They are loans given by the commercial banks, the National Development Bank and the Micro-Finance Banks.*

3. What is a bank overdraft?

*It is a short term loan set up by banks for cheque holders. It is given to a cheque holder on request. When the overdraft is approved by the bank, the cheque holder can draw cheques and withdraw money from the account over and above the amount in the bank account. The highest amount that the cheque holder can withdraw is the credit balance plus the overdraft value.*

4. List three (3) financial institutions that give finances to businesses

*Commercial Banks, National Development Bank, Finance Companies and Savings and Loans Societies*

5. List the four main products that the financial companies provide for their clients and businesses.

- personal loans for school fees, medical fees, customary obligation and refinancing*
- asset financing for things like the purchase of motor vehicles, building, equipment and machinery for factories*
- term deposits for business and personal deposits*
- foreign currency payments which includes buying online business and foreign currency exchange rates*

6. List two examples of finance companies that are operating in Papua New Guinea

*Examples of finance companies in Papua New Guinea are; Moni-plus, Finance Corporation (Fincorp), Easiloan, Credit Corporation and Norman finance*

7. On what bases is a loan given to the members of a Savings and Loans Society.

*Savings and Loans Societies allow their members to get loans with minimal interest from their saving account when the members agree with the terms and condition set by the society.*

8. List two examples of Savings and Loans Societies in Papua New Guinea.

*Teachers Savings and Loans Societies, Nasfund, Nambawan Super, Police Savings and Loans Society, Defence Savings and Loans Society, East New Britain Savings and Loans Society*

9. Research and find out the following information about the National Development Bank.

- (a) Its functions

*The functions are;*

- *Accepts deposits and withdrawals through People's Micro Bank*
- *Give loans*

- (b) The type of loans given by NDB

*The types of loans given are;*

- *Both personal and business loans*

- (c) Its target customers

*The target customers are;*

- *Potential small business owners*
- *existing small businesses*
- *Owners of small to medium enterprise owners*
- *Mostly indigenous Papua New Guineans*

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## Practice Exercise 12

1. Define the term loan

*It refers to any money borrowed from any financial source.*

2. State one advantage and one disadvantage of obtaining loans.

*Advantage: Extra money to increase working capital.*

*Disadvantage: It is very expensive to pay back because the borrower pays interest along with the principal.*

3. What is the purpose of the commercial loans?

*To assist people financially to run their businesses.*

The Micro Bank is offering a loan to customers at 14% (reducing interest rate). The Bank of South Pacific is offering a loan at 9% (flat rate interest). The loans are repaid in monthly instalments for a period of six months.

4. Calculate the cost of borrowing K500 for six months from both banks.

*Flat Rate;  $(500 \times 9/100 \times 6/12) = K22.50$*

*Reducing Balance Rate:  $(500 \times 14/100 \times 1/6) = K11.69$*

5. Calculate the true rate of interest for the Bank of South Pacific.

$$K500/6 = K83.00.$$

$$K500 + K417 + K334 + K251 + K168 + K85 \text{ Divided By } 6.$$

$$\text{So, } R = I \times 100 / \text{principal} \times \text{time}$$

$$= K1421/6$$

$$= \mathbf{K236.83}$$

$$= 24.50 \times 100 / 236.63 \times 0.5$$

$$= \mathbf{20.70\% = 21\%}$$

6. Calculate the true rate of interest for the following flat-interest rate loans. Each loan is repaid in monthly instalment of K500.

*K3000 borrowed for six months at 10%*

*3000 + 2500 + 2000 + 1500 + 1000 + 500 divided by 6*

$$= K10500/6 = K1750 \quad \text{Interest} = K150$$

$$\text{Exact rate} = K150 \times 100 / K1750 \times 0.5 = \mathbf{17.14\% = 17\%}$$

### Practice Exercise 13

1. Where could the information be obtained from to construct a cash-flow budget?

*It comes from a firm's bookkeeping records.*

2. Explain in your own words the term „drawings“

*It refers to the amount of money taken out by the owner or owners of the business for personal use.*

4. How can a business address a serious cash-flow problem?

When a business is facing a serious cash flow problem, it must;

- (a) *Borrow money*
- (b) *Cut costs*
- (c) *Increase receipts or revenues*
- (d) *Change credit terms with customers*
- (e) *Change credit terms with suppliers*
- (f) *Postpone or drop expensive plans*

5. (a) What problems are likely to arise when the cash receipts are less than the cash payments in a continuous basis?

*The business will suffer from lack of cash flow.*

- (b) How should such a problem be corrected?

*The business must either cut its costs or increase sales or both*

**END OF ANSWERS TO PRACTICE EXERCISES 10-13**



## **TOPIC 3**

# **INSURING THE BUSINESS**

**In this topic, you will learn about:**

- **Insurance and Business**
- **Compulsory Insurance**
- **Voluntary Insurance**

## TOPIC 3 INTRODUCTION

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### Introduction

Welcome to Topic 3, Insuring The Business. This is the third topic of Unit 1 Course Book. This topic will cover insurance and its importance to businesses. It will also discuss voluntary and compulsory insurance.

Topic 3 has three (3) lessons: They are:

#### **Lesson 14: Insurance and Business**

This lesson covers insurance and its importance to business. It discusses the insurance contract, the parties involved in the contract and the principles of insurance. The lesson also covers the documents and the processes involved in taking out insurance cover and making claims.

#### **Lesson 15: Compulsory Insurance**

This lesson covers compulsory insurance and its importance to business. It also discusses the types of compulsory insurance policies available to businesses. Furthermore, the lesson identifies and discusses insurance companies operating in Papua New Guinea.

#### **Lesson 16: Voluntary Insurance**

This lesson covers voluntary insurance and their importance to business. It identifies the difference between voluntary and compulsory insurance policies. The lesson also discusses the current insurance culture in Papua New Guinea.

## Lesson 14: Insurance and Business

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### Introduction:

Welcome to Lesson 14. In your last lesson, you learnt about cash flow budget, its importance and its parts. You also learnt about possible cash flow problems and how to deal with these problems when they arise. In this lesson, you will learn about insurance and its importance in business.



### Your Aims:

- Define insurance and its importance to business
  - Discuss parties to an insurance contract
  - Define familiar insurance terms
  - Explain the principle of insurance
  - Identify the documents used in insurance
  - Explain the process involved in taking out an insurance cover and making claims
- 

### What is Insurance?

Insurance is about getting protection from possible loss or a damage. It is also about the sharing of risks. Sharing of risks means that a group of people put money into a fund. After sometime, when one of the members suffers a loss, money is taken out from the fund to compensate for the loss.

### Why is insurance important to businesses?

To operate a business you will have to take risks. For example, your business can be burnt down; you can encounter a car accident or get robbed. Therefore, every business has to have some kind of cover or protection.

This is where insurance becomes very handy for businesses. Every business should take out an insurance cover. Insurance cover is getting protection from an insurance company against loss or harm. The insurance company will provide the financial protection against the loss or damage if you take up insurance with them. Taking up insurance with an insurance company involves cost. The cost of insurance for your business will depend on;

- the size and nature of your business
- the value of your business
- the level of risk identified
- the risk prevention measure in place
- the amount of risk considered acceptable

If a business is not insured then, that business is open to any danger. When it encounters problems, it has no cover or protection. The owner and other stakeholders of the business have nowhere to recover the cost of their loss.

However, if the business is insured, then, at least you have support in times of loss. Therefore, it is vital for businesses to take insurance cover.

## Parties to an Insurance Contract

Insurance involves many people in the process. Basically, there are two groups;

### 1. The insured

It refers to the people or businesses that takes out insurance cover. This means you decide to put some money into a fund as a protection against any risk. It is later paid to you to compensate for your loss. The insured can be ordinary people like you or me and business organisations that buy insurance cover.

### 2. The insurers

It refers to the businesses which sell the insurance policy. An insurance policy is a legal contract that outlines those matters which are insured and those that are not insured. This information is made known to the public so those who wish to take up insurance know which insurance cover to take and how much to pay.

The insured pays premium to take out insurance cover with the insurer. At the time when the insured suffers a loss, the insurer is responsible to compensate the insured.

Take note that the „premium“ is the cost of the insurance cover.

Apart from the actual insurance companies, there is a group known as the **insurance brokers**. Their job is to advise the public about insurance policies. That is, they educate people on the suitable policies to take out and the cheapest premiums to pay. They help in obtaining insurance cover for the public. In doing so, they also receive their commission from the insurance companies.

**Insurance agents** are employed by insurance companies to sell policies of insurers. They are part-time employees of the company. They receive commission for every insurance policy they sell.

Now let us see how the insurance companies make their money. Insurance companies are businesses whose main motive is to make a profit. Where do they get all these huge sums of money to pay the insured when there is a loss?

Here are the two main sources of their income:

- (a) from premiums collected from the public,
- (b) from investing money that is collected from premiums.

The premium paid to the insured depends on the amount of risk involved. That is, if the risk is lower, than the premium is lower. However, if the risk is high, the premium to be paid is higher.

In Papua New Guinea, the premiums are very high because the risks are very high, too.



**Activity 14.1:**

Explain the following terms:

(a) Insured

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(b) Insurer

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(c) Insurance broker

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(d) Insurance agent

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**The Principles of Insurance**

A principle is a rule or a guide. When taking out insurance policies, there are rules, the insured has to follow. The principles include; utmost good faith, insurable interest and indemnity. These rules apply to most insurance policies.

Let us discuss each of them.

(a) **Utmost good faith**

This refers to **complete honesty**. The insurer and the insured must be honest with each other when entering into an insurance contract. All the questions on the insurance contract must be answered correctly and honestly by the insured.

(b) **Insurable interest**

You must have interest in what you are insuring. This means, you do face a loss if property is damaged or a person is harmed. You cannot insure somebody else's property.

(c) **Indemnity**

A compensation for loss suffered is a must. The person insured should receive an amount of money exactly equal to the loss suffered and no more.

**New for old policy**

This policy compensates the policy holder for the replacement value of assets destroyed. If you lose or break old or used items, the insurer will replace them with new goods. However, you must pay a higher premium for this type of policy.

**Activity 14.2:**

For each example given, write the principle of insurance it best describes.

1. Vagi insured his house for K5000. A fire broke out which caused K3000 worth of damage. He should receive no more than K3000. \_\_\_\_\_
  2. Joe took out a motor vehicle insurance policy this year. He was asked on the proposal form, if he had any accidents in the past. He said no. However, he was involved in an accident two years earlier. This year, Joe had another motor vehicle accident. He claimed compensation from the insurer. The insurance company found out about Joe's earlier accident and refused to pay him. This was because Joe had not written down all the information asked for when filling out the proposal form. \_\_\_\_\_.
  3. Rachael had an old fridge, which was not suitable for usage. She decided to replace it with a new one. The insurer gave her the price of a new fridge. She bought a new fridge. \_\_\_\_\_
- 

**Documents used in insurance**

There are a number of important documents to be filled out and steps to follow. These are:

**(a) Proposal Form**

It is the official insurance application form. It is filled when a person wishes to take out an insurance policy.

**(b) Cover Note**

It is a document given to you after you pay your premium. Preparing an insurance policy may take a while. Therefore, you are given the cover note which gives you insurance protection temporary, while the insurance policy is being worked on. It is for a short period of time until you receive the actual policy. It serves as a proof that you have insurance cover during this time.

**(c) Insurance Policy**

It is a legal contract between the insured and the insurer. It contains the type of losses you will be covered for and the losses you will not be covered for. The insurance policy will tell you the amount to be paid, the period of insurance, usually one year and the premium to be paid.

**(d) Claim Form**

It is a request for payment under an insurance policy. A claim form is filled in immediately for compensation against the insurer (the insurance company) when you suffer a loss. The claim form should be filled with true and honest information. After the claim form is filled, the assessor assesses or calculates the

loss suffered. This will help the insurer to decide on how much compensation is to be paid to the insured for the loss. An assessor is an insurance officer who will check your claim.

### (e) Renewal Notice

This document is sent by the insurance company to the insured before the old policy expires. This notice will come at the end of the year, after 12 months. It reminds the insured to pay an insurance premium for the next year.

When a policy is renewed, the premium increases because the insurance company's running costs increase each year. Moreover, the cost of paying compensation also increases each year.



### Activity 14.3

1. What is insurance?

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2. Explain what is covered in an insurance policy

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3. Why is the premium increased when a policy is renewed?

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### The processes involved in taking out insurance cover and making claims

Buying insurance or taking out insurance has a number of steps to be followed. Below is a diagram to help you understand the whole process of taking out insurance.

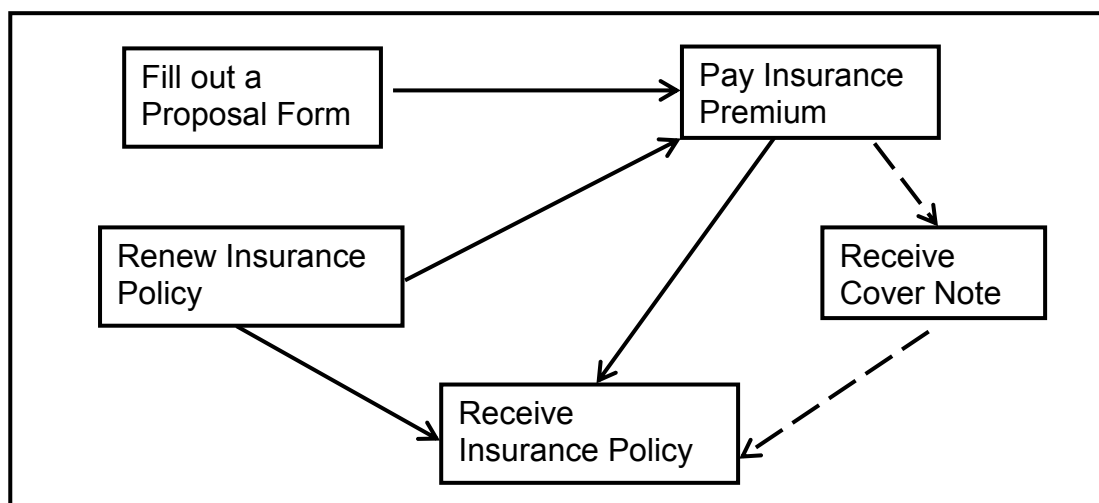


Figure 14.1: Process in taking out insurance

Source: Edger O'Neil and Bob Wheeler.1994. Business Practice in PNG. Pg 213

- Step 1: When applying for insurance, fill in a proposal form and send it to the insurance company
- Step 2: Pay the insurance premium. The premium depends on the level of risk and the amount of compensation which the insurers might pay you. It will also depend on the value of the item to be insured.
- Step 3: Receive Cover Note. During this time if you suffer any loss, you will be compensated.
- Step 4: Receive Insurance Policy. If the insurance company decides to give you insurance, it will send you a policy.
- Step 5: Renew the Insurance Policy.
- Step 6: Fill out the claim form for compensation when you suffer a loss

These are the very important steps all insured must follow when getting insurance cover from the insurance companies. Otherwise, if you are not sure then, seek advice from the agent.

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## Summary



You have come to the end of lesson 14. In this lesson you have learnt that;

- Insurance is getting protection, in case something bad happens to your business
- Business organisations need to insure their businesses because there are a many risks involved in running a business
- There are two parties involved in taking out insurance; the insured and the insurance company.
- The principles of insurance include; utmost good faith, insurable interest and indemnity
- New for old policy is a policy cover where the insurer will replace old items with new goods.
- New for old policy requires a high premium from the insured.
- Documents used in insurance are; the proposal form, the cover note, the insurance policy, the claim form and the renewal form.
- The steps involved in taking out insurance includes; fill in the proposal form, pay the insurance premium, receive the cover note, receive the insurance policy, fill out the claim form for compensation when a loss is suffered and renew the insurance policy

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<b>NOW DO PRACTICE EXERCISE 14 ON THE NEXT PAGE</b>
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## Practice Exercise 14

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Complete this passage by filling in each blank with the most appropriate words.

When you buy insurance you pay a \_\_\_\_\_. The protection you then get if you suffer a loss is called an insurance \_\_\_\_\_. If you buy insurance, you say that you \_\_\_\_\_ out an insurance \_\_\_\_\_. If you want to do this, you must first fill out an insurance \_\_\_\_\_ form. The insurance company will send you the \_\_\_\_\_ when they receive the proposal form and money from you. If you suffer a loss, you should fill in a \_\_\_\_\_ form. The premium that you pay will depend on the amount of \_\_\_\_\_ involved. The premium will be high if the risk involved is \_\_\_\_\_. The premium will be low if the risk is \_\_\_\_\_.

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<b>CHECK YOUR ANSWERS AT THE END OF THE TOPIC 3</b>
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## Lesson 15: Compulsory Insurance



### Introduction

Welcome to Lesson 15. In the last lesson, you learnt about insurance in general. In this lesson, you will learn about compulsory insurance.



### Your Aims:

- Define compulsory insurance and its importance
- Identify the types of compulsory insurance policies available to businesses
- Identify the insurance companies in Papua New Guinea

There are many different types of insurance. People can insure their motor vehicles, boats, houses and even themselves. Most of these insurance are voluntary. That means people can choose to have insurance or not. It is up to the individuals to decide. No one forces them to pay a premium to be insured.

However, there are compulsory insurances. Compulsory means, you have no choice because the law requires that you do it. In insurance, the government says that people must pay premiums and get certain covers.

There are two compulsory types of insurances. They are:

### 1. Third Party Motor Vehicle Insurance

Firms and individuals owning vehicles are required by law to take out Third Party Motor Vehicle Insurance. The premium is paid at the same time the vehicle is registered.

This insurance covers injury caused to other people while using the vehicle.

- It covers injury to a passenger in the vehicle.
- It covers injury to a person who might be hit by a vehicle while he is walking along the road.
- It covers the driver or passengers in another vehicle which the insured vehicle has driven into.



Figure 15.1 Third Party Motor Vehicle Insurance  
Source: Trevor Tindall.1986. Commerce for Melanesians 2.pg 115.

Third Party Insurance covers injury to people only. It does not cover any damage done to property.

It is very important to know that, if you have Third Party Insurance, you are not covered for injuries to yourself. However, if you are in a crash with another vehicle, you would expect to receive compensation out of the other driver's Third Party Insurance. Damage to the vehicle can be covered by Motor Vehicles accident insurance which comes under voluntary insurance. Voluntary insurance will be studied in Lesson 16.

**Activity 15.1:**

1. Define compulsory.

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2. Who takes out Third Party Motor Vehicle Insurance?

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3. Who does Third Party Motor Vehicle Insurance cover?

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**Why do you think Third Party Motor Vehicle Insurance is important?**

Motor Vehicle owners are required to have insurance covers, because vehicles are one of the main causes of accidents in Papua New Guinea as well as in other countries. A vehicle can be dangerous to the driver, to passengers and any person nearby if it is not driven carefully. It can also cause damage to property and can cause injuries and even death.

It is an offence for any vehicle owner not to have Third Party Insurance. If caught, he or she will be fined. The Third Party Insurance is paid every year.

However, you can get insurance to give you this protection. This policy is known as Third Party Property Insurance. It gives you cover for damage caused by your vehicle to property belonging to a third party.

For example, you crashed into another car and drove through a fence as well. Your insurer will pay out compensation amounting to the damage. They will also pay for the damages done to the other car and the fence. But you would not be covered for any damage caused to your own vehicle.

**Remember!** If you are driving the vehicle at the time of the accident then, you are not covered by the Third Party Insurance. It is for the third parties only. Third Party Insurance does not give you cover against damage caused by your vehicle.



**Activity 15.2:**

Explain the importance of the Third Party Motor Vehicle Insurance.

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**2. Workers Compensation Insurance**

This is another compulsory insurance which covers workers employed by a firm. The employer pays the premium for workers compensation insurance. It is very important for every employer to take out this insurance. This is a law that has been passed by the government.

Workers compensation gives insurance cover against accidents while working. It also covers workers against injuring themselves while going to or coming from work.

Take note that there is no compensation payment for being injured while doing work for yourself or people other than your employer.

**How much Compensation would you receive?**

This depends on how serious your injuries are. There are three types;

- **Weekly payments**

When injuries stop you from working for a certain period, you will receive weekly compensation payments. The payments are based on the normal wages received when working. You will receive a little less than your normal fortnightly wage. Your medical bills will be paid by the employer.

- **Lump sum payments**

If you receive a permanent injury you will receive one lump sum payment. The size of this payment will depend on how serious the injury is. Medical expenses will be met by the insurance company. You will get more for losing an arm than a finger.

- **Lump sum payment on death of a worker**

If a worker dies as a result of an accident while at work, the dependents will receive a lump sum payment as compensation. Medical and burial expenses may also be claimed. It is important for all employers to take out worker's compensation for all its employees. If they fail to, then they will be fined and forced to pay compensation when a worker is injured. In Papua New Guinea, the Department of Labour and Employment is responsible and makes sure all private sector workers are protected.

These are the two most important types of insurance which are compulsory.

With the increasing number of accidents due to careless driving, it is vital for Third Party Motor Vehicle Insurance. Innocent lives are lost and permanent injuries are

caused by careless drivers. Moreover, today, in Papua New Guinea the number of vehicles has increased.

The question asked is; "Have the owners of the vehicles taken out Third Party Motor Vehicle Insurance?" It is up to the authority responsible to make sure all vehicles on the road are insured, registered and in good running condition. This will minimise accidents on the business aspect.

Let us look at the bigger businesses. As they are licenced and have insured their employees, it is quite difficult to monitor them all. However, when giving out license to businesses, they should make sure the employees' welfare is taken into consideration such as worker's compensation and the minimum wages.

Suppose workers are injured, the business can be sued, or being taken to court.



### Activity 15.3

1. What protection does Workers' Compensation give?

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2. List the different methods of Workers' Compensation payments.

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### Examples of Insurance companies in Papua New Guinea

NAME & LOCATION
<b>AMERICAN HOME ASSURANCE COMPANY</b> P.O.Box 99, Port Moresby, NCD
<b>AMP SOCIETY</b> P.O.Box 507, Pt Moresby, NCD
<b>CAPITAL INSURANCE GROUP LTD</b> P.O.Box 254, Waigani, Sir John Guise Drive Waigani, NCD
<b>CENTURY INSURANCE (PNG) LIMITED</b> P.O.Box 321, Port Moresby, MacGregor St, NCD
<b>INSPAC (PNG) LIMITED</b> P.O.Box 1383, Port Moresby, Cnr Champion Pde & Musgrave St
<b>KWILA INSURANCE CORPORATION (PNG) LIMITED</b> P.O.Box 1457, Boroko, NCD, PNG Nita Street Boroko, NCD
<b>LIFE INSURANCE CORPORATION (PNG) LIMITED</b> P.O.BOX 5684, Boroko, 2 <sup>nd</sup> Flr Suite 7 & 8, PT MORESBY, NCD
<b>MITSUI SUMITOMO INSURANCE COMPANY LIMITED</b> P.O.Box 1579, Pt Moresby Level 3 Pacific Place Musgrave St, NCD
<b>MOTOR VEHICLE INSURANCE LTD</b> P.O.Box 1157, Pt Moresby, NCD

<b>NATIONAL TEACHERS INSURANCE LIMITED</b> P.O.Box 5684, Boroko, 2 <sup>nd</sup> Flr Suite 7 & 8, NCD
<b>PACIFIC ASSURANCE GROUP</b> P.O.Box 104, Port Moresby Level 4 Cuthbertson House, NCD
<b>PACIFIC MMI INSURANCE</b> P.O.Box 331, Port Moresby Champion Paradise, NCD
<b>QBE INSURANCE (PNG) LIMITED</b> P.O.Box 814, Pt Moresby, 12 Musgrave St, NCD
<b>SOUTHERN CROSS ASSURANCE LIMITED</b> P.O.Box 808, Pt Moresby Douglas St, NCD
<b>TOWER INSURANCE</b> P.O.Box 136, Pt Moresby, Cuthertson St, NCD

Table 15.1 Examples of Insurance Companies in Papua New Guinea  
Source: <http://www.yellowpages.com.pg>

## Summary



You have come to the end of lesson 15. In this lesson, you have learnt that:

- Compulsory insurance refers to insurance that must be taken out. You have no choice because it is required by law.
- There are two types of compulsory insurance in Papua New Guinea; the Third Party Motor Vehicle Insurance and Worker's Compensation Insurance.
- The Third Party Motor Vehicle Insurance is taken out by an owner of a motor vehicle in case of accidents.
- The Third Party Motor Vehicle Insurance does not cover the owner of the vehicle or the vehicle but third parties such as the passengers.
- The Worker's compensation insurance is taken out by the employers to protect their employees.
- The compensation is only made to those who have accidents while at work.
- The compensation is paid weekly, as a lump sum for permanent injuries or lump sum on the death of a worker.
- The Medical expenses are also met by the insurance company.

**NOW DO PRACTICE EXERCISE 15 ON THE NEXT PAGE**



## Practice Exercise 15

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1. What is a Worker's Compensation Insurance?

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2. Who is responsible for taking out third party motor vehicle insurance?

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3. Who insures workers?

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4. Who does Third Party Motor Vehicle Insurance cover?

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5. Why is Third Party Motor Vehicle Insurance important in Papua New Guinea?

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6. You are employed as a typist by a private firm. However, you had an accident trying to clean the louvers in your office.

Do you think you will be paid compensation? Why?

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<b>CHECK YOUR ANSWERS AT THE END OF THE TOPIC 3</b>
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## Lesson 16: Voluntary Insurance

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### Introduction:

Welcome to Lesson 16. In the last lesson, you learnt about compulsory insurance and its importance. You also learnt about the different insurance policies available for businesses and the different insurance companies involved. In this lesson, you will learn about voluntary insurance.



### Your Aims

- define Voluntary Insurance and discuss its importance
  - identify the types of Voluntary Insurance policies available to businesses
  - differentiate between Compulsory and Voluntary Insurance policies
  - identify the current insurance culture in Papua New Guinea
- 

**Voluntary** means you decide to do it on your own. No one forces you to do. You do something out of your own choice and willingness.

A **voluntary insurance** is any type of insurance you take out at your own choice. No law will force you to take out a particular insurance. You decide on what you want to take cover for.

However, compulsory insurance as we have seen in the last lesson is different. In compulsory insurance you have to pay the premium for certain insurance, because a law passed by the government of Papua New Guinea requires you to do so.

A person can reach an agreement with an insurance company to insure almost anything.

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### Activity 16.1

Answer these questions. The first two questions are a revision to recap your understanding.

1. Name the parties involved in any insurance policy and explain their roles

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2. What is the difference between a compulsory insurance and a voluntary insurance?

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## Some of the most common types of Voluntary Insurance policies

**1. Marine (cargo) Insurance.:** This insurance provides cover for loss or damage of goods that are carried by ships between two ports.

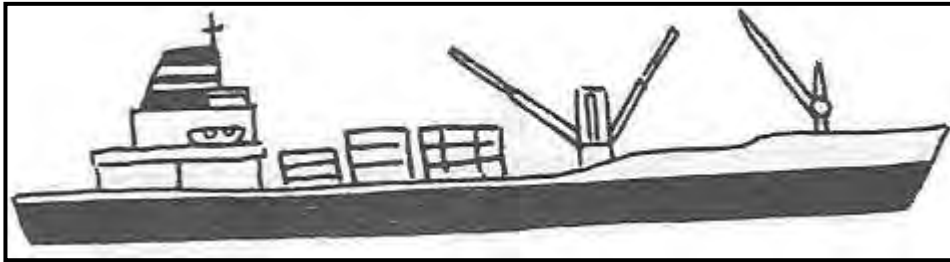


Figure 16.1 Cartoon of a Ship at Sea Protected by Marine Insurance  
Source: Trevor Tindall.1986. Commerce for Melanesians 2.pg 114.

Marine Insurance is a very important aid to trade. Traders take the risk of transporting goods worth a lot of money if they could not insure them. Under marine insurance there are several insurance policies.

- **Cargo Insurance:** This covers only the goods carried by the ship. It allows goods and raw materials on a large scale to be bought and transported.
  - **Hull Insurance:** The hull is the body or the frame of the ship. Hull insurance gives cover for loss or damage to a ship while at sea. For example, a ship may be damaged by storm, fire, explosions, damage by pirates or with another ship or object such as an iceberg.
  - **Freight Insurance:** Freight is the amount of money charged by shipping firms for transporting cargo. Sometimes cargo may not be delivered because of an accident at sea. If ships fail to deliver goods, money for freight will not be paid. If money has already been paid it has to be repaid. A shipping firm will lose money if this happens. It would have spent money on wages, fuel and other costs. Freight insurance gives protection against this type of loss.
  - **Ship Owners Liability Insurance:** It protects owners of ships against harm caused to people or damage to property on ships. For example; passengers travelling on ships, and damage caused to other ships.
- 2. Fire Insurance:** This insurance covers damage to contents inside the house caused by fire, explosion or lightning. House owner's insurance provides cover against damages to the house.

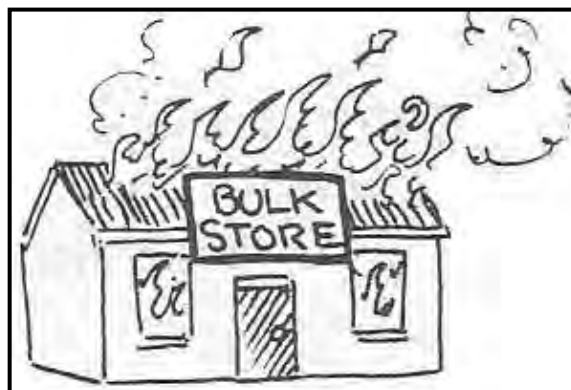


Figure 16.2 Shop on Fire  
Source: Trevor Tindall.1986. Commerce for Melanesians 2.pg 114.

3. **Burglary Insurance:** This covers loss caused by theft of property. This policy does not cover theft by shoplifters or employees. If a business has proper security measures, such as alarms and safes, then the premium is lower.

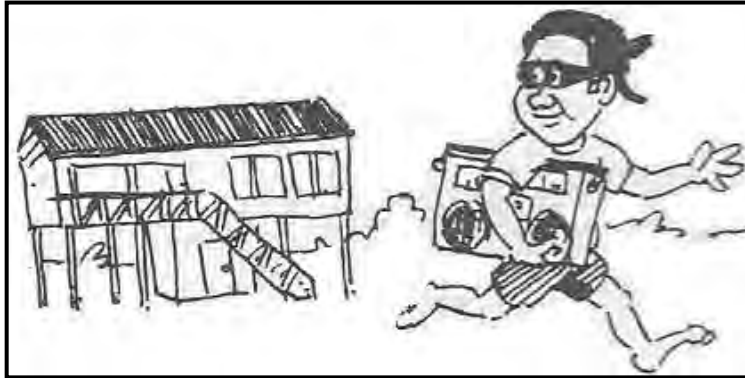


Figure 16.3 Break and enter

Source: Trevor Tindall.1986. Commerce for Melanesians 2.pg 115.

4. **Comprehensive Motor Vehicle Insurance:** This policy covers other risks connected with driving the motor vehicle. Basically, the policy covers the following risks;
- loss or damage caused to the vehicle itself due to the accident or theft,
  - damage caused by the vehicle to other vehicles or property.

Individuals and businesses must pay a higher premium for insuring their vehicles because they are being used for commercial purposes.

5. **Life Assurance:** This policy covers the life of somebody. If a person's life is insured the insurance company will payout a certain sum of money when the person dies. One of the main reasons for taking out life insurance is to make sure that your family has money when you die.

## 6. General Liability Insurance

General Liability Insurance protects are business against the financial risk of being found liable to a third party for death, injury or loss or damage of property resulting from the business's negligence. It is applicable to all businesses.

## 7. Product Liability insurance

Product liability insurance protects against financial loss as a result of using a defective product that causes injury or bodily harm.

## 8. Professional liability Insurance

Professional liability insurance protects your business against claims for malpractice, errors and negligence in providing service to your customers. Doctors, dentists and engineers are among the professions that commonly take out professional liability insurance. This is because claims against professionals are often very high.

## 9. Property Insurance

Property Insurance insures against loss or damage to the building that houses the business and its contents protecting it from fire, smoke, theft, flood or other

catastrophes. Here, *contents* mean inventory, equipment, cash, furniture and other items that you have. This is often referred to as household cover. House owner's insurance is the protection against the loss of the property.

### **10. Cash in Transit Insurance**

Theft by criminals when you are carrying business cash from the business to the bank and vice versa is common in Papua New Guinea. To protect businesses against losses in such incidents, you can buy cash in transit insurance policy. So that the insurer will refund to your business in the event that the business loses money.

### **11. Goods in Transit Insurance**

This is similar to cash in transit insurance. When goods are transported from the business to another destination or vice versa, losses may occur due to theft or accident. Businesses can protect themselves against such losses by buying a goods-in-transit insurance policy.

### **12. Health or Medical Insurance**

Health or medical insurance is for individuals but business owners can organise a health medical insurance policy. Businesses organise group medical cover for all their employees. This cover is to pay medical bills and get refunds from the insurer.

### **13. Aviation Hull Insurance**

This policy is meant for the owners and operators of aircrafts being used for various purposes, including private pleasure, training and commercial activities. Depending on the policy, it covers;

- Accidental physical loss or damage to the aircraft and spare parts.
- Legal liability to third parties for bodily injury or death; property damage like passengers' bodily injury or death; loss of baggages, cargoes and mails;
- Catering and vehicle liability at airports

### **14. Travel Insurance**

Running into difficulties while overseas can cost travellers a lot of money. Baggage can be lost, stolen or damaged; illness or accident can require large medical expenses; cancelling a trip can involve substantial financial losses. Personal travel insurance relieves you from these emergencies and costs. It also covers the death of the policy holder while travelling. It should be noted that there are limitations of payment.



**Activity 16.2**

1. What insurance protection is taken in each of the insurance policies?

(a) Marine Insurance

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(b) Fire Insurance

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(c) Burglary Insurance

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(d) Life Insurance

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2. Identify and list other policies that come under Marine Insurance

(a) 

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(b) 

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(c) 

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(d) 

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**Current Insurance Culture in Papua New Guinea**

From observation there are a lot of insurance companies established in Papua New Guinea to serve various interests of people. Most of these companies have their own policies and principles dealing with insurance policies.

Papua New Guineans need to be educated to understand the insurance policies because most of our people are illiterate. People who are educated are able to take out life assurance and other insurance policies. These insurance companies need to come out and do a lot of awareness so that people become more educated about the benefits of insurance policies. Then a lot of Papua New Guineans will want to become members of insurance companies like what they are doing to commercial banks.

In Papua New Guinea doing business with insurance companies is quite low due to illiteracy as well as failure by the companies to advertise their policies and its benefits. Currently, insurance culture is quite limited and the few that are involved with insurance companies have limited access to securing their due entitlements. Sometimes processes cause potential clients to give up in getting along with the culture of insuring themselves and their properties.

**Activity 16.3**

1. Name four (4) insurance companies in Papua New Guinea.

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2. What is the reason for people not becoming members with insurance companies?

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**Summary**

You have come to the end of lesson 16. In this lesson you have learnt that:

- A voluntary insurance is any type of insurance you would like to take out at your own choice.
- There are many types of voluntary insurance policies such as Marine Insurance, Fire Insurance, Burglary Insurance and life Assurance
- Under Marine Insurance, there are other insurances such as; Hull Insurance, Freight Insurance and Ship Owners Liability Insurance.
- It is important that individuals and businesses take out most of the voluntary insurance policies to give them protection for their lives as well as their properties.
- Papua New Guineans need to be educated to understand processes and procedures involved in taking out insurance to cover themselves and their properties.

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<b>NOW DO PRACTICE EXERCISE 15 ON THE NEXT PAGE</b>
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## Practice Exercise 16

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1. A businessman frequently uses his truck to transport goods from the town nearest to his store in his village. He employs a driver. The goods are stored in a bulk store in his village.

(a) What type of insurance must this businessman pay for?

\_\_\_\_\_

(b) What other types of insurance may he choose to pay for as well?

\_\_\_\_\_  
\_\_\_\_\_

2. What insurance policy covers theft of property?

\_\_\_\_\_

3. Explain what the Ship Owners Liability Insurance Policy is?

\_\_\_\_\_  
\_\_\_\_\_

4. List the different insurance policies that can be taken out under Marine Insurance.

\_\_\_\_\_  
\_\_\_\_\_

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<b>CHECK YOUR ANSWERS AT THE END OF TOPIC 3</b>
---



**ANSWERS TO**

**TOPIC 3**

**PRACTICE EXERCISES 14-16**

## ANSWERS TO PRACTICE EXERCISES 14 TO 16

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### Practice Exercise 14

Complete this passage by filling in each blank with the most appropriate words.

When you buy insurance, you pay a premium. The protection you then get if you suffer a loss is called an insurance cover. If you buy insurance, you say that you take out the insurance policy. If you want to do this, you must first fill out an insurance proposal form. The insurance company will send you the note when they receive the proposal form and money from you. If you suffer a loss, you should fill in a claim form. The premium that you pay will depend on the amount of risk involved. The premium will be high if the risk involved is high. The premium will be low if the risk is low.

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### Practice Exercise 15

1. What is a Worker's Compensation Insurance?

*It is a compulsory insurance that is taken out to protect or cover workers.*

2. Who is responsible for taking out Third Party Motor Vehicle Insurance?

*The owner of the motor vehicle*

3. Who insures workers?

*The employers are responsible for their worker's compensation insurance.*

4. Who does Third Party Motor Vehicle Insurance cover?

*Third Parties; the passengers in your vehicle as well as the other vehicle if you crash into another vehicle, the driver of the other vehicle, person walking on the road bumped by your vehicle.*

5. Why is Third Party Motor Vehicle Insurance important in Papua New Guinea?

*It is important because, many deaths are caused by accidents on the road by vehicles. With the increasing number of vehicles in Papua New Guinea, we have inexperienced and careless drivers.*

6. You are employed as a typist by a private firm. However, you had an accident tying to clean the louvers in your office. Do you think you will be paid compensation? Why?

*No, you will not be covered because; you were employed as a typist and not as a cleaner to clean the louvers. Therefore, you will not be compensated for the accident.*

**Practice Exercise 16**

1. A businessman frequently uses his truck to transport goods from the town to his store in his village. He employs a driver. The goods are stored in a bulk store in his village.

(a) What type of insurance must this businessman pay for?

Cargo insurance and freight insurance.

(b) What other types of insurance may he choose to pay for as well?

Burglary Insurance or Motor Vehicle Insurance

2. What insurance policy covers theft of property?

Property Insurance

3. Explain what the Ship Owners Liability Insurance Policy is?

It protects owners of ships against harm caused to people or damage to property on ships.

4. List the different insurance policies that can be taken out under Marine Insurance.

Cargo insurance, Hull Insurance, Freight Insurance and Ship Owners Liability Insurance

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<b>END OF ANSWERS TO PRACTICE EXERCISES 14-16</b>
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## **TOPIC 4**

### **MY SMALL BUSINESS PROJECT**

**In this topic, you will learn about:**

- **A small Business Project**
- **Identifying Business Opportunities**
- **Making Self Assessments**
- **Keeping Records**
- **Reporting and Evaluating a Small Business**

## TOPIC 4 INTRODUCTION

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### Introduction

Welcome to Topic 4, My Small Business Project. It is the fourth topic of the Unit 1 Course Book. This topic will teach about what a small business project is and the business opportunities that people can capture to get into business. The topic also teaches about making self-assessments when you want to get into business. Your self-assessment helps you to see your strengths and weaknesses and what you are good at doing in regard to starting a business. Finally, the topic teaches you to keep records of your business transactions well and use these records to report and evaluate your business.

Topic 4 has five (5) lessons: They are:

### **Lesson 17: Introduction to My Small Business Project**

This lesson discusses a small business project and its importance. It also explains the different stages of a small business project.

### **Lesson 18: Identify a Business Opportunity**

This lesson discusses how to identify business opportunities and the importance of planning for a small business project. The lesson also teaches you about how to design and conduct a market research to determine the level of demand or market size. Finally, the lesson discusses how to decide on a product or service line.

### **Lesson 19: Making Self Assessments**

This lesson covers self-assessment and its importance. It also covers strengths and weaknesses and gives suggested solutions for weaknesses using given guidelines.

### **Lesson 20: Keeping Records**

This lesson discusses how to keep records for a small business project and the importance of keeping records. The lesson also covers the types of records to be kept in a small business project. Finally, the lesson explains record keeping skills for a small business using given situations.

### **Lesson 21: Reporting and Evaluating a Small Business**

This lesson covers different types of business reports in a small business. It also explains and identifies records where information can be obtained to write business reports. Furthermore, the lesson covers the importance of evaluating and reporting a business to stakeholders and make recommendations based on completed reports.

## Lesson 17: Introduction to My Small Business Project



### Introduction

Welcome to Lesson 17, Introduction to My Small Business Project. In the previous lesson, you learnt about Voluntary Insurance. It is insurance which you can take out if you wanted to. In this lesson you will be introduced to what a small business project is.



### Your Aims:

- Explain a small business project and state its importance
- Identify the stages of developing a small business project

## What is a Small Business Project?

A small business project is a profit making activity. This business project may involve buying and selling goods, making products or providing services. It requires a large amount of time, effort and planning to make it work. Any capable person can operate a small business project. It depends on personal strengths, characteristics, situations and skills.

There are so many examples of small business projects but only a few are listed below in the table to give you some ideas. The different categories are also given.

<b>Retail Trade</b>	<b>Services</b>	<b>Manufacturing</b>
1. Food stores	1. Consulting firm	1. Coconut scraper
2. Cooking and selling	2. Motor vehicle repairs	2. Cane chairs and tables
3. Petrol and kerosene sales	3. Beauty care services	3. Barbeque plates
4. Second hand clothing stores	4. Barber	4. Timber patrol boxes
5. Herbals products sales	5. Car wash	5. Desks and tables

Table 17.1 Examples of Small Business Projects  
Source: Adapted from KAB Module -SBDC. (2013)

## What is the importance of a Small Business Project?

A Small Business Project brings a lot of benefits to individuals, family, community and the society. These benefits can be categorised in the following ways:

### 1. Employment creation

A Small Business Project creates employment for those individuals who are involved as well as other people who are living in that community and society. When people are employed, their living standards improve. They are able to earn an income to pay for goods and services they need for their survival.

### 2. Utilise local resources

A Small Business Project makes good use of local resources. The value of these local resources increase and people will recognise the importance of their resources. Hence, they will learn to look after their resources by using them wisely to help earn a living for them.

You will have several business ideas. From these, choose the most suitable idea to transform into a business opportunity. In Lesson 18, we will discuss business opportunity in details.

## 1. Writing a business plan

A business plan is a detailed written statement that describes the nature of the business, the target market, the advantages that the business will have in relation to competition, and the available resources and qualifications of the owner.

A business plan starts with the executive summary. It is the most important part of the business plan and it is also the most difficult part to write. When a person reads the executive summary, it should be attractive enough to “win” his or her favour.

Producing a business plan is a difficult and time consuming exercise, but it is essential. It serves as the business owner’s road map on the journey towards building a successful business.

A business plan has components. They are displayed in the table below:

Component	Details
1. Executive summary	A one-to two page summary of the plan to give an idea of the business project
2. Introduction	A brief description of the type of business activity
3. Aims/objectives	The purpose for which the business is to be established
4. Business description	A detailed description of the activities, the market, the competition, the location, the finance, business promotion, the types of customers and the budget
5. Time frame for completion of business activity	Give the specific dates of completion of various activities such as the completion of the construction of the building, the installation of air conditioners and the fans, lighting, internal roads, the fixing of shelves, or the purchase of machines.
6. Business rationale	Give reasons for starting this business and not another business
7. Business benefits	The benefit of the business, such as the profit, the employment and the contribution to the community
8. Problems and constraints	Give possible problems that maybe encountered and constraints to running the business. These may be finance or the market..
9. Evaluation of business activity	This includes the analysis of the financial report, the market analysis and the customer analysis.
10. Appendix	An appendix consists of attachments. These may include business registration, licences, cash flow forecast and MOAs (Memorandums of Agreement) with financial partners,

Table 17.2 Components of a Business Plan

Source: Adapted from Panditha.B. 2012. Business Studies Grade 10.pg 114

**Activity 17.2:**

1. Why is it important that we do not criticize or judge the ideas of others in a brainstorming session?

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2. Why is it important that the executive summary should “win” the readers’ favour?

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**2. Presenting the plan and starting the project**

The business plan is a document. It should be presented neatly in a booklet form with a cover letter. There are appropriate bodies or interested parties who need a business such as investors, financiers and government authorities.

Your small business project can be started once you have completed your business plan and gathered the needed materials to run your business project.

**3. Keeping records**

Keeping records is an important component of a business project because of several reasons. These reasons are;

- evidence of activity
- internal control
- avoiding fraud and mistakes
- information for reports

We will discuss all these reasons in detail in Lesson 20.

**Activity 17.3:**

1. What does „evidence of activity” mean?

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2. Explain fraud

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**Reporting on the project and evaluating it**

Reporting on the project is done through the income statement. Small business owners are expected to prepare an income statement. The income statement will show the revenue and the expenses of a small business project. The difference is the profit or the loss. This will be discussed more in Lesson 21.

**Remember:**

**A business plan is a detailed written statement that describes the nature of the business, the target market, the advantages the business will have in relation to completion, the available resources, qualifications, skills and experiences of the owner.**

**TAKE NOTE:****Four Rules For Brainstorming:**

- Do not criticize or judge the ideas of others
- Freewheeling is encouraged. This means ideas that seem to be wild or crazy are welcomed
- Quantity is desired. This means that all should contribute many ideas because the greater the number of ideas, the better it will be
- Try to combine and improve upon the ideas of others

**Summary:**

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You have come to the end of Lesson 17. In this lesson you learnt that:

- A small business project is a profit making activity.
  - A small business project may involve buying and selling goods, making products or providing services.
  - A small business project brings a lot of benefits to the individual, the family, the community and the society.
  - An example of a small business project benefits are such as employment creation, utilising of local resources, promotion of technology, creation of capital and wealth, and promotion of business culture
  - Stages of a small business project are; choosing a business idea, writing a business plan, presenting the plan and starting the project, and evaluating and reporting to interested parties.
  - The components of a business plan are; executive summary, introduction, aims/objectives, business description, time frame for completion of business activity, business rationale, business benefits, problems and constraints, evaluation of the business activity and the appendix.
- 

<b>NOW DO PRACTICE EXERCISE 17 ON THE NEXT PAGE</b>
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## Practice Exercise 17

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1. Explain what a small business project is

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2. Give three examples of a small business project

- (a) \_\_\_\_\_
- (b) \_\_\_\_\_
- (c) \_\_\_\_\_

3. List the five (5) benefits of a small business project

- (a) \_\_\_\_\_
- (b) \_\_\_\_\_
- (c) \_\_\_\_\_
- (d) \_\_\_\_\_
- (e) \_\_\_\_\_

4. List the six (6) stages of a small business project

- (a) \_\_\_\_\_
- (b) \_\_\_\_\_
- (c) \_\_\_\_\_
- (d) \_\_\_\_\_
- (e) \_\_\_\_\_
- (f) \_\_\_\_\_

5. List the ten (10) components of a business plan.

- (a) \_\_\_\_\_
- (b) \_\_\_\_\_
- (c) \_\_\_\_\_
- (d) \_\_\_\_\_
- (e) \_\_\_\_\_
- (f) \_\_\_\_\_
- (g) \_\_\_\_\_
- (h) \_\_\_\_\_
- (i) \_\_\_\_\_
- (j) \_\_\_\_\_

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<b>CHECK YOUR ANSWERS AT THE END OF TOPIC 4</b>
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## Lesson 18: Identifying a Business Opportunity

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### Introduction

Welcome to Lesson 18: Identifying a Business Opportunity. In the previous lesson, you were introduced to what a small business project is and its importance. You also learnt the different stages of a small business project. In this lesson you will learn to identify business opportunities.



### Your Aims:

- Identify a business opportunity or a small business idea
  - Discuss the importance of planning for a small business project
  - Identify what is to be considered in the project plan
  - Discuss how to design and conduct a market research to determine the level of demand or market size and decide on a product
  - Decide what type of business to be involved in based on your survey results
- 

### What is a Business Opportunity?

It is an attractive idea, offer, or plan put forward that provides the possibility of earning profits for the person taking the risk to invest. A business opportunity is determined by the customers' need for satisfaction for something they want to have. A business opportunity leads to making that "customers' need" available in the form of a good or service.

An attractive idea, offer or plan is not necessarily a good business opportunity. For example, Mr Jeremiah may have designed some clothing for the executive class only to see that the market in that particular area is not ready for it. Or perhaps, the level of competition and the resources required may be such that it is not worth pursuing. Sometimes there may even be a ready market for the idea but the return (profits) on the investment may not be sufficient.

What kind of idea should we take as a good business opportunity? It should be an idea where the income exceeds costs and generate a profit.

A good business opportunity should have the following characteristics:

- Real demand: It should respond to dissatisfied needs or requirements of customers who have the ability to purchase and are willing to buy.
- Return on investment: It should provide positive returns or rewards for the risk and effort required.
- Be competitive: It should be equal to or better than other available products or services from the view point of the customer.
- Meet objectives: It should meet the goals and aspirations of the person or organisation taking the risk.
- Availability of required resources and skills: the entrepreneur is able to obtain the necessary resources and has the required skills.

## Case Study of a Business Opportunity

Read and discover Mr Momoto's business opportunity.

### Hard work pays, says millionaire

By Michael Koma

Success is built through hard work. For Eastern Highlander Sogave Momoto, his million dollar dream was built on just 20 litres of kerosene, three dozens of soap and some rudimentary skills in salesmanship.

Back in 1971, Momoto, now 61, bought kerosene and soap, and planned to make himself a millionaire and almost 40 years later he is one.

A proud man from Unggai Bena, the self-made millionaire now lives with his wife Topiso at his coffee and cattle ranch at Lapilo, 10 kilometres out of the Eastern Highlands provincial capital.

His assets are now worth K3 million – wealth he built up from kerosene and soap bars.

These include a big coffee plantation, a cattle ranch with some 200 cows, a trade store and petrol station at Lapilo 10 kilometres from Goroka, along the Highlands Highway.

Mr Momoto also operates a real estate business and hires 20 workers at any one time.

Among his assets are two tractors, several high covenant buildings and vehicles.

The self-made businessman recalled that when his first son, Aupe, was born in 1971, he went to Goroka and bought the Kerosene and 36 pieces of soap for family use.

"My fellow villages in Lapilo had requested me to sell the items to them because there was no trade store in the village" he recalled.

"Although I did not have any formal education, I realised that my people badly needed such services.

"I opened a small trade store in Lapilo and made a net profit of K500 after two years.

"Goroka's first successful local businessman Harry Gotaha encouraged me to set up a petrol station in 1975.

"I bought my first car, a second-hand Nissan Patrol, also in 1975 for K1200.

"When I was a young man I was a hard worker."

"I also contemplated establishing a coffee processing plant in future."

"I started my business from scratch. Nowadays young people are lazy – they don't want to work on the land to support their lives."

"They want free food and money."  
"Most of them are not following the teachings in the bible."

"The government must enact laws to protect our land from foreign exploitation."

"Papua New Guinea would encounter difficulties when the non-renewable resources are depleted."

He wants the Government to vigorously pursue down-stream processing of the country's natural resources.

"God has blessed our country with many resources like oil, gas, gold and copper" he said.

"The Government must ensure that some of these resources are preserved for our future generation."

Post Courier News Article  
Source: Adapted from Panditha Bandara.2012.  
Business Studies Grade 10. Pg 69

**Activity 18:1:**

Answer these questions after you have read the case study of Mr Momoto's business opportunity.

1. List the factors that contribute to Sogave Momoto's business success  
\_\_\_\_\_
2. Explain why Sogave Momoto thinks that young people today are lazy and unprepared to work.  
\_\_\_\_\_
3. Is „hard working“ the only aspect a person should live in order to be successful in business?  
\_\_\_\_\_  
\_\_\_\_\_

**Importance of Planning a Small Business Project**

Prior to starting a business project from your business idea, you must have a good business plan. In Lesson 17, you already learnt that, a business plan is a detailed written statement that describes the nature of the business, the target market, the advantages the business will have in relation to competition and the resources and qualifications of the owner.

A small business project should have a business plan. A business plan provides the path to take for the business to achieve its goals. One of the first and most important goals of any business is to make a profit.

A person may have a very good business idea but the business may be unsuccessful in practice unless detailed research and planning was done in advance.

Business planning is important in the sense that through the presentation of your business plan you will be able to convince interested investors that, your business is worth investing in.

A business plan is also needed for funding negotiations with banks and prospective investors.

Planning for a small business project should cover the first six months of the business operation. Plans would be revised and updated for subsequent periods. New plans might be drawn up every six months or every year.

**What to consider in the Business Plan**

In lesson 17, you learnt that the components of a business plan are;

1. Executive summary
2. Introduction
3. Aims or objectives
4. Business description
5. Time frame of completion of the business activity

6. Business rationale
7. Business benefits
8. Problems and constraints
9. Evaluation of Business activity
10. Appendix

The above components are what you should consider in your project plan. You will also consider aspects in point 2, 3 and 4 more specifically.



From the components above, point 2, 3 and 4 cover the things that will be discussed specifically. These things are:

1. researching the market in order to discover which of the people's wants are not sufficiently provided for by existing businesses.
2. choosing a product/service line and finding ways of selling the product or service
3. finding the best location to set up the project
4. deciding the type of business to start with based on personal experiences and background and the research conducted.

## Market Research

It is a way of finding out information to help make marketing decisions. It should always be carried out before a business decides to operate or start to offer new products or services to the public. A market research campaign can be a large or small affair. A big company will spend a lot of money to find out in advance the expected demand for a new product. For a small business, market research will be a simple activity. However, it will still be an important and valuable exercise for the business to carry out.

Market research indicates the type of good or service that should be sold. Once in business, reviews of stock are to be made from time to time. Sales records will show which items are fast selling. Hence, these items should be given more attention in order to increase sales.

## How to do a market research

A market researcher should collect information about all the factors which affect the distribution of goods and services. The research should include the measurement and analysis of the markets, the study of advertising effectiveness, the distributive channels, the competitive products, the marketing policies and the consumer behaviour.

## Product (Good) or Service Area

Exactly what type of product line or service will be provided? A product line is a product range that consists of products having similar characteristics and uses. For example, if the product line is artefacts, this would include traditionally made items such as baskets, carvings, paintings, bilums, necklaces and cooking pot holders. A decision has to be made at the beginning regarding how wide or extensive the product line will be. It should, for example include traditional dancing ornaments, too.

A product line is a product range that consists of products having similar characteristics and uses

**Activity 18.2:**

Name four (4) product lines likely to be found in the following shops:

(a) A butcher shop

---

(b) A photographic equipment store

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(c) A hardware store

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**Location**

Location is one of the most important factors to consider for a small business. A lot of thought and research should go into deciding where to locate your small business project. Once a business is established in a certain place, it will be very costly to change its location.

There are some factors to consider when deciding on the location of a business. These are;

- deciding on a particular area
- choosing a site within that area

Many small business operators prefer to locate their businesses in their own areas. The reasons why people prefer their own area is more to do with personal reasons than business concerns. Here are some of the reasons for locating in one's own area;

- wish to remain among family and friends
- lack knowledge of other, more distant, locations
- have no funds to investigate other areas

There are advantages of locating in your own particular area:

- You will have a good knowledge of the people in your community, their buying habits, their likes and dislikes and other characteristics
- Credit should be easier to obtain, since you will be already well known however, there must also be carefulness because through experiences, it is quite difficult to pay debts.
- Friends and acquaintances will give support to your business through publicity

**Competition**

In business, competition is the act of trying to get someone to buy your product. A small business project must know the amount of competition it will face. It should have a plan to encourage customers to buy its product instead of buying from its competitors. Within the first three years, the small business must gain a good share of the market. This will be the result of successfully competing with its competitors.

A small business project must have an attractive and unique competitive advantage. Competitive advantage is about putting your business in a favourable situation over its competitors. For example, a small business project's competitive advantage would include, lowering cost of production and marketing, or offering a better quality of its product.

**Activity 18.3:**

3. Think of a particular business in your area. List possible reasons why the business was set up.

(a) In that particular area

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---

(b) At the site where it is situated

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---

4. List three (3) possible advantages of setting up a small business in your own area.

- (a) 

---
- (b) 

---
- (c) 

---
- 

**Deciding the Type of Business to be Involved In**

Choosing the type of business will depend on a person's business experience and background. The person intending to start a business may choose retail, wholesale, service or manufacturing. It may even be a combination of wholesale and retail.

Some examples are:

- people with experience in retailing may be expected to establish their own retail store
- an employee with training and interest in the mechanical field may want to set up a manufacturing unit
- a worker employed by a contractor might consider establishing a construction firm
- an employee who finds satisfaction working closely with people may consider setting up a service-type business

Note that the materials that are available locally will also help determine the type of business one can go into.

**Summary:**

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You have come to the end of Lesson 18. In this lesson you learnt that:

- A business opportunity is an attractive idea, offer, or plan that can earn profits.
- A good business opportunity is an idea where the income exceeds costs and generates a profit.
- A good business opportunity should have the following characteristics. They are; good demand, positive return on investment, be competitive, meet objectives, and availability of resources and skills
- A business plan is a plan of action. It provides the path to take for the business to achieve its goals. It describes the nature of the business, the target market, the advantages the business will have in relation to competition, and the resources and qualifications of the owner.
- A person may have a very good business idea but the business may be unsuccessful in practice unless detailed research and planning has been done in advance.
- The presentation of a good business plan will convince interested investors to invest in it.
- A business plan is also needed for funding negotiations with banks and prospective investors.
- In a business plan the following should be considered:
- Researching the market in order to discover unmet customer's needs
- Choosing a product/service line and finding ways to selling
- Finding the best location for the business
- Deciding a business type based on market research, personal experiences and personal background.
- Market research is a way of finding out if there is demand for a particular product. It should be carried out before a business is started.
- A product line is a group of products that have similar characteristics and uses.
- There are two important aspects of locating a business. They are; deciding on a particular area and choosing a site within that area.

---

<b>NOW DO PRACTICE EXERCISE 18 ON THE NEXT PAGE</b>
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**Practice Exercise 18**

- 
1. What is a business opportunity?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
  2. List down at least two reasons why it is important to plan a small business project.
    - (a) \_\_\_\_\_
    - (b) \_\_\_\_\_
  3. List factors to consider when deciding on the location of a business.
    - (a) \_\_\_\_\_
    - (b) \_\_\_\_\_
  4. List three (3) advantages of locating your business in your own particular area.
    - (g) \_\_\_\_\_
    - (h) \_\_\_\_\_
    - (i) \_\_\_\_\_
  5. List the ten (10) components of a business plan.
    - (k) \_\_\_\_\_
    - (l) \_\_\_\_\_
    - (m) \_\_\_\_\_
    - (n) \_\_\_\_\_
    - (o) \_\_\_\_\_
    - (p) \_\_\_\_\_
    - (q) \_\_\_\_\_
    - (r) \_\_\_\_\_
    - (s) \_\_\_\_\_
    - (t) \_\_\_\_\_
  6. What is competition in business?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
  7. Choosing the type of business will depend on a person's business \_\_\_\_\_ and \_\_\_\_\_.
- 

<b>CHECK YOUR ANSWERS AT THE END OF TOPIC 4</b>
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## Lesson 19: Making Self-Assessment



### Introduction

Welcome to Lesson 19: Making Self-Assessment. In the previous lesson, you defined business opportunity and the importance of planning a small business project. You also learnt about the different areas to be considered when planning for a project. In this lesson you will learn about making self-assessments.



### Your Aims:

- Explain self-assessment and state its purpose
- Identify strengths and challenges and suggest solutions using the given guidelines

### What is Self-Assessment?

Self-assessment is a well organised method of attempting to try and gain insight into someone's own personality and emotions. The purpose of this assessment is to identify your strengths and weaknesses.

We will discuss an example together so that you will see how the method is organised and how it leads individuals to discover their strengths and weaknesses.

### Task 1:

A questionnaire will be given to all the participating individuals to answer. They can be allowed twenty (20) minutes to respond to the questions.

Table 19.1- Worksheet 1 shows the sample questionnaire. It contains fifty (50) questions and they are grouped into three categories:

- Personal background – 21 questions
- Behaviour patterns – 6 questions
- Lifestyle- 23 questions

The table 19.1-Worksheet 1 also shows how an individual would probably respond. He or she can respond as "rarely or no" and "mostly or yes".

### WORKSHEET 1

Sample Questionnaire		RARELY OR NO	MOSTLY OR YES
1	Do you worry about what others think about you		
2	Do you read books?		
3	Do you take risks for the thrill of it?		
4	Do you find it easy to get others to do something for you?		
5	Has someone in your family discussed the experience of starting a business with you?		
6	Do you believe in organising your tasks before getting started?		
7	Do you get sick often?		
8	Do you find enjoyment in doing something just to prove you can?		
9	Have you ever been fired from a job?		
10	Are you constantly thinking up new ideas?		

11	Do you let friends decide your social activities?		
12	Do you like school?		
13	Were you a very good student?		
14	Were you a member of a group in high school?		
15	Do you participate in school activities or sports?		
16	Do you like to take care of details regarding work or tasks?		
17	Do you believe there should be security in a job?		
18	Will you deliberately seek a direct confrontation to get needed result?		
19	Were you the first born child in your family?		
20	Was your father mostly present during your early life at home?		
21	Were you expected to do odd jobs at home before 10 years of age?		
22	Do you get bored easily?		
23	Do you sometimes boast about your accomplishments?		
24	Can you concentrate for extended periods of time on one subject?		
25	On occasion, do you need pep talks from others to keep you going?		
26	Do you find unexpected energy resources as you tackle things you like?		
27	Does personal satisfaction mean more than having money to spend on yourself?		
28	Have you ever deliberately exceeded your authority at work or in school?		
29	Do you enjoy socializing regularly?		
30	Do you try to find the benefits of a bad situation?		
31	Do you blame others when something goes wrong?		
32	Do you enjoy tackling a task without knowing all the potential problems?		
33	Do you take rejection personally?		
34	Do you believe that you generally have a lot of good luck that explains your successes?		
35	Are you likely to work long hours to accomplish a goal?		
36	Do you enjoy being able to make your own decisions on the job?		
37	Do you wake up happy most of your life?		
38	Can you accept failure without admitting defeat?		
39	Do you have a savings account and other personal investments?		
40	Do you believe that entrepreneurs take huge risks?		
41	Do you feel that successful entrepreneurs must have college degrees?		
42	Do you use past mistakes as a learning experience?		
43	Are you more people-oriented or goal-oriented?		
44	Do you find answers to problems that come to you out of nowhere?		
45	Do you enjoy an answer to a frustrating problem?		
46	Do you prefer to make decisions by yourself?		
47	In your conversations, do you discuss people more than events or ideas?		
48	Do you feel good about yourself in spite of criticism of others?		
49	Do you sleep as little as possible?		
50	Do you persist when others tell you it can't be done?		

Table 19.1 Worksheet 1- Sample Questionnaire

Source: KAB, Module 3

**Task 2:**

Let us assume that a participant by the name of Esther completed her questions as displayed in Table 19.2. Let us label Esther's response sheet as Worksheet 2.

**WORKSHEET 2**

<b>Questions</b>		<b>RARELY OR NO</b>	<b>MOSTLY OR YES</b>
1	Do you worry about what others think about you	√	
2	Do you read book?	√	
3	Do you take risks for the thrill of it?	√	
4	Do you find it easy to get others to do something for you?	√	
5	Has someone in your family discussed the experience of starting a business with you?		√
6	Do you believe in organising your tasks before getting started?		√
7	Do you get sick often?	√	
8	Do you find enjoyment in doing something just to prove you can?	√	
9	Have you ever been fired from a job?	√	
10	Are you constantly thinking up new ideas?	√	
11	Do you let friends decide your social activities?	√	
12	Do you like school?		√
13	Were you a very good student?		√
14	Were you a member of a group in high school?	√	
15	Do you participate in school activities or sports?	√	
16	Do you like to take care of details?		√
17	Do you believe there should be security in a job?		√
18	Will you deliberately seek a direct confrontation to get needed result?		√
19	Were you the first born child in your family?		√
20	Was your father mostly present during your early life at home?		√
21	Were you expected to do odd jobs at home before 10 years of age?		√
22	Do you get bored easily?	√	
23	Do you sometimes boast about your accomplishments?		√
24	Can you concentrate for extended periods of time on one subject?	√	
25	On occasion, do you need pep talks from others to keep you going?	√	
26	Do you find unexpected energy resources as you tackle things you like?		√
27	Does personal satisfaction mean more than having money to spend on yourself?		√
28	Have you ever deliberately exceeded your authority at work or in school?		√
29	Do you enjoy socializing regularly?	√	
30	Do you try to find the benefits of a bad situation?		√
31	Do you blame others when something goes wrong?		√
32	Do you enjoy tackling a task without knowing all the potential problems?	√	
33	Do you take rejection personally?	√	
34	Do you believe that you generally have a lot of good luck that explains your successes?		√
35	Are you likely to work long hours to accomplish a goal?		√
36	Do you enjoy being able to make your own decisions on the job?		√
37	Do you wake up happy most of your life?		√
38	Can you accept failure without admitting defeat?		√
39	Do you have a savings account and other personal investments?		√
40	Do you believe that entrepreneurs take huge risks?		√
41	Do you feel that successful entrepreneurs must have college degrees?	√	
42	Do you use past mistakes as a learning experience?		√
43	Are you more people-oriented than goal oriented?	√	
44	Do you find answers to problems that come to you out of nowhere?		√
45	Do you enjoy an answer to a frustrating problem?		√
46	Do you prefer to make decisions by yourself?		√
47	In your conversations, do you discuss people more than events or ideas?	√	
48	Do you feel good about yourself in spite of criticism of others?		√

49	Do you sleep as little as possible?		√
50	Do you persist when others tell you it can't be done?		√

Table 19.2 Worksheet 2 – Esther's Responses for Personal Tendency

**Task 3:**

The person facilitating the self- test will ask the participants to group their responses into the three categories; personal background, lifestyle and behaviour pattern. See the example below in how Esther grouped her responses. Let us label it as Worksheet 3.

Esther marked her responses according to a prepared marking guide. Esther indicated a tick (√) for answering correctly and a cross (x) for answering wrongly as according to the Prepared Marking Guide. See Esther's marking guide in Worksheet 3.

**MARKING GUIDE**

The marking guide in Table 19.3 shows how a business minded person would probably respond: In the parentheses are listed characteristics.

**MARKING GUIDE**

Responses: Testing Your Personal Tendencies				
RN= Rarely or No			MY = Mostly or Yes	
Personal Background			Lifestyle	
5.	MY	(family training)	2.	RN (time not available)
7.	RN	(attitude, energy, health)	6.	MY (management, goal setting)
9.	MY	(displacement experience)	8.	MY (achievement oriented)
12.	MY	(education)	10.	MY (creative, innovative)
13.	RN	(average is common)	11.	RN (control, responsibility)
14.	RN	(independence)	16.	RN (impatience, risk oriented)
15.	MY	(need to achieve)	17.	RN (internal locus of control)
19.	MY	(responsibility)	18.	MY (determination, assertiveness)
20.	RN	(early responsibility)	22.	MY (impatience, energy)
21.	MY	(early experience)	23.	MY (self-confidence, independence)
30.	MY	(optimism, flexibility)	24.	MY (perseverance, determination)
31.	RN	(personal responsibility, Problem- solving)	25.	RN (self-starter, self-control)
32.	MY	(resourcefulness, risk-taking)	26.	MY (energy, resourcefulness)
33.	RN	(flexibility, self-confidence)	27.	MY (egotism)
34.	RN	(internal focus of control)	28.	MY (self-confidence, assertiveness)
36.	MY	(independence, responsibility)	29.	RN (goal-oriented, time management)
37.	MY	(optimism)	35.	MY (persistence, determination)
38.	MY	(determination, optimism)	39.	MY (profit-oriented)
40.	RN	(self-confidence, internal control)	43.	RN (need to achieve)
41.	RN	(resourcefulness, initiative)	46.	MY (independence, self-confidence)
42.	MY	(initiative, optimism)	47.	RN (idea-orientated, creativity)
			48.	MY (tolerance of ambiguity, self-confidence)
			49.	MY (time management, energy)
Behaviour Pattern				
1.	RN	(self-confidence, locus of control)		
3.	MY	(risk taking, internal locus of control)		
4.	MY	(leadership)		
44.	MY	(foresight, perceptive, persistent)		
45.	MY	(tolerance of ambiguity, initiative)		
50.	MY	(optimism)		

Table 19.3 Marking Criteria

Source: KAB, Module 3

## WORKSHEET 3

Responses: Testing Your Personal Tendencies For Participant					
RN= Rarely or No			MY = Mostly or Yes		
Personal Background			Lifestyle		
5.	MY	√ (family training)	2.	RN	√ (time not available)
7.	RN	√ (attitude, energy, health)	6.	MY	√ (management, goal setting)
9.	RN	X (displacement experience)	8.	RN	X (achievement oriented)
12.	MY	√ (education)	10.	RN	X (creative, innovative)
13.	MY	X (average is common)	11.	RN	√ (control, responsibility)
14.	RN	√ (independence)	16.	MY	X (impatience, risk oriented)
15.	RN	X (need to achieve)	17.	MY	X (internal locus of control)
19.	MY	√ (responsibility)	18.	MY	√ (determination, assertiveness)
20.	MY	X (early responsibility)	22.	RN	X (impatience, energy)
21.	MY	√ (early experience)	23.	MY	√ (self-confidence, independence)
30.	MY	√ (optimism, flexibility)	24.	RN	X (perseverance, determination)
31.	MY	X (personal responsibility, Problem- solving)	25.	RN	√ (self-starter, self-control)
32.	MY	√ (resourcefulness, risk-taking)	26.	MY	√ (energy, resourcefulness)
33.	RN	√ (flexibility, self-confidence)	27.	MY	√ (egotism)
34.	MY	X (internal locus of control)	28.	MY	√ (self-confidence, assertiveness)
36.	MY	√ (independence, responsibility)	29.	RN	√ (goal-oriented, time management)
37.	MY	√ (optimism)	35.	MY	√ (persistence, determination)
38.	MY	√ (determination, optimism)	39.	MY	√ (profit-oriented)
40.	MY	X (self-confidence, internal control)	43.	RN	√ (need to achieve)
41.	RN	√ (resourcefulness, initiative)	46.	MY	√ (independence, self-confidence)
42.	MY	√ (initiative, optimism)	47.	RN	X (idea-orientated, creativity)
			48.	MY	√ (tolerance of ambiguity, self-confidence)
			49.	MY	√ (time management, energy)
<b>Behaviour Pattern</b>					
1.	RN	√ (self-confidence, locus of control)			
3.	RN	x (risk taking, internal locus of control)			
4.	RN	x (leadership)			
44.	MY	√ (foresight, perceptive, persistent)			
45.	MY	√ (tolerance of ambiguity, initiative)			
50.	MY	√ (optimism)			

Table 19.4 Worksheet 3 -Esther's responses, grouped and assessed against the marking guide

Having done all of that, the facilitator who is running the self-test will ask Esther to give a score to indicate whether she is potentially strong to be a business person.

Let us see Esther's Score:

- Personal background: Esther got 14 /21. This means she had 14 ticks (√) out of the 21 questions.
- Behaviour patterns: Esther got 4 /6. This means she had 4 ticks(√) out of the 6 questions.
- Lifestyle: Esther got 16/23. This means she had 16 ticks(√) out of the 23 questions.

People with scores closest to fifty (50) would be considered as having more strength and have strong potential of becoming a successful business person. Esther has

scored thirty four over fifty (34 /50). Esther has thirty four (34) strengths and sixteen (16) weaknesses. It is also important for you to know that strengths and weaknesses are not permanent for people. There is the tendency that people can change over time. Some people's weaknesses can change after attending courses that will teach them to think positively of themselves and be self-motivated.

Now that we have completed calculating the score of strengths and weaknesses, we can say it is impossible to expect Esther to have strengths in all areas. We have seen that Esther has 16 weaknesses. The next step is to determine strategies for her to apply so she can improve her weaknesses.

Possible strategies may include:

- Undergoing a training program
- Setting up a partnership business with another person who has the required skills. Esther can learn the skills she lacks from her business partner as time goes by.



### Activity 19: 1:

1. Use the sample questions to assess your-self in regard to commitment, motivation, taking risk, making decision and family support. Then, mark your responses against the marking guide provided at the end of the Answers to Lesson Activities 1-20.

Sample Questionnaire		RARELY OR NO	MOSTLY OR YES
	<b>Commitment</b>		
01	Do you like school?		
02	Do you like to take care of details regarding work or tasks?		
03	Can you concentrate for extended periods of time on one subject?		
04	On occasion, do you need pep talks from others to keep you going?		
05	Are you likely to work long hours to accomplish a goal?		
06	Are you more people-oriented than goal oriented?		
07	Do you sleep as little as possible?		
	<b>Motivation</b>		
08	Do you find enjoyment in doing something just to prove you can?		
09	Do you participate in school activities or sports?		
10	Do you get bored easily?		
11	Do you find unexpected energy resources as you tackle things you like?		
12	Does personal satisfaction mean more than having money to spend on your- self?		
13	Do you use past mistakes as a learning experience?		
	<b>Taking Risks</b>		
14	Do you worry about what others think about you?		
15	Do you believe there should be security in a job?		
16	Have you ever deliberately exceeded your authority at work or in school?		
17	Do you enjoy tackling a task without knowing all the potential problems?		
18	Do you believe that entrepreneurs take huge risks?		
19	Do you persist when others tell you it can't be done?		

	<b>Making Decisions</b>		
20	Are you constantly thinking up new ideas?		
21	Do you let friends decide your social activities?		
22	Do you enjoy socializing regularly?		
23	Do you try to find the benefits of a bad situation?		
24	Do you blame others when something goes wrong?		
25	Do you enjoy being able to make your own decisions on the job?		
26	Do you prefer to make decisions by yourself?		
	<b>Family Support</b>		
27	Do you find it easy to get others to do something for you?		
28	Has someone in your family discussed the experience of starting a business with you?		
29	Was your father mostly present during your early life at home?		

Table 19.5 Sample Questions taken from Table 19.1 for Self- Assessment

2. State your scores in the following areas:

- (a) Commitment \_\_\_\_\_  
 (b) Motivation \_\_\_\_\_  
 (c) Taking risk \_\_\_\_\_  
 (d) Making decisions \_\_\_\_\_  
 (e) Family support \_\_\_\_\_

3. How many strengths and weaknesses, have you identified?

\_\_\_\_\_

4. If this activity has identified some weaknesses then, what are some approaches to take to in order to improve those identified weaknesses?

\_\_\_\_\_

### Summary:



You have come to the end of Lesson 19. In this lesson you learnt that:

- Self-assessment is a well organised method of attempting to gain insights into one's own suitability for a career in business.
- The purpose of a self-assessment is to identify strengths and weaknesses of an individual.
- It is impossible to expect an individual to have strengths in all the questions asked in the personal assessment questionnaire.
- When there are weaknesses, possible strategies for an individual to improve are;
  - undergoing a training program
  - setting up a partnership business with another person who has the required skills. Esther can learn the skills she lacks from her business partner as time goes by.
- Strengths and weaknesses are not permanent for people. They can be changed over time.

**NOW DO PRACTICE EXERCISE 19 ON THE NEXT PAGE**

**Practice Exercise 19**

- 
1. What is self-assessment?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
  2. What is the purpose of a self- assessment?  
\_\_\_\_\_  
\_\_\_\_\_
  3. List the two (2) strategies that can help an individual improve on his or her weaknesses.  
(a) \_\_\_\_\_  
(b) \_\_\_\_\_
  8. Explain commitment in your own words.  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
  9. Explain motivation in your own words.  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
  10. Explain taking risks in your own words.  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
  11. Explain in your own words why family support is important in running your small business.  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
- 

<b>CHECK YOUR ANSWERS AT THE END OF TOPIC 4</b>
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## Lesson 20: Keeping Records

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### Introduction:

Welcome to Lesson 20. In the previous lesson you learnt about self-assessment. You defined what self-assessment was and its purpose. You also identified strategies that an individual could use to improve his or her weaknesses. In this lesson you will learn about keeping records, its importance and the types of records. You will also learn about record keeping skills using given situations.



### Your Aims:

- Define record keeping for a small business project and identify its importance
- Identify types of records used in a small business project
- Demonstrate record keeping skills for a small business using the given situation

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### Record keeping and its importance

Keeping records is an activity that involves the collection of written information. In terms of business, it is about keeping copies of business documents on file.

Keeping records is important for the following reasons;

- **Evidence of activity:**  
Records provide evidence that certain business activities have occurred. For each record there must be a business document. For example, invoice is an evidence of a credit sale. Credit sales are recorded in the sales journal using the invoice to get information. A receipt is an evidence that cash has been paid.
- **Internal control:**  
Record keeping is an integral part of the internal control of a business. For example, when an invoice is issued, it should be recorded using the duplicate copy of the issued invoice in the sales journal according to the serial number order. This avoids entries being missing in the sales journal.
- **Avoiding fraud and mistakes:**  
Record keeping and business documents also minimise opportunities for fraud and mistakes. For example, total cash receipt on a particular day should be equal to the value of receipts and cash invoices. If it does not there could be an error or fraud.
- **Information for reports:**  
Business records provide information to compile reports. These reports are of two types: business reports and accounting reports.
  - Business reports include, progress report and annual report
  - Accounting reports include, the statement of receipts and payments, the income statement and the balance sheet.
- Business records also provide information for investigations and auditing

## Types of business records

There are many different types of records. These different types of records come under two categories; accounting records and other business records.

### Accounting Records

- Cash receipts and payments journals (cash book)
- Petty cash book
- Sales journal
- Purchases journal
- General ledger
- General journal

### Other Business Records

- Attendance register
- Payroll register
- Individual earnings register
- Overtime register
- Inward mail register
- Stock record
- Cheque dispatch register
- Daily cash sales register
- Asset register

Take note that, *overtime register*, *stock record* and *daily cash sales register* which are listed under other business records can also be included under accounting records.

The number of records kept by businesses varies on the basis of requirement, size and nature. For a small business project, the types of records would be:

- A daily sales book
- A cash book
- The stock book
- Records of credit sales – the debtors book
- Records of credit purchases- the creditors book
- Records of equipment- the assets register
- Business Documents



How are these records kept?

Now, let us move on to see how these records can be kept.

## Record Keeping Skills

### The daily sales book

**Step 1:** The daily sales book can be just an school exercise book with each page ruled. See the example below.

MON. JAN 6	TUE. JAN. 7	WED. JAN.8	THURS.JAN. 9	FRI. JAN.10	SAT. JAN 10
K25	K 105	K80			
K80	K105	K105			
K80	K80	K25			
K105	K25	K80			
TOTAL:K209	TOTAL:K315	TOTAL: K290			

Table 20. 1: A sample page from a daily sales book

Each sales during the day is written in the column for that day and the total value calculated at the end of the day. In the example, total sales for Monday 6<sup>th</sup> January, is K 209, total sales for Tuesday 7<sup>th</sup> January is K315, and total sales for Wednesday 8<sup>th</sup> January is K 290.

**Step 2:** Any business dealing with cash sales has to begin the day with an adequate float. An adequate float is an amount of cash for change. At the end of the day's business the amount of this change „float“ is counted out and put aside.

The money that is left in the cash drawer should be equal to the total shown in the daily sales book for that day. For example, on Monday, the total in the cash drawer should be K209. If the two figures are not the same, then a mistake has been made somewhere.

1. If the actual cash is less than the total recorded in the daily sales book; then:

- Too much change might have been given to a customer
- A sale might have been written twice in the daily sales book,
- Someone has taken some of the cash, or
- A sale amount might have been written in for a larger amount than the actual sale value



Why is the „float“ and the cash sale for the day different at the end of the day?

2. If the cash is more than the total in the daily sales book:

- This usually will mean that a sale has not been written in the daily sales book,
- A sale amount has been written in for a smaller amount than the actual sale or
- The wrong change was given to a customer.

**Step 3:** Keep the change float ready for the next day's business and put the sales money aside for banking or safekeeping.

There are stores with cash registers. Recording every sale during the day on the cash register is the same thing as writing every sale down in the daily sales book.



Does a cash register work the same as the daily sales book?



### Activity 20.1:

Explain these terms:

(a) Daily sales book \_\_\_\_\_

(b) Cash register \_\_\_\_\_

### The cash book

A cash book is a record of all the money coming into the business and all the money that is paid out. A book that is printed ready for this use can be purchased from a stationery store, or an exercise book can be ruled up and entries made as shown in Table 20.2.

Date	Particulars	Receipts	Payments	Balance
4/1/14	Cash on Hand			K500.00
5/1/14	Purchase stock		K270	K230.00
7/1/14	Daily sales	K209		K439.00
8/1/14	Daily sales	K315		K754.00
9/1/14	Daily Sales	K290		K1044.00
10/1/14	Wages		K40	K1004.00
11/1/14	Purchase new exercise book		K2.65	K1001.35
12/1/14	Drawings		K50	K951.35

Table 20. 2: An example of entries in the cash book

The column with the heading „particulars“ is very important. This is where the exact information that describes each transaction is written. Such is necessary because at the end of each month the totals of the various items will be needed. Example of various items include such as total of daily sales, total of wages and total of other types of payments.

If the small business project has many other types of transactions, then, it is best to keep separate column for each transaction. See Table 20.3.

RECEIPTS					PAYMENTS							
Date	Items particulars	Receipt from sales	Other receipts	Balance	Date	Item particulars	Chq. No.	All payments	Purchases of stock	Wages	Drawing	Other expenses
4/4/14	bal b/fwd			K500	5/1/14	Purchase stock		270	270			
7/1/14	Sales	209			10/1/14	Wages		40		40		
8/1/14	sales	315			11/1/14	Purchase Exercise book		2.65				2.65
9/1/14	sales	290			12/1/14	Drawings		50			50	

Table 20. 3: Separate columns for each transaction

Take note of these points:

1. Totals for various types of transactions will be easily obtained at the end of the month.
2. On the payments side, each entry is made twice. First, in the „All payments“ column and again in the column for that item. This allows a quick check of all the entries because the total of the „All payments“ column must always equal the total of all the other columns on the payments side put together.
3. Deciding on the number and names of different columns on the payments side depends on the record-keeping needs of the small business project owner. Less work is needed at the end of the year if adequate records are kept during the year.



### Activity 20.2:

1. Explain the term „drawings“

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2. Why do drawings make the business fail?

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3. Imagine you are the small business owner, how would you meet family obligations and at the same time keep the business going.

### The stock book

It is a book that records stock available for sale. The use of stock the control system and stocktaking is important and it is a part of the records of a business. You have learnt the details in Grade 9. Remember, what is needed for bookkeeping purposes is the total value of the stock at the end of the period, for example, a month, 6 months, or a year.

### The record of credit sales – the debtors' book

When the small business project has started, the owner has to make a decision whether or not to allow credit.

If the project owner decides not to allow credit to customers, then, it could mean lower sales for the business as allowing credit, especially in rural stations in Papua New Guinea, can be an important sales promotion technique.

If the decision is to allow credit sales, then three more decisions have to be made:

- First, decide who to allow credit to
- Second, decide how much credit to allow to each customer, as the amounts can be different for each.
- Third, decide how to collect the outstanding debts when they are overdue

How to record credit sales?

The simplest method of recording credit sales is to keep a book or a card system, with one page in the book or one card for each customer. See the example in, Table 20.4.



Now that, I have decided to give credit to certain customers, it means, I have to do the following;

- Decide how much credit each customer is allowed and
- Be very strict about the collection dates

Name: Jeremiah Miria			Limit: K50		
Date	Details	Goods taken out	Money paid in	Balance	Customer's Signature
2014					
July 20	Goods taken out	K20		K20	<i>JM</i>
July 26	Goods taken out	K25		K45	<i>JM</i>
July 30	Money paid in		K45	K00	<i>JM</i>

Table 20. 4: Record of Credit Sales

There are four things about credit records:

1. There is a limit for the credit of K50 at any time. If you look at Jeremiah's transaction you will see that:
  - The credit does not go over the K50 limit, and
  - He signs each time the customer obtains goods and receives a receipt if he pays up the debt.

2. Money received from debtors such as Jeremiah's K45, is included in the daily cash receipts with money from other sales on that day.
3. At any time the small business project owner can add up the total amount of outstanding debts owing to the business and work out what percentage these debts are out of the total sales.

Big businesses allow 30 days for their customers to pay when „statements“ are issued to them showing the month's invoices. Similarly, the small business project owner, also expects debtors to pay on time that is set out for them. When your debtors pay on time, you should also honour your obligation and pay your suppliers on time.

### **The record of credit purchase – the creditors' book**

Your small business project could be one that purchases certain materials from several suppliers in order to manufacture certain things. If that is the case then, copies of invoices from the different suppliers should be kept in the files. At the end of the month when a statement is received from each supplier, it is compared with the invoices for that month and pay debts after reconciliation.

It is necessary to note the records concerning credit purchases:

1. From each invoice received during the month with goods from the suppliers, the amount owing is entered in the purchase journal.
2. Monthly accounts are settled with suppliers and amounts paid are entered into the cash payments journal.



#### **Activity 20.3:**

1. Define credit

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2. What does the statement show?

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3. Explain the purpose of the invoice.

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### **Business Documents**

Every business activity has a registered document to it. Examples of business activities or transactions are ordering new stock, credit sales or cash sales, payments through cheques, records of employees' arrival for work and wages and many others.

Some of these documents are used within the business and others are used between the external parties. Usually these documents are standardised and pre-printed. These pre-printed documents are all consecutively numbered. The nature and number of documents used by a business is determined by the business size, nature and requirements.

## **Example of Business Documents that are kept as records**

- **Letter of Enquiry**

In this letter, the buyer enquires about the products he or she intends to buy and requests more details from the supplier.

- **Quotation or catalogue**

On receiving the letter of enquiry, the seller sends either a quotation or a catalogue. A quotation is sent if the products that the buyer wants to purchase are clearly stated. In some cases, a pro forma invoice is sent instead of a quotation. Both documents serve the same purpose and contain the same information such as the particulars of the item and its cost. If the letter of enquiry is not clear, then the seller sends a copy of the company's catalogue. A catalogue is a list of products with their features and prices.

A quotation includes the seller's name, address and contact details, the buyer's name and address, a reference number, a description of products, unit price, quantity and cost, Good and Service Tax (GST), total amount, and terms and conditions.

- **Purchase Order**

On receiving the catalogue, quotation or pro forma invoice, the buyer sends a purchase order. This is an order to the seller to supply the goods indicated in the order. The purchase order is based on the information contained in the catalogue, quotation or pro forma invoice.

A purchase order is prepared in a standard format on a pre-printed form. It includes the buyer's name, address and contact details, the seller's name and address, the reference number, a purchase order number, a list of items to be supplied, and delivery instructions.

- **Advice Note**

Upon receiving the purchase order, the seller sends an acknowledgement letter. This document is known as an advice note. By sending this note, the seller advises the buyer that the purchase order has been received and action has been taken to supply what has been ordered.

- **Delivery docket**

After sending the advice note, the seller delivers the goods ordered to the buyer. With the supply of goods the supplier sends a delivery docket. This document lists the goods delivered. The buyer's responsibility is to inspect the goods that have been sent and sign the document. If there is any difference between the delivery docket and the actual items supplied, the buyer has to mention it on the delivery docket. Also, if the buyer has found any defected goods, this has to be reported to the supplier.

- **Invoice**

It is a document used when goods are purchased on credit. It is sent to the buyer with the goods stating the amount for payment to be made later. This document is also prepared according to a standard pre-printed form. It includes the seller's name, address and contact details, the buyer's name and address, an invoice

number, a list of items supplied, unit price, quantity and cost, GST, total amount payable, and payment conditions.

- **Credit note**

It is a document sent when the invoice is overcharged or when the goods purchased are defective. The word defective means not functioning well or not in good condition. The buyer asks for a credit note and the seller issues it. When the seller issues the credit note, it states that the buyer's account has been reduced with the amount in question.

- **Statement of account**

It is sent to credit customers on a monthly basis by the seller. It indicates the status of the account. It includes the invoice amounts at different dates and payments received at different dates. The final figure shows the amount outstanding, if any. This document is useful to reconcile the buyer's records. The buyer is to pay the outstanding amount.

- **Cheque and covering letter**

The buyer is required to settle the invoice within the credit period. This is done by issuing a cheque. The cheque is usually accompanied by a covering letter. Sometimes the covering letter is referred to as a remittance advice. The covering letter or remittance advice includes the buyer's name, address and contact details, the cheque number and the amount, and the reason for the payment giving the invoice number(s).

- **Receipt**

It is used when goods are purchased with cash or cheque. On receiving the cash or cheque, the seller sends a receipt indicating the amount received. This document is pre-printed in a standard format. Usually, it is prepared in duplicate. The original is sent to the buyer and the copy is kept in the business for future reference. It also serves as a source document for accounting purposes.

A receipt contains the name, address and contact details of the issuer, the payer's name, the amount received, the reason for payment and has a serial number.

## **Other common business documents**

Two other common business documents used internally in a business are payment vouchers and petty cash vouchers.

### **1. Voucher**

This is a document issued by an authorised person in a business to approve a payment. For each payment there must be a voucher. It includes a serial number, the payee's name, the reason for the payment, the amount payable, and an authorised signature. Supporting documents such as invoices and memos are attached to this document. Once a voucher is authorised, a cheque is drawn and dispatched along with a remittance advice.

### **2. Petty cash voucher**

A petty cash voucher is raised to obtain petty cash for small payments. It is not practical to draw a cheque to make payments for relatively small items such as cleaning supplies, fuel expenses, postage, tea, coffee and sugar. Therefore, a



petty cash float is maintained to meet such payments. On presenting an approved petty cash voucher, a worker can get petty cash money to meet small expenses. Petty cash refers to money kept in the business for payment for expenses such as fuel and stationery.

- **Statement of account**

It is sent to credit customers on a monthly basis by the seller. It indicates the status of the account. It includes the invoice amounts at different dates and payments received at different dates. The final figure shows the amount outstanding, if any. This document is useful to reconcile the buyer's records. The buyer is to pay the outstanding amount.

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#### **Petty cash voucher**

A petty cash voucher is raised to obtain petty cash for small payments. It is not practical to draw a cheque to make payments for relatively small items such as cleaning supplies, fuel expenses, postage, tea, coffee and sugar. Therefore, a petty cash float is maintained to meet such payments. On presenting an approved petty cash voucher, a worker can get petty cash money to meet small expenses. Petty cash refers to money kept in the business for payment for expenses such as fuel and stationery.

**Summary:**

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You have come to the end of Lesson 20. In this lesson you learnt that:

- Keeping records is the act of looking after or keeping records of the business accounts. In terms of business, it is about keeping records and copies of business documents on file.
- Keeping records is important for the following reasons such as: evidence of activity, internal control, avoiding fraud and mistakes, information for reports and providing information for investigations and auditing.
- Types of records come under two categories; accounting records and other business records.
- Accounting records are cash receipts and payments journals, petty cash book, sales journal, purchases journal, general ledger and general journal,
- Other business records are attendance register, payroll register, individual earnings register, overtime register, inward mail register, stock record, cheque dispatch register, daily cash sales register, and asset register.
- For a small business project, the types of records would include: a daily sales book, a cash book, the debtors' book, the creditors' book, the assets register and other business documents.
- Business Documents that are kept as records are: letter of enquiry, quotation or a catalogue, purchase order, advice note, delivery docket, invoice, credit note, statement of account, cheque and covering letter and receipt
- Other common business documents that are also kept as records are the payment voucher and the petty cash voucher.

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<b>NOW DO PRACTICE EXERCISE 20 ON THE NEXT PAGE</b>
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**Practice Exercise 20**

1. What is record keeping?

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2. State the importance of record keeping.

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3. Name the types of records kept under the accounting category.

- (a) 

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- (b) 

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- (c) 

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- (d) 

---
- (e) 

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- (f) 

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4. Name the types of records kept under other business record category.

- (a) 

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- (b) 

---
- (c) 

---
- (d) 

---
- (e) 

---
- (f) 

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- (g) 

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- (h) 

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5. What types of records are kept for a small business project?

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6. List the different types of business documents that are kept as records according to the transactions.

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**CHECK YOUR WORK. ANSWERS AT THE END OF TOPIC 4**



## Lesson 21: Reporting and Evaluating on a Small Business

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### Introduction:

Welcome to Lesson 21: Reporting and Evaluating on a Small Business. In the previous lesson you learnt about keeping records and its importance. You identified the types of records for a small business project. You also discussed record keeping skills for a small business project. In this lesson you will learn about reporting and evaluating on a small business.



### Your Aims:

- Identify the different types of business reports of a small business
- Explain the importance of reporting and evaluating a business
- Identify the records to obtain information for a required business report
- Compile a business report using given guidelines
- Evaluate a business progress and make recommendations based on the completed report

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Let us do a bit of revision from our Grade 9, Unit 6, Topic 4, Lesson 11 about what a business report is and its purpose.

### What is a business report?

A business report is actually a written detail of activities of a business. However, business reports are not like any other reports. We know that the business deals with money and financial records. Therefore, when writing a business report it must include details of money coming in and going out of the business and the records of assets and liabilities in a business.

### Purpose of Writing a Business Report

Writing up of business reports from business records is a necessary task in order to find out how well the business is operating. The reports are needed to be presented to interested parties such as the banks, investors and the Internal Revenue Commission (IRC) for various purposes. The reports are also needed to be presented to the suppliers and even the creditors. These interested parties use the business report to make important decisions concerning a business.

A good report can assist us in making good decision for our business. These reports contain information which we can collect from proper bookkeeping records.

### Types of Business Reports of a Small Business

#### 1. Profit and Loss Statement

A profit or loss statement is a report that shows whether the business made a profit or a loss in a particular period of time. To prepare a profit or loss statement, we have to collect information from the business records such as the cash book, the stock record and the journals.



**Activity 21:1.**

Calculate the Profit using the given information.

<i>Cash sales</i>	<i>K400</i>	<i>Credit sales</i>	<i>K30</i>
Cash purchase	K240	Credit purchases	K180
Opening stock	K300	Closing stock	K420

**PROFIT OR LOSS STATEMENT FOR FEBRUARY 2014**

SALE:	cash	K			
	credit	K			K
	Opening stock			K	
Add:	Purchase	cash	K		
		credit	K	K	
				<u>K</u>	
				K	
Less:	Closing Stock			<u>K</u>	
	Cost of Goods Sold				K
					<u>K</u>
Less:	Other expenses				<u>K</u>
					<u>K</u>
				NET	
				PROFIT:	

**1. A Balance Sheet**

What is a balance sheet? The balance sheet is sometimes called the statement of assets and liabilities. This is because a balance sheet shows a list of assets and liabilities. It shows the financial status of the business at a given point in time. It also shows the share of business which belongs to the owner, and how much money is owed to outsiders.

We also need to know that the balance sheet shows the accounting equation which is; Assets = liabilities + owner's equity ( $A = L + O.E$ ). The accounting equation means that the total amount of assets in the business come from the owner's contribution plus others from creditors which are generally stated as liabilities.

**Balance sheet as at 31 July, 2014**

<b>Assets</b>		<b>Liabilities</b>	
Cash	2000	Ela Motors	3000
Stock	500	BSP-Loan	1000
Vehicle	3000		
		<b>Owner's Equity</b>	
		Capital	1500
	<b><u>K5500</u></b>		<b><u>K5500</u></b>

Figure 21.2: Balance Sheet

The balance sheet in figure 21.2 shows that the business is worth K5500 on the 31<sup>st</sup> July, 2014. Of these the owners' investment is K1500 while the rest (K4000) come from the liabilities. The owner bought a vehicle on credit from Ela Motors worth K3000 and got a bank loan of K1000 from Bank of South Pacific. This information is presented in figure 2 above.



### Activity 21:2

Calculate the owner's capital.

IPASETA BALANCE SHEET as at 20 <sup>th</sup> July, 2012			
<u>ASSETS</u>		<u>LIABILITIES</u>	
Cash at bank	K3000	Loan from ANZ	K1000
Vehicle	K5000	BSP-Loan	K2000
		<u>OWNER'S EQUITY</u>	
		Capital	K_____

### Evaluating a Business Progress

In Grade 9, Unit 6, Topic 4, Lesson 15, you learnt about evaluating a business. Well, that is the same thing discussed here. So we can revisit the lesson notes again.

Any business person can use the Balance Sheet and the Profit and Loss Statement to evaluate any business performances.

The most common method is to compare the business performance to some other standards such as:

- Comparing business results to those of past years or to budgeted figures. Checking with the previous record of how the business performed will give a better picture of the present business situation.
- Comparing the business result with other businesses of the similar type. Records and reports of other businesses similar in size and type will give you a clear picture of how your business is doing. These businesses can be those operating in the same location as yours or from a different area as long as you can compare their performance with yours.
- Calculate the various ratios and percentages of items in the business profit and loss statement and balance sheet. The methods will be shown in detail how its used for business reporting. The result that you obtain from the calculation is known as the rate of return or what percentage the owner received for going into business.

A small business needs to measure and evaluate its performance on a regular basis. Improvements can be made to the business to increase its overall success rate.

### Analysing the profit report

The Profit and Loss Statement gives the business owner information about whether the firm has been successful in selling its product. Every money figure in the profit report tells a particular story.



## Profitability

An important question a business owner asks is „How profitable is my business?“ In business it is important that the owner's money put into the business is earning a suitable income or return. One way to calculate the profitability of business is to calculate the return on the owner's investment.

For example, Peto Taro, the owner of Fry Trading started his business with a K10 000 capital contribution. The business made a net profit of K2 300 after one month of operation. We can calculate the rate of return using the formula:

$\frac{\text{Profit}}{\text{Owners investment}} \times \frac{100}{1} = \text{Rate of returns}$
<p>Therefore:</p> $\frac{\text{K2 300}}{\text{K10 000}} \times \frac{100}{1} = 23\%$

Figure 21.3: Formula to calculate rate of returns

This shows a rate of return of 23% on his investment. P.Taro can compare this result with the result of other similar businesses to see whether his profitability level is enough or not. Would P.Taro have been better off investing his K10 000 in buying company shares or putting it in the bank for interest under the Interest Bearing Deposit (IBD). The only way to determine this would be to compare the result of one month to the next to decide whether the business is becoming more or less profitable

## Analysing the Balance Sheet

To the entrepreneurs, the Balance Sheet not only shows the assets and liabilities of the business. It also shows by how much the capital of the business has increased. The capital of the business normally increases as a result of increased profits made by business during the year.

Through careful analysis of the balance sheet, business owners can determine the health of their businesses' financial position. This can be compared with other similar businesses. Analysis of the financial position will allow business owners to determine whether the assets owned by the business have been used well to earn a profit. The business owner will also know whether the business has enough cash available to pay debts on time when they are due.

Consider the previous example of Peto Taro Trading. The Balance Sheet given above will be used to illustrate ways of analysing a balance sheet. Taro started with the investment of K10 000 in business. However, because the business made a profit of K2 300 in January, Taro's investment in business has now increased to K12 300. Careful analysis of the Balance Sheet can help Taro know if his K10 000 investment has been worthwhile or whether he would earn by investing his money elsewhere.

We will concentrate on a simple method of analysis here. It is called the Return On Asset (ROA) method.

## Return on Total Assets (ROA)

Taro can determine the success of his investment by considering the business' return on total assets. The return on total assets measures how effectively the assets have been used. The simple formula used is:

$\frac{\text{Net Profit}}{\text{Total Assets}} \times \frac{100}{1} = \text{ROA}$
<p>Therefore:</p> $\frac{\text{K2 300}}{\text{K15 000}} \times \frac{100}{1} = 15\%$

The return of 15 per cent shows that every K100 of assets invested by P. Taro has earned for the business a profit of K15.00. Joe can compare this result with results obtained by similar businesses. He can also use this to compare future results. Usually a poor ROA means that the business assets are not being used productively.



### Activity 21.3:

1. Define the word evaluation.  
\_\_\_\_\_
2. Name the two business reports used to evaluate a business.
  - (a) \_\_\_\_\_
  - (b) \_\_\_\_\_
3. What will be the percentage return for a business that made K5000 on an investment of K25 000 as capital for the business?  
\_\_\_\_\_
4. If the business made K5000 profit using capital invested in assets valued at K45 000, then what is the Return On Total Asset(ROA)?  
\_\_\_\_\_

A business evaluation involves assessing the success or failure of the business. Profit is a good measure to evaluate a business.

Remember: The three ratios to be used in evaluating a business are;

$$\text{Gross profit ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100$$

$$\text{Return on Investment} = \frac{\text{Net Profit}}{\text{Capital investment}} \times 100$$

## Summary:

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You have come to the end of Lesson 21. In this lesson you learnt that:

- A business report is actually a written detail of what the business is doing, how well it is operating and earning money from running a business
- Writing up of business reports from business records is a necessary task to be done to find out how well the business is operating with money and other matters
  - The reports are needed to be presented to interested parties such as the banks and investors for funding negotiations.
  - The reports are needed to be presented to suppliers and even creditors.
- A good report can assist us in making good decisions for the business
- Profit or Loss Statement and the Balance Sheet are types of financial reports for business
- A profit statement is a report that shows whether the business made a profit or not in a particular period of time.
- A Profit Statement is also known as the Profit and Loss Statement
- A Balance Sheet is a report that shows the financial status of the business at a given point in time.
- A Balance Sheet shows the share of business which belongs to the owner, and how much money is owed.
- The Balance Sheet is sometimes called the Statement of Assets and Liabilities.
- Any business person can use the Balance Sheet and the Profit and Loss Statement to evaluate the business performances.
- The Profit and Loss Statement gives the business owner information about whether the firm has been successful in selling its product.
- The Balance Sheet not only shows the assets and liabilities of the business. It also shows by how much the capital of the business has increased.
- The three ratios to be used in evaluating a business are:

$$\text{Gross profit ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100$$

$$\text{Return on Investment} = \frac{\text{Net Profit}}{\text{Capital investment}} \times 100$$

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<b>NOW DO PRACTICE EXERCISE 21 ON THE NEXT PAGE</b>
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## Practice Exercise 21

1. Use the following information to calculate the net profit.

Other expenses	K 74.30	Opening stock	K190.35
Credit sales	K 14.80	Closing stock	K460.10
Cash purchases	K320.70	Credit purchases	K130.40
Cash sales	K329.15		

### PROFIT OR LOSS STATEMENT FOR FEBRUARY 2014

SALE:	cash	K		
	credit	K		<u>K</u>
	Opening stock		K	
Add:	Purchase	cash	K	
		credit	K	<u>K</u>
				K
Less:	Closing Stock		K	<u>K</u>
	Cost of Goods Sold			K
				<u>K</u>
Less:	Other expenses			<u>K</u>
			PROFIT:	K

2. What are the three common methods of comparing business performance?
- (a) \_\_\_\_\_
- (b) \_\_\_\_\_
- (c) \_\_\_\_\_
3. (a) If a business invested K140 000 and earned K20 000 then what is the percentage of return for this business.
- \_\_\_\_\_
- (b) What is your comment on the percentage return, whether it is a good or a bad return?
- \_\_\_\_\_
4. Return on Asset (ROA) is 8% on K50 000 investment. How much asset does the business have?
- \_\_\_\_\_
5. List three areas where a business can improve if it earns a return of 5% with K40 000 investment.
- \_\_\_\_\_

**CHECK YOUR WORK. ANSWERS AT THE END OF TOPIC 4**

# **ANSWERS TO**

## **TOPIC 4**

### **PRACTICE EXERCISES 17-21**

## ANSWERS TO PRACTICE EXERCISES 17 TO 21

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### Practice Exercise 17

1. Explain what a small business project is.

*It is a planned profit making activity. It may involve buying and selling goods, making products or providing services. It also requires time, effort and planning to make it happen.*

2. Give three examples of a small business project.

*(sample answer, there may be others listed)*

- |                                     |  |
|-------------------------------------|--|
| <i>(a) Sales of Health Products</i> | <i>(d) baskets and mats made from pandanus</i> |
| <i>(b) Bakery</i>                   | <i>(e) catering</i>                            |
| <i>(c) Timber Patrol boxes</i>      | <i>(f) canteen</i>                             |

3. List the five (5) benefits of a small business project

- |   |  |
|---|--|
| <i>(a) Employment creation</i>          | <i>(d) Creation of income and wealth</i> |
| <i>(b) Utilizing of local resources</i> | <i>(e) Promotion of business culture</i> |
| <i>(c) Promotion of technology</i>      |  |

4. List the five (5) stages of a small business project

- |                                     |  |
|-------------------------------------|--|
| <i>(a) Choosing a business idea</i> | <i>(d) Starting the project</i>                    |
| <i>(b) Writing a business plan</i>  | <i>(e) Reporting and evaluating on the project</i> |
| <i>(c) Presenting the plan</i>      |  |

5. List the ten (10) components of a business plan.

- |   |  |
|---|--|
| <i>(a) Executive summary</i>                              | <i>(f) Business rationale</i>              |
| <i>(b) Introduction</i>                                   | <i>(g) Business benefits</i>               |
| <i>(c) Aims/objectives</i>                                | <i>(h) Problems and constraints</i>        |
| <i>(d) Business description</i>                           | <i>(i) Evaluation of business activity</i> |
| <i>(e) Time frame for completion of business activity</i> | <i>(j) Appendix</i>                        |

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### Practice Exercise 18

1. What is a business opportunity?

*It is simply an attractive idea, offer, or a plan put forward that provides the possibility of earning profits for the person or investor taking the risk*

2. List down at least two reasons why it is important to plan a small business project.

- (a) It provides the path to take for the business to achieve its goals.*  
*(b) For funding negotiations with banks and prospective investors.*

3. List factors to consider when deciding on the location of a business.

- (a) Deciding on a particular area*  
*(b) Choosing a site within that area*

12. List three (3) advantages of locating your business in your own area.
- (a) *You will have a good knowledge of the people in your community, their buying habits, their likes and dislikes and other characteristics*
  - (b) *Credit should be easier to obtain, since you will be already well known however, there must also be carefulness because through experiences, it is quite difficult to collect debts.*
  - (c) *Friends and acquaintances will give your business and publicity*
13. List the ten (10) components of a business plan.
- |   |  |
|---|--|
| (b) <i>Executive summary</i>                              | (g) <i>Business rationale</i>              |
| (c) <i>Introduction</i>                                   | (h) <i>Business benefits</i>               |
| (d) <i>Aims/objectives</i>                                | (i) <i>Problems and constraints</i>        |
| (e) <i>Business description</i>                           | (j) <i>Evaluation of business activity</i> |
| (f) <i>Time frame for completion of business activity</i> | (k) <i>Appendix</i>                        |
14. What is competition in business?
- It is the act of trying to get people to buy your product.*
15. Choosing the type of business will depend on a person's business experience and background.

## Practice Exercise 19

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1. What is Self-Assessment?
- It is a well organised method of attempting to try and gain an insight into one's own personality and emotions. Also one's suitability for entrepreneurship.*
2. What is the purpose of a self- assessment?
- The purpose of this assessment is to identify your strengths and weaknesses.*
4. List the three (3) strategies that can help an individual improve on his or her weaknesses.
- (a) *Undergoing a training program*
  - (b) *Setting up a partnership business with another person who has the required skills. Individuals can learn the skills they lacks from their business partner as time goes by.*
5. Explain commitment in your own words.
- *Commitment means that you are willing to make your business one of your highest priorities.*
  - *Commitment means being devoted or dedicated to a planned activity or something. In this case, it is about being devoted or dedicated to your small business project.*

6. Explain motivation in your own words.

*It is a feeling of enthusiasm, interest, or commitment that makes somebody want to do something that causes such a feeling*

7. Explain taking risk in your own words.

*It means going ahead to do something in the hope of achieving a good outcome even though you know that there is possibility of failures.*

8. Explain in your own words why family support is important in running your small business.

*It is important in the sense that security and manpower is provided at a minimum cost. Also business assets are handled with much care and there is trust by good family members.*

## Practice Exercise 20

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1. What is record keeping?

*It is the act of looking after or caring for accounts of things or happenings. In terms of business, it is about keeping copies of business documents on file.*

2. State the importance of record keeping.

*It is important for the following reasons such as are evidence of activity, internal control, avoiding fraud and mistakes, information for reports and providing information for investigations and auditing*

3. Name the types of records kept under accounting category.

- Cash receipts and payments journals (cash book)
- Petty cash book
- Sales journal
- Purchases journal
- General ledger
- General journal

4. Name the types of records kept under other business record category.

- Attendance register
- Payroll register
- Individual earnings register
- Overtime register
- Inward mail register
- Stock record
- Cheque dispatch register
- Daily cash sales register
- Asset register

5. What types of records are kept for a small business project?

*For a small business project, the types of records would be, a daily sales book, a cash book, the debtor's book, the creditor's book, the assets register and business documents.*



6. List the different types of business documents that are kept as records according to the transactions.

*Business Documents that are kept as records include; letter of enquiry, quotation or a catalogue, purchase order, advice note, delivery docket, invoice, credit note, statement of account, cheque and covering letter and receipt*

## Answers to Practice Exercise 21

1. Use the following information to calculate the net profit.

Other expenses	K 74.30	Opening stock	K190.35
Credit sales	K 14.80	Closing stock	K460.10
Cash purchases	K320.70	Credit purchases	K130.45
Cash sales	K329.15		

Answer:

<b><u>PROFIT OR LOSS STATEMENT FOR FEBRUARY 2014</u></b>					
SALE:	cash		K 329.15		
	credit		<u>K 14.80</u>		K343.95
Add:	Opening stock			K190.35	
	Purchase	cash	K320.70		
		credit	K130.45	<u>K451.15</u>	
				<u>K641.50</u>	
Less:	Closing Stock			<u>K460.10</u>	
	Cost of Goods Sold				<u>K181.40</u>
					<u>K162.55</u>
Less:	Other expenses				<u>K74.30</u>
PROFIT:					K88.35

2. What are the three (3) common methods of comparing business performance?
- Comparing business results to those of past years or to budgeted figures.
  - Comparing the business result with other businesses of similar types performance.
  - Calculate various ratios and percentages of items in the business Profit and Loss Statement and Balance Sheet.
3. If a business invested K140 000 and earned K20 000 then what is the percentage return for this business.

$$\frac{\text{Profit}}{\text{Owners Investment}} \times \frac{100}{1} = \text{Rate of returns}$$

Therefore:

$$\frac{K20\,000}{K140\,000} \times \frac{100}{1} = 14.29\%$$

4. What is your comment on the percentage return whether its good or bad return?

*The percentage return is good*

5. Return of Asset (ROA) is 8% on K50 000 investment. How much asset does the business have?

$$\begin{aligned} &8\% \text{ of } K50\ 000 \\ &8/100 \times 50\ 000 \\ &= K4000 \end{aligned}$$

6. List three areas where a business can improve if it earns a return of 5% with K40 000 investment.

- (a) Sell off assets because assets are efficiently used.*
- (b) Sell only items customers want*
- (c) Avoid misuse of assets*

---

<b>END OF ANSWERS TO PRACTICE EXERCISES 17-21</b>
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# **ANSWERS TO LESSON ACTIVITIES**

## Answers to Lesson Activities in Topic 1

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### Lesson 1 Activities

#### Activity 1.1

1. Define a business.

*It is a commercial or economic activity that people carry out with the aim of making profit.*

2. Why cannot banks and financial institutions lend money to small business people?

*One of the reason is that small businesses usually have insufficient assets to meet the required security for obtaining loans.*

3. How would you identify a small business in PNG? State three (3) features.

*(a) owned by one person*

*(b) finance provided by owner*

*(c) only few workers employed – sometimes none.*

#### Activity 1.2

1. What is the main reason people decide to set up their businesses?

*To make a profit*

2. Differentiate between assets and capital.

*Assets are things of value owned by the business which are used to generate income whilst capital is the amount of money or other assets invested in business by the owner(s).*

3. Give one condition that would make a person enter a family business that is already established.

*When the owner dies or shifts to another profession. Usually, the son or daughter takes over the father's inheritance.*

#### Activity 1.3

1. In your own words, explain the major problems faced by small businesses.

*Small businesses lack certain skills needed to run the business and as well capital to commence and fund the operation of the business.*

2. Name at least three (3) benefits or contributions by small businesses in an economy.

Small businesses are important in the economy because they:

- create employment,
- are flexible and respond easily to changes in demand,
- often cater for local demands,
- provide competition to larger firms through providing customised goods and services,

- provide products and services to a certain group of people or customers which a larger firm might not be able to.
3. Give three (3) examples of a good or service that is provided by a small business in your area which the government or bigger businesses cannot provide.
- (a) *a trade store in a remote village*
  - (b) *providing electricity by use of generator in places where there is no electricity*
  - (c) *vehicles that transport people and cargo where there is no PMV connections*
  - (d) *shoe mending*
- 

## Lesson 2 Activities

### Activity 2.1

1. Name the four (4) characteristics of a successful business person and explain each one in one sentence.
- (a) *Drive and Energy – have the energy and potential to work hard*
  - (b) *Self-Confidence – set goals and work towards achieving these goals*
  - (c) *Ability to Take Moderate Risks – ready to take up challenges and not to give up*
  - (d) *Take long term view – set up businesses and make them grow bigger*

### Activity 2.2

1. What is the main reason why small businesses fail?
- Mismanagement*
2. What is another name for inventory. Explain your answer.
- Stock – items bought to be sold at a profit.*
3. Explain „non-moving items“.
- Stock that is not being sold out quickly but sits on the shelves longer*
- 

## Lesson 3 Activities

### Activity 3.1

1. Define a business plan.

A business plan is a plan that helps a business to look ahead, allocate resources, focus on key points, and prepare for problems and opportunities in order to be successful. It is a decision-making tool that covers all aspects of business such as vision, goal, strategies of marketing, finance, operations, human resources and legal requirements.

2. List a few points to consider when planning for a business.
- (a) *Have a vision, goal and aim in order to run a successful business*
  - (b) *Identify your resources to be used*
  - (c) *Develop a financial cash flow*

*(d) Develop marketing plans that can be actioned*

3. What is one of the main reasons why some businesses fail?

*The main reason why some businesses fail is due to lack of planning and actioning the plans*

### **Activity 3.2**

1. List the three main factors to consider when planning for a business.

- (a) Research the market for an unfulfilled need or want*
- (b) Finding ways of selling the product/service*
- (c) Location for the set-up of the business*

2. The type of business chosen will depend on the person's:

- (a) Business experience*
- (b) Personal Background*
- (c) Interest and hobbies*

3. List two examples of products that can be made from coconut husks.

- (a) F.lower pot plants, mats, mattresses, slippers*
- (b) Ropes, bags, carpets*

### **Activity 3.3**

1. What product lines are likely to be found in the following shops?

- (a) A meat store: lamb chops, mutton chop, chicken pieces and whole size chicken,*
- (b) An electrical store: stereos, television, kitchen wares, stoves and freezers.*
- (c) A hardware store: plywood, iron post, sink stoppers, nails and hammer*

2. List three (3) examples of the product line found in a clothes store.

- (a) Tee shirts*
- (b) Meri-blouses*
- (c) Long trousers*

---

## **Lesson 4 Activities**

### **Activity 4.1**

1. Define a market research.

*Market research is an organised effort to gather information about markets or customers. It is a very important component of business planning.*

2. List at least five (5) factors to consider when setting up and managing a business.

- (a) What type of labour and their cost*
- (b) Equipment type and where to get them*
- (c) Organisation of the business*
- (d) Type of business control*
- (e) Getting supplies and their sources*

(f) *Finance arrangements*

3. Explain why a business plan is important to banks and money lenders?

*A detailed business plan also provides evidence to banks and people from whom money will be required.*

**Activity 4.2**

1. A market survey is based on consumer attitudes and product preferences.

2. A market survey is basically to ask *people* questions about their opinions on certain products.

3. Explain what happens after the market survey has been done:

*After the market survey is conducted, the results must be analysed in order to finalise a business plan.*

**Activity 4.3**

1. Who is the market survey targeted at?

*The poultry farmers in the community*

2. What is the market survey based on?

*The market survey is based on chicken production*

3. Explain the purpose of this market survey.

*The purpose of the market survey is to gather information or data from the survey and analyse the result in order to finalise a business plan.*

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**Lesson 5 Activities**

**Activity 5.1**

1. Identify and interview at least one or two businesses in your local area and find out reasons why they have decided to set up their businesses in their own area.

*Answer may vary slightly according to the different province/s the students come from, however the answers or responses should be similar to the answers in the lesson notes.*

- *To remain with friends and families*
- *Lack knowledge of other areas or provinces*
- *Limited funds to investigate other places*

**Activity 5.2:**

Study the picture carefully below and answer the question.

1. According to the picture, what are the effects of having a factory built in the middle of a town area?

*Air pollution is one of the effects of having a factory built in a town which can cause health problems for the population living in that area.*



Air Pollution in Brazil

2. What are zoning laws?

*These are laws that state which areas may be used for certain business activities and which areas are reserved for residential or recreational purposes.*

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## Lesson 6 Activities

### Activity 6.1

1. Explain the way in which a business is valued.

*The most common method of valuing a business is to calculate the value of its assets. These assets are generally stock, equipment and fixtures and goodwill. Trading debts owed to the business maybe another asset that a buyer may repay. If the stock is being sold at its original cost price which means it has not decreased and can still be sold. Equipment that are out of date or obsolete should not be given any value. This is because this equipment will not have a trade in value when it is replaced.*

2. Why are trade creditors seen as liabilities to a business?

*Trade creditors are viewed as liabilities to a business because the business has to settle its debts to them. In other words, the business owes money to these groups and as long as you have outstanding payments to settle with them, they will always be liabilities.*

### Activity 6.2:

1. When buying an existing business, what are some of the questions you should ask about the business? List five (5).

- (a) *How long has the business been in operation? How many owners has it had? Why have others moved on?*
- (b) *What is the profit record?*
- (c) *What is the condition of the trading stock?*
- (d) *Are the equipment in working conditions?*
- (e) *Are the suppliers reliable?*

2. If you do have enough information about buying a business, who can you see for assistance?

*Lawyers, accountants and business development officers from the Small Business Development Cooperation office and previous owners.*

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## Lesson 7 Activities

### Activity 7.1

Why set up a new business?

*A new business is set up simply because there is an opportunity to make money.*

### Activity 7.2

1. When starting up a new business, what factors should you consider?

*You should consider factors like the initial capital, the type of business, the location, who and how many to employ.*

2. What are two very important elements that should be in place before starting?

*A research of the product and a detailed business plan*

### Activity 7.3

1. State two advantages of setting up a new business.

- (a) Your creativity as an individual can play a big part in starting and operating the business.*
- (b) The owner is in control of all aspects of the business including the location and what the operation is to look like.*

2. State two disadvantages of setting up a new business.

- (a) Starting a business also has some disadvantages. There is the risk of failure because of uncertainty about market demand for the goods or services to be provided*
- (b) Start up business is typically more costly and risky since there is no proven formula.*

3. Give at least two factors for establishing a new business?

- (a) Dirty or old merchandise which causes customers to go far for items and services worth their money.*
  - (b) Goods often being out of stock which causes customers to move around looking for stores that can serve them better.*
  - (c) Demand for goods are very high with profit opportunities*
- 

## Lesson 8 Activities

### Activity 8.1

1. What is franchising?

*It is the practice of giving permission to another company to sell the first company's goods and services in another area.*

2. Who is a franchiser?

*A franchiser is the business controlling the franchise. The franchiser gives individual franchisees (or licence holders) the right to sell a product or service using the franchiser's name.*

3. What is a trademark?

*A trade mark is a recognizable sign, design or expression which identifies products or services of a particular source from those of others.*

### Activity 8.2

1. State the different types of franchise.

- |   |                               |
|---|-------------------------------|
| (a) <i>Dealership or distribution outlets</i> | (c) <i>Retail stores</i>      |
| (b) <i>Manufacturing franchises</i>           | (d) <i>Service businesses</i> |

2. What is a service business?

*A service business is a business that sells services directly to consumers or other business. The service sector is active all over the world, and many people have operate service business.*

3. What do franchise costs include?

*The franchise costs may include a lump sum fee at the beginning and a percentage royalty payable on all sales. Some franchisors do not charge any kind of fees. If they do, it will be a small charge (amount) at the beginning.*

4. What are the start-up costs?

*The start-up costs involve:*

- *complete operating manuals covering all aspects of running of the business*
- *on-the-job help from experts from head office*
- *an opening supply of goods*
- *equipment and shop fittings for the business*

### Activity 8.3

1. Two advantages of a franchise are:

- (a) *The franchisers get the opportunity to market their products in new markets where it would have cost them considerable amounts of money.*
- (b) *An opportunity to earn some money from licenses*

2. Two disadvantages of a franchise are:

- (a) *A franchiser gives licenses to other businesses to use their trademarks; they run the risk of having the reputation of their brand ruined by incompetent franchisees.*
- (b) *The agreements into which franchisees enter with franchisers are usually highly not in favour of the franchisers, putting a franchisee (which is usually, a smaller*

organisation) in a uncertain or unsafe position in the event of a dispute between them.

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## Lesson 9 Activities

### Activity 9.1

1. Who contributes most of the capital to start a small business?

*All finance for small business come from the owner*

2. List any business in your community that is successful.

*The answer depends on the area where you come from.*

### Activity 9.2

1. What is the term that means „profit made in a business is not used but is kept in business to add to working capital“?

The term that means profit made in a business is not used but is kept in business to add to working capital *is referred to as ploughed back or retained profit.*

2. What is one of the main reasons why rural towns and districts do not have big businesses like the ones you see in major towns?

*Any of these:*

- *The area does not have enough buyers or the market is small.*
- *It depends on the time planning zones*
- *The demand for the service is small*

3. List down three (3) reasons why some small businesses cannot expand or grow.

*Mismanagement, law and order, natural disaster and others*

### Activity 9.3

1. Give one example of how a new business can be affected by a natural disaster.

*Sample answer:*

*Newly established businessman in coffee industry has his coffee plantation destroyed by landslide may lose his business.*

2. What is one law set by government that makes business difficult to grow?

*Minimum wages is high for small businesses so they have to limit the employees. For example, In the year, 2014, the minimum wage rate was K2.29 per hour*

## Lesson Activities in Topic 2

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### Lesson 10 Activities

#### Activity 10.1

1. Distinguish between working capital and fixed capital.

*Working capital refers to money that is needed to pay for the day-to-day running expenses of a business while fixed capital refers to fixed assets that are needed by the small business to start-up.*

2. Classify the following expenses as fixed capital or working capital:

Tractor, coffee pulper, petrol, stock of goods for resale, stationery, raw materials for processing, electricity, business premises

Fixed Capital	Working Capital
Tractor	Stock of goods for resale
Coffee pulper	Stationery
Business premises	Raw materials for processing production
Building	

3. What is meant by seed capital? What sort of items would seed capital normally pay for?

*Money required to finance the setting of the business and the sort of items that the seed capital needs to pay off is the fixed assets.*

#### Activity 10.2

1. Why is it difficult for small businesses to borrow money in the early stages of business?

*It is difficult for small businesses to borrow money in the early stages of business because the owners have not saved enough money to cover as security.*

2. Under what conditions can a small business be allowed to borrow money from a bank?

*If records show that the owner has saved enough money in his business account.*

3. Explain equity.

*Equity refers to money invested in a business by the owner(s) of that business.*

4. Explain external equity.

*External equity is additional money put into a business by new partners or shareholders. These extra funds will help the business to grow.*

**Activity 10.3**

1. What is an owner's equity?

*It is the owner's money and capital contribution into the small business*

2. Define creditworthiness.

*Creditworthiness is an assessment of the likelihood that a borrower will default on their debt obligations*

3. Differentiate between equity and external equity.

*Equity refers to money invested in a business by the owner(s) of that business while external equity is additional money put into a business by new partners or shareholders.*

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**Answers to Lesson 11 Activities****Activity 11.1**

1. Explain what a private loan is and give an example.

*A private loan is a loan that is given privately by someone to his or her friends, family members when they are in need and asks for a loan. It is based on relationship. Example, of a private loan is when an informal lender gives K50 to a friend whom they may be working together in the same workplace. He or she will repay the K50 with an interest in the next fortnight.*

2. Explain what a bank loan is and give an example.

*A bank loan is a loan given by the commercial banks. It involves a lot of processes with many documents to submit with. It also requires 'security' to secure the loan. Example of a bank loan is when parents apply for school fee loans and they pay over the year.*

3. Why is a private loan much easier to take out than an institutional loan?

*A private loan is easier to obtain than an institutional loan because it does not require documents and rules of procedures to obtain the loan.*

**Activity 11.2**

1. Explain what a mortgage loan is.

*Mortgage loan is a long term loan that comes in an agreement. The agreement is whereby the person borrowing money from a financial institution such as a bank or a savings and loan society, gives that organisation the legal right to take possession of the property given as security if the loan is not repaid.*

2. Give examples of „securities“ in a mortgage loan.

*Properties such as land, buildings, vehicles and machines*

3. Explain investment loans

*Investment loans are loans used for investment purposes such as the purchase of an investment property or buying shares.*

4. Who can have access to a bank overdraft?

*Those businesses with cheque accounts*

### **Activity 11.3**

1. Name three types of loans that are offered by the National Development Bank.

*Agriculture Loans, Commercial loans and Micro-finance loans*

2. How do financial companies operate? Provide three examples of financial companies.

*They take investment deposits and make the investment deposits grow. They, then, pay dividends to those who invested in their company. They also lend funds or loans to individuals and business men and women who need it. Example of financial companies are; Moni-plus, Finance Corporation (Fincorp), Easiloan, Credit Corporation, Norman finance*

3. Explain in your own words, how Savings and Loans Societies give loans.

*Savings and Loans Societies allow their members to get loans with minimal interest from their saving account*

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## **Lesson 12 Activities**

### **Activity 12.1**

Define the following words or terms:

- 1. Principal loan – Actual money borrowed*
- 2. Interest – Extra money paid on top of the principal money borrowed.*
- 3. Terms of a loan – The duration or time taken to repay the loan.*

### **Activity 12.2**

1. Define Flat-rate

*Same amount of interest paid regardless of principal reduction.*

2. State the formula for calculating Simple Interest.

*Interest = Principal x Time x Rate.*

3. Explain Reducing – Balance Rate.

*Interest charged will be based on the outstanding balance which reduces and as principal amount reduces as well.*

**Activity 12.3**

1. Which rate is cheaper and better to deal with when seeking loans?

*Reducing Balance rate*

2. What is the main difference between flat-rate and reducing- balance method?

Loan taken under flat rate method is expensive while the reducing balance method is cheap. The flat rate method is expensive because the interest rate is higher than the reducing balance method (where interest rate is low).

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**Lesson 13 Activities****Activity 13.1:**

1. Explain why cash flow budget is referred to as „life blood“ of a business.

*Cash flow budget is referred to as 'life blood' of a business because it is essential for the continuity of the business.*

2. What is bankruptcy?

*Bankruptcy - is when a business has insufficient cash or loan facilities to pay liabilities when they are due for payment.*

**Activity 13.2:**

Explain the following terms:

1. *Sales – refers to the value of goods sold either on cash or credit*
2. *Purchases – refers to the value of goods that are bought on cash or credit to be sold or consumed.*
3. *Cash inflow - mean cash received by the business. In the budget, it is labelled receipts.*
4. *Cash outflow - refers to the money spent by the business. In the budget, it is labelled expenses (expenditure).*

**Activity 13.3:**

If you were a businessman running a trade store, how would you know that you are already having a cash flow problem?

*If cash receipts are less than outgoing payments on a continuous basis*

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## Answers to Lesson Activities in Topic 3

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### Lesson 14 Activities

#### Activity 14.1

Explain the following terms:

1. Insured  
*An insured is the person who takes the insurance cover*
2. Insurer  
*An insurer is the business that sells insurance policy*
3. Insurance broker  
*An insurance broker is a specialist person or an organisation in insurance that advises the potential buyer about insurance policies*
4. Insurance agent  
*An insurance agent is a person engaged by an insurance company to sell insurance policies. He or she is a part-time employee of the company. An agent receives commission for every policy he or she sells.*

#### Activity 14.2

1. *Indemnity*
2. *Utmost good faith*
3. *New for old policy*

#### Activity 14.3

1. What is insurance?

*Insurance is getting protection from loss or damage. It is the sharing of risks. Sharing of risks means that a group of people put money into a fund. After sometime, when one of the members suffers a loss, money is taken out from this fund to compensate for the loss*

2. Explain what is covered in an insurance policy.

*An insurance policy explains the type of losses you will be covered for and the losses you will not be covered for. The insurance policy will also tell you the amount to be paid, the period of insurance usually one year and the amount of premium to be paid.*

3. Why is the premium increased when a policy is renewed?

*The premium increases because the insurance company's running costs increase each year.*



## Answers to Lesson 15 Activities

### Activity 15.1

1. Define „compulsory“

*Compulsory means, you must do what is required because it is by law and the authorities require you to do it.*

2. Who takes out Third Party Motor Vehicle Insurance?

*The owner of the vehicle, it maybe individual or a business*

3. Who does Third Party Motor Vehicle Insurance cover?

- *It covers injury to a passenger in the vehicle.*
- *It covers injury to a person who might be hit by a vehicle while he is walking along the road.*
- *It covers the driver or passenger in another vehicle which the insured person has driven into*

### Activity 15.2

Explain the importance of the Third Party Motor Vehicle Insurance.

*Third Party Motor Vehicle insurance is very important because a vehicle can cause injuries and even death to another person(s). Therefore, it is very important to have the protection for the third party.*

### Activity 15.3

1. What protection does workers“ compensation gives?

*Workers compensation gives insurance cover against accidents while working. It also covers workers against injury while going to and from work.*

2. List the different methods of workers“ compensation payments.

*Weekly payments, Lump sum payments and Lump sum payment on death of a worker*

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## Lesson 16 Activities

### Activity 16.1

1. Name the parties involved in any insurance policy and explain their roles.

*The insured refers to people who take out insurance cover and the insurers are the businesses which sell insurance policy. It is a legal contract outlining those matters which are insured and those that are not insured to the public.*

2. What is the difference between a compulsory insurance and a voluntary insurance?

*Compulsory insurance is an insurance which is required by law and it has to be paid for to get the protection required and voluntary insurance is any type of insurance you take out at your own choice.*

### **Activity 16.2**

1. What protection is covered in each of the following insurance policies?

(a) Marine insurance

*This insurance provides cover for loss or damage of goods that are carried by ship between two ports*

(b) Fire insurance

*This insurance covers damage to contents inside the house caused by fire, explosion or lightning.*

(c) Burglary insurance

*This insurance covers loss caused by theft of property*

(d) Life assurance

*This insurance covers the life of somebody.*

2. Identify other policies that come under Marine Insurance

(a) *Cargo insurance*

(b) *Hull insurance*

(c) *Freight Insurance*

(d) *Ship Owner's Liability Insurance*

### **Activity 16.3**

1. Name four (4) insurance companies that you know of.

*List from Lesson 15 and that is: American Home Assurance Company, Capital Insurance Group LTD, Century Insurance PNG LTD, INSPAC PNG Limited, Kwila Insurance Corporation Limited, Life Insurance Corporation Limited, Life Insurance Corporation PNG Limited, Mitsui Sumitomo Insurance Company Limited, Motor Vehicle Insurance Ltd, National Teachers Insurance Limited, Pacific Assurance Group, Pacific MMI Insurance, QBE Insurance (PNG) Limited.*

2. What is the reason for people not becoming members with insurance companies?

*People are not aware of the kind of policies that the insurance companies are offering and also the other reason is illiteracy.*

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## Answers to Lesson Activities in Topic 4

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### Answers to Lesson 17 Activities

#### Activity 17.1

1. Define the following terms:

(a) Service

- *It is a helpful action for a fee or for free. It may be done as an action to help somebody or as a favour to somebody*
- *Work done for the customer of a shop, restaurant, hotel or similar establishment, often with regard to whether it pleases them or not*
- *The use of a machine or piece of equipment*

(b) Manufacturing

- *To make something into a finished product using raw materials, especially on a large industrial scale. For example, production of snax biscuits, coco cola and besta tinned fish.*

2. Why is it important to look after our local resources?

- *Some of our local resources are becoming scarce or extinct. Therefore, it is important to look after our resources so that everyone including the future generation is able to benefit.*

#### Activity 17.2

1. Why is it important not to criticize or judge the ideas of others in a brainstorming session?

*The purpose of brainstorming is not to judge or evaluate inputs, but to allow for a free-flow of ideas and suggestions. Decisions are made afterwards.*

2. Why is it important that the executive summary should “win” the readers’ favour?

*It is important to win the reader’s favour because only then it (business project) gets accepted.*

#### Activity 17.3

1. What does “evidence of activity” mean?

*A proof showing that an event has taken place*

2. Explain fraud

- *The crime of obtaining money or some other benefit by deliberate deception*
- *Somebody who deliberately deceives somebody else, usually for financial gain*

- *Something that is intended to deceive people for personal gain*
- 

## Lesson 18 Activities

### Activity 18:1

1. List factors that contribute to Sogave Momoto's business success.

*Hard work, obedience to advise and God's Word and investments in assets,*

2. Explain why Sogave Momoto thinks that young people today are lazy and unprepared to work?

*Sogave Momoto thinks that young people today are lazy and unprepared to work because they only involved in crime, sports and other social activities. They do not engage in money making activities.*

3. Is „hard working“ the only aspect a person should have be in order to be successful in business?

*No, a person also needs other aspect such as financial knowledge, business laws and regulations*

### Activity 18.2

Name four (4) product lines likely to be found in the following shops.

1. A butcher shop

*Dairy products, fish and prawns, pork, lamb and beef*

2. A photographic equipment store

*Cameras, wrist watches, memory cards, photo printing machine and lenses*

3. A hardware store

*Agricultural tools, chemicals, carpentry tools, waste bins and bags*

### Activity 18.3

1. Think of a particular business in your area. List possible reasons why the business was set up.

- (a) In that particular area  
*A need for retail goods*

- (b) At the site where it is situated  
*For easy access by every highway travellers*

2. List three (3) possible advantages of setting up a small business in your own area.

- (a) *You will have a good knowledge of the people in your community, their buying habits, their likes and dislikes and other characteristics*

- (b) *Credit should be easier to obtain, since you will be already well known however, there must be careful with customers who take goods on credit because through experiences, it is quite difficult to pay up on time.*

(c) *Friends and acquaintances will give your business and publicity*

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## Answers to Lesson 19 Activity

### Activity 19:

1. Use the sample questions to assess your-self in regard to commitment, motivation, taking risk, making decision and family support. Then, mark your responses against the marking guide in table 19.3.

### SAMPLE ANSWER

Sample Questionnaire		RARELY OR NO	MOSTL Y OR YES
	<b>Commitment</b>		
01	Do you like school?		√
02	Do you like to take care of details regarding work or tasks?		√
03	Can you concentrate for extended periods of time on one subject?	√	
04	On occasion, do you need pep talks from others to keep you going?	√	
05	Are you likely to work long hours to accomplish a goal?		√
06	Are you more people-oriented than goal-goaled?	√	
07	Do you sleep as little as possible?		√
	<b>Motivation</b>		
08	Do you find enjoyment in doing something just to prove you can?		√
09	Do you participate in school activities or sports?	√	
10	Do you get bored easily?		√
11	Do you find unexpected energy resources as you tackle things you like?		√
12	Does personal satisfaction mean more than having money to spend on your- self?		√
13	Do you use past mistakes as a learning experience?		√
	<b>Taking Risk</b>		
14	Do you worry about what others think about you	√	
15	Do you believe there should be security in a job?		√
16	Have you ever deliberately exceeded your authority at work or in school?		√
17	Do you enjoy tackling a task without knowing all the potential problems?	√	
18	Do you believe that entrepreneurs take huge risks?		√
19	Do you persist when others tell you it can't be done?	√	
	<b>Making Decision</b>		
20	Are you constantly thinking up new ideas?		√
21	Do you let friends decide your social activities?	√	
22	Do you enjoy socializing regularly?	√	
23	Do you try to find the benefits of a bad situation?		√
24	Do you prefer to make decisions by yourself?	√	
25	Do you enjoy being able to make your own decisions on the job?		√
26	Do you blame others when something goes wrong?	√	
	<b>Family Support</b>		
27	Do you find it easy to get others to do something for you?	√	
28	Has someone in your family discussed the experience of starting a business with you?		√
29	Was your father mostly present during your early life at home?		√

Table 19.5 Sample Questions taken from Table 19.1 for Self- Assessment

## Marking Guide

Responses: Testing Your Personal Tendencies					
RN= Rarely or No MY = Mostly or Yes					
Commitment			Taking Risk		
01.	MY	√ (education)	14.	RN	√ (self-confidence, locus of control)
02.	RN	X (impatience, risk oriented)	15.	RN	X (internal locus of control)
03.	MY	X (perseverance, determination)	16.	MY	√ (self-confidence, assertiveness)
04.	RN	√ (self-starter, self-control)	17.	MY	X (resourcefulness, risk-taking)
05.	MY	√ (persistence, determination)	18.	RN	X (self-confidence, internal control)
06.	RN	X (need to achieve)	19.	MY	X (optimism)
07.	MY	√ (time management, energy)			
Motivation			Making Decisions		
08	MY	√ (achievement oriented)	20	MY	√ ( creative, innovative)
09	MY	X (need to achieve)	21	RN	√ (control, responsibility)
10	MY	√ (impatience, energy)	22	RN	√ (goal-oriented, time management)
11	MY	√ (energy, resourcefulness)	23	MY	√ (optimism, flexibility)
12	MY	√ (egotism)	24	MY	X (independence, self-confidence)
13	MY	√ (initiative, optimism)	25	MY	√ (independence, responsibility)
			26	RN	√ (personal responsibility, Problem- solving)
Family Support					
27	MY	X (leadership)			
28	MY	√ (family training)			
29	MY	√ (early responsibility)			

2. State your scores in the following areas:

Sample Answer from the Marking Guide:

- (a) Commitment: 4/7 ( 4 out of 7)
- (b) Motivation: 5/6 ( 5 out of 6)
- (c) Taking risk: 2/6 ( 2 out of 6)
- (d) Making decisions: 6/7 ( 6 out of 7)
- (e) Family support: 2/3 ( 2 out of 3)

3. How many strengths and weaknesses have you identified?

There are 19 strengths and 10 weaknesses.

4. If this activity has identified some weaknesses then what are some approaches to take to in order to improve those identified weaknesses?

Possible strategies may include:

- Undergoing a training program
- Setting up a partnership business with another person who has the required skills and get to learn the skills that are lacking from the business partner as time goes by.

**Lesson 20 Activities****Activity 20.1:** Explain these terms:

1. Daily sales book  
It is a book where the business owner keeps records of every sale on a daily basis.
2. Cash register  
It is a machine that the shop assistant keeps which records every sale during the day.

**Activity 20.2:**

1. Explain the term „drawings“  
*Money or goods taken from the business for the owner's own personal use*
2. Why do drawings make the business fail?  
*Drawings make the business fail when too much is taken and also when they are not recorded*
3. Imagine you are the small business project owner, how would you meet family obligations and at the same time keep the business going.  
*I will keep myself separate from the business. I would use my own personal savings to meet family obligations or use my pay from the business.*

**Activity 20.3:**

1. Define credit.  
Credit means to get goods and pay later
  2. What does the statement show?  
Statement is a document sent to credit customers at the end of a month by the supplier. It shows the status of the account.
  3. Explain the purpose of an invoice.  
Invoice is a document sent to the buyer separately or with the goods showing the goods supplied and the cost.
-





$$\frac{\text{K}5000}{\text{K}25\,000} \times \frac{100}{1} = 20\%$$

4. If a business made K5000 profit using capital invested in assets valued at K45000 then what is the ROA?

$$\frac{\text{Net profit}}{\text{Total assets}} \times \frac{100}{1} = \text{ROA}$$

Therefore:

$$\frac{\text{K}5\,000}{\text{K}45\,000} \times \frac{100}{1} = 11\% \text{ (approximately)}$$

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<b>END OF ANSWERS TO LESSON ACTIVITIES 1-21</b>
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## Marking Guide for Activity 19

Responses: Testing Your Personal Tendencies RN= Rarely or No MY = Mostly or Yes					
Commitment			Taking Risk		
01.	MY	(education)	14.	RN	(self-confidence, locus of control)
02.	RN	(impatience, risk oriented)	15.	RN	(internal locus of control)
03.	MY	(perseverance, determination)	16.	MY	(self-confidence, assertiveness)
04.	RN	(self-starter, self-control)	17.	MY	(resourcefulness, risk-taking)
05.	MY	(persistence, determination)	18.	RN	(self-confidence, internal control)
06.	RN	(need to achieve)	19.	MY	(optimism)
07.	MY	(time management, energy)			
Motivation			Making Decisions		
08	MY	(achievement oriented)	20	MY	( creative, innovative)
09	MY	(need to achieve)	21	RN	(control, responsibility)
10	MY	(impatience, energy)	22	RN	(goal-oriented, time management)
11	MY	(energy, resourcefulness)	23	MY	(optimism, flexibility)
12	MY	(egotism)	24	MY	(independence, self-confidence)
13	MY	(initiative, optimism)	25	MY	(independence, responsibility)
			26	RN	(personal responsibility, Problem- solving)
Family Support					
27	MY	(leadership)			
28	MY	(family training)			
29	RN	(early responsibility)			

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## STUDENTS AND MARKER'S COMMENTS

**STUDENT'S COMMENTS:**

This image shows a full page of white paper with horizontal dotted lines, typical of notebook paper. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

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

**MARKER'S COMMENTS:**

[illegible]

Student's Mark : .....

Student's Percentage : .....

Marker's Name : .....

Marker's Signature : .....

Date : .....

**FODE PROVINCIAL CENTRES CONTACTS**

PC NO.	FODE PROVINCIAL CENTRE	ADDRESS	PHONE/FAX	CUG PHONES	CONTACT PERSON		CUG PHONE
1	DARU	P. O. Box 68, Daru	6459033	72228146	The Coordinator	Senior Clerk	72229047
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
10	VANIMO	P. O. Box 38, Vanimo	4571175 / 4571438	72228140	The Coordinator	Senior Clerk	72229060
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
14	KIMBE	P. O. Box 328, Kimbe	9835110	72228150	The Coordinator	Senior Clerk	72229065
15	RABAU	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
18	MANUS	P. O. Box 41, Lorengau	9709251	72228128	The Coordinator	Senior Clerk	72229080
19	NCD	C/- FODE HQ	3230299 Ext 26	72228134	The Coordinator	Senior Clerk	72229081
20	WABAG	P. O. Box 259, Wabag	5471114	72228120	The Coordinator	Senior Clerk	72229082
21	HELA	P. O. Box 63, Tari	73197115	72228141	The Coordinator	Senior Clerk	72229083
22	JIWAKA	c/- FODE Hagen		72228143	The Coordinator	Senior Clerk	72229085

**SUBJECT AND GRADE TO STUDY**

<b>GRADE LEVELS</b>	<b>SUBJECTS/COURSES</b>
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.