MGT 602 Final Term Subjective 2011

By Khurram Siddiqui

SSIC functions n goals. 5Marks

Ans:

Sindh Small Industries Corporation (SSIC)
SSIC was established in 1972 having motives to indulge into promotional activities of small-scale industries in Sindh. The **objectives of SSIC** include financial assistance, education of craftsman, census and survey of cottage and small industries, procurement and distribution of raw materials to artisans and craftsman. SSIC was also involved in the Prime Minister's self-employment scheme for the dispersal of the micro credits.

Industrial Estates and Colonies :-The SSIC has established 17 industrial estates in Sindh. Total number of plots developed there are 1938 and there are 302 units working utilizing 571 plots. There are six different craftsman colonies established having 92 shops.

Financing Schemes:-The SSIC also launched a credit scheme in 88,/89. The rate of markup was 7% for industrial estates and 11% for factories outside the industrial estates. The scheme was discontinued in 1993 due to shortage of funds although SSIC has created already 526 jobs and disbursed 20.6 million rupees. In October 1992, a self-employment scheme was started for locally manufactured machinery (LMM). The loan ceiling is 1 million with the markup rate of 14%. The total amount disbursed to 171 units is rupees 98 million. The recovery rate is 47%.

Flexibilities of S Corporation. 5marks

Ans:

S Corporation combines the tax advantages of the partnership and the corporation.
In 1996 Small Business Protection Act, rules governing the S corporation were considered too rigid. The new law provides more flexibility with regard to:

a. Number of shareholders.
b. Who can be allowed to own shares?
c. The role of trusts as stockholders.
d. The ability of S corporations to own more than 90 percent of stock of another corporation.
e. Distribution of profits.
f. Issuance of different classes of stock.
g. Rules affecting the tax basis of incurred loses.

Khurram.siddiqui2006@gmail.com

Limited liability corporations are still more flexible than the S corporation, but conversion entails a significant cost. More than half of all S corporations have only one shareholder, which would not be possible as an LLC.

Problems in incorporating intrapreneurship in an organization. how can these prbs be over -come. 5marks

Ans:

PROBLEMS AND SUCCESSFUL EFFORTS

Intrapreneurship, also called corporate venturing, is not without problems. One study found that new ventures started within a corporation performed worse than those started independently. Independent start-ups tend to outperform corporate start-ups. There are many examples of companies that have successfully implemented intrapreneurship. 3M allows employees to devote 15 percent of their time to independent projects. After failing to recognize the potential of Wozniak's personal computer, Hewlett-Packard has taken steps to take advantage of future opportunities. Even IBM has developed the independent business unit concept. The problems of intrapreneurship are not insurmountable, and the concept can lead to new products, growth and the development of an entirely new corporate environment and culture.

Importance of cash flow & its management. 5 marks

Ans:

It is important for the entrepreneur to make monthly projections of cash, pro forma cash flow.

1. If disbursements are greater than receipts in any time period, funds will have to be borrowed or cash reserve tapped.
2. Large positive cash flows may need to be invested in short term sources.
3. Usually the first few months of start-up will require external cash in order to cover cash outlays.

role of NGOs 3 marks

Ans:

The Role of NGOs

The NGOs are working on socio-economic sector in the development of SMEs. They are privately owned organization registered under the social welfare act. They normally work through grants, aids or donation based finances. They are having a very constructive role in the SME development. The special property of this sector is gender development. They at some places tried to replicate Grameen banks model.

1) How Much the Attractiveness the Entrepreneurs has for raising Capital while running different forms of Ventures (3 Marks).

Attractiveness for Raising Capital

www.hurram.siddiqui2010@gmail.com

• In both the proprietorship and partnership, the ability to raise capital depends on the success of the business and personal capability of the entrepreneur.
• Because of its limitations on personal liability, the corporation is the most attractive form for raising capital.

2) Under which condition an Entrepreneur may go for a long-term debt? What are its Major Sources?

Ans:
The entrepreneur may need to borrow funds to finance assets and meet cash needs. Fixed assets are usually financed by long-term debt borrowed from a bank. Alternatives include borrowing from family members, having partners contribute more funds or selling corporate stock. Many of these options require the entrepreneur to give up some equity.

4) Differentiate the operating Budget from Capita Budget. (5 Marks)

Ans:

OPERATING AND CAPITAL BUDGETS
A. before developing the pro forma income statement, the entrepreneur should prepare operating and capital budgets.
1. If the entrepreneur is a sole proprietor, he or she will be responsible for the budgeting decisions.
2. In a partnership, or where employees exist, the initial budgeting process may begin with one of these individuals.
3. Final determination of budgets will ultimately rest with the owners or entrepreneurs.
The operating budget is an important document, as the pro forma income statement will only reflect the actual costs of goods.

5) Discuss the function of small Industries Development Board (SIDB) NWFP.

Ans:

Small Industries Development Board (SIDB) NWFP
The SIDP was established in 1972. It is playing a promotional role to support and assist the development of small and cottage industry in the province. The SIDB is an autonomous body, focusing on manpower training, model projects and industrial infrastructure. It has 14 regional offices in the different cities of NWFP.
Training Centers
SIDB has established carpet centers in five cities of NWFP and has trained 1327 number of trainees. The SIDB has established "Patti" training centers, textile training and "gabba" training centers which has trained 151 trainees.
Development Programs and Model Projects
SIDB has also launched various women development programs, which has trained 2062 women trainees in a number of fields of work. The SIDB is also involved in establishing other various

vu.com.sindhu2010@gmail.com

kinds of model projects for wood working, leather goods, wool spinning, ceramic device etc. The total number of trainees trained is about 8000.

Industrial Estates

SIDB has established 9 industrial estates. There are a total of 1620 plots and the total jobs created are 4405.

Financial Assistance

SIDB is also managing different credit schemes for small industries. To date, a total number of 198 million rupees have been disbursed to 452 enterprises. SIDB is also disbursing credit under the self-employment scheme.

7) Discuss various aspects of Entrepreneurial Culture.

Following are the various aspects of Entrepreneurial Culture.

1. Develop visions, goals, and action plans
2. Be rewarded for actions taken
3. Suggest, try, and experiment
4. Create and develop
5. Take responsibility and ownership

Disadvantages of acquisition? 5 marks

Ans:

Marginal success record:

Most ventures for sale have an erratic, or even unprofitable, record. It is important to review the records and meet important constituents to assess the future potential.

Overconfidence in ability:

Even though the entrepreneur brings new ideas, the venture may never be successful for reasons not possible to resolve

Key employee loss:

Often when a business changes hands key employees also leave. In a service business, it is difficult to separate the actual service from the person who performs it. Incentives can sometimes be used to assure that key employees will remain with the business.

Overvalued: If the entrepreneur has to pay too much for a business, the return on investment will not be acceptable. The entrepreneur will need to establish a reasonable payback to justify the investment.

Basic points or features of SBA Small Business Administrative? 5 marks

Ans:

When an entrepreneur is unable to secure a regular commercial bank loan, an alternative is a Small Business Administration (SBA) Guaranty Loan.

khurram.siddiqui2010@gmail.com

The SBA guarantees that 80% of the loan will be repaid to the bank by the SBA if the company can't pay.

Both long and short-term loans can be guaranteed by the SBA.

1. A maximum loan period of 15 years on existing buildings and 20 years on new construction can be obtained.
2. For inventory, equipment, or working capital, a maximum of 10 years is available, although five years is the usual.
3. Once the application has been filled out, it usually is processed within 15 days.

For most SBA loans, there is no limit to the amount of loan money requested, but there is practical limit of $1 million.

1. The size limits of a small business vary from industry to industry.
2. The proceeds of the loans can be used for almost any business purpose.
3. The interest rates are negotiated between the entrepreneur and the bank, but there are subject to SBA maximums.

advantages and disadvantages of asset based financing?

write different types of private investors? 3 marks

Ans:

PRIVATE PLACEMENT

A final source of funds is private placement with investors who may be family and friends or wealthy individuals.

Type of Investors

1. An investor usually takes an equity position and can influence the nature of the business to an extent.
2. The investors' degree of involvement is important for the entrepreneur to consider.
3. Some investors want to be actively involved in the business, and others are more passive.

what is accredited investors ? 3 marks

Ans:

"Accredited investors" include:

(I) Institutional investors
(ii) Investors who purchase over $150,000 of the issuer's securities.
(iii) Investors whose net worth is $1 million.
(iv) Investors with incomes in excess of $200,000 in the last two years.
(v) Directors, officers, and general partners of the issuing company.

Reasons why business plan fails ? 3 marks

Ans:

khurram.siddiqui2010@gmail.com

A poorly prepared business plan can be blamed on
SOME BUSINESS PLANS FAIL
A poorly prepared business plan can be blamed on:

- Goals are unreasonable
- Goals are not measurable
- Lack of commitment by the entrepreneur
- Lack of experience of entrepreneur
- Ignoring the customer need
- Entrepreneur has no sense of potential threats to the business

2. Advantages of Acquisition?

Ans:

Advantages of an Acquisition:
1. Established business.
2. The acquired firm has an established image and track record.
3. The entrepreneur would only need to continue the existing strategy to be successful.
4. Location is already established.
5. Established marketing structure

3. Wht is Small Business Administrative (SBA) loan?

Ans:
A. When an entrepreneur is unable to secure a regular commercial bank loan, an alternative is a Small Business Administration (SBA) Guaranty Loan.
1. The SBA guarantees that 80% of the loan will be repaid to the bank by the SBA if the company can't pay.
2. This allows the bank to make loans that have higher risks.
3. This procedure is the same as for securing a bank loan, except that government forms and documentation are required.

4. What is joint venture?

Ans:

With the increase in business risks, hyper-competition, and failures, joint ventures have increased. A **joint venture** is a separate entity involving two or more participants as partners. They involve a wide range of partners, including universities, businesses, and the public sector.

5. Sources of finance at starting of venture?

Ans:

Start-Up Financing

khurram.sindhu2010@gmail.com

Males often have investors, bank loans, or personal loans in addition to personal funds as sources of startup capital. Women usually rely solely on personal assets or savings. Obtaining financing and lines of credit are major problems for women.

6. Briefly describe Sindh Small Industries Corporation (SSIC)?

Ans:

SSIC was established in 1972 having motives to indulge into promotional activities of small-scale industries in Sindh. The objectives of SSIC include financial assistance, education of craftsman, census and survey of cottage and small industries, procurement and distribution of raw materials to artisans and craftsman. SSIC was also involved in the Prime Minister's self-employment scheme for the dispersal of the micro credits.

7. How entrepreneur finance at start of venture?

Ans:

The management team must coordinate the planning process. The entrepreneur may be the only person involved but may lack experience in preparing the plan. Assistance is available from many sources, such as the SBA.

Q1. What kind of risks an entrepreneur facing while taking funds from relatives and friends? How he can safe himself from those risks?
Ans:

To avoid potential future problems, the entrepreneur must present the positive and negative aspects and the nature
of the risks of the investment.
1. To minimize any future problems, keep the business arrangements strictly business.
2. Any loan should specify the rate of interest and the proposed repayment schedule
3. The entrepreneur should settle everything up front and in writing.
4. A formal agreement specifying details of the funding helps avoid future problems.

Q.2. what is the turnover ration mean? How it is measured?

Ans:
A measure of the number of times a Venture's inventory is replaced during a given time period. Turnover ratio is calculated as cost of goods sold divided by average inventory during the time period. A high turnover ratio is a sign that the venture is producing and selling its goods or services very quickly.
OR
Inventory turnover measures the efficiency of the venture in managing and selling its inventory. A high turnover is a favorable sign indicating the venture is able to sell its inventory quickly.
Inventory = cost of goods sold / turnover inventory

Q.6. How does the entrepreneur use the Earning Valuation method during the acquisition?

khurramsiddiqui2100@gmail.com

Ans:

Appropriate factor (the price earnings multiple.)
a. The question of earnings involves determining the appropriate earnings period as well as the type of earnings.
b. The earnings period can be either historical earnings or future earnings.
c. Earnings before interest and taxes (EBIT) are the most frequently used.
d. It is appropriate to select a price earnings multiple of a publicly traded stock similar to the company being evaluated. The valuation of a business is important in determining the feasibility of the acquisition.

Barriers to new product creation and development are known as:

Trial and error

Opportunity parameters

Opportunity cost

Intrapreneurship culture

What type of loans is granted by the Banks to entrepreneurship on their creditworthy?

Ans:

Accounts Receivable Loans
This type of loan is provided to entrepreneur on good basis and better past records especially if the client base is creditworthy.
1- On this type of loan bank can finance 80% of the value.
2- If receivable is not collectable ten factor bears the loss not the business.
3- Factoring cost is more than the securing cost.

Explain product planning and development stage.

Ans:
Once idea emerges from idea sources or creative problem solving, they need further development and refinement in to final product or service to be offered. This refining process- the product planning and development process – is divided in to five major stages. Idea stage, concept stage, product development stage, test marketing stage and commercializing; it result in the product life cycle.

How the interview should be conducted for the candidate from the entrepreneur?

Ans:

The interview

khurram.siddiqui2010@gmail.com

 The interviewer should ask all of his or her questions at the beginning of the interview.
 It allows the interviewer to evaluate the candidate's behavior.
 It avoids talking too much and not listening.
 Upon completion of the interview, the firm should be sure to check all of the candidate's references.

Explain acquisition.

Ans:
An **acquisition** is the purchase of a company or a part of it in such a way that the acquired company is completely absorbed and no longer exists. Acquisitions can provide an excellent way to grow a business and enter new markets. A key issue is agreeing on a price. Often the structure of the deal can be more important to the parties than the actual price. A prime concern is to ensure that the acquisition fits into the overall direction of the strategic plan.

Locating Acquisition Candidates(3 Marks)

Ans:

There are professional business **brokers**, operating similarly to a real estate broker that represents the seller. Accountants, attorneys, bankers, business associates, and consultants may be aware of good candidates. It is also possible to find opportunities in the classified sections of the newspaper or trade magazine.

Bootstrap financing(3 Marks)

BOOTSTRAP FINANCING
Bootstrap financing is particularly important at start-up and early years of the venture when capital is more expensive.

Outside capital has many costs:
1. It takes time to rise outside capital when the company can least afford the time.
2. Outside capital often decreases a firm's drive to make money.
3. The availability of capital increases the impulse to spend.
4. Outside capital can decrease the company's flexibility and hamper the creativity of the entrepreneur.
5. Outside capital may cause more disruption and problems in the venture than without it.

In spite of these potential problems, an entrepreneur at times needs equity funding.
1. Outside capital should only be sought after all possible internal sources of funds have been explored.
2. When outside funds are obtained, the entrepreneur should not forget the basics of the business.

Recruitment and Hiring for new employees?

Ans:

khurram.siddiqui2010@gmail.com

RECRUITING AND HIRING NEW EMPLOYEES:

The entrepreneur will generally need to establish procedures and criteria for hiring new employees. Advertising in local newspapers and referrals from friends and associates is most effective for entry-level positions. For senior management the most effective strategy is networking with friends and business associates. Personnel agencies may also be considered if there are no other effective options.

Managing Cost and Profit?

Ans:

An interim income statement helps to compare the actual with the budgeted amount for that period. The most effective use of the interim income statement is to establish cost standards and compare the actual with the budgeted amount for that time period.

MANAGING COSTS AND PROFITS:

 Costs are budgeted based on percentages of net sales.
 Comparison of actual and budgeted expenses can be misleading for ventures with multiple products or services.
 Allocating expenses over product lines be done as effectively as possible to avoid arbitrary allocation of costs.
 To look back on the first year of operation and make comparisons month-to month.

Proforma Balance sheet(5 Marks)

Ans:

A. The entrepreneur should also prepare a projected balance sheet depicting the condition of the business at the end of the first year.

1. The pro forma balance sheet summarizes the assets, liabilities, and net worth of the entrepreneurs.
2. Every business transaction affects the balance sheet.
3. The balance sheet is a picture of the business at one moment in time and does not cover a period of time.

Internal Environment factor(5 Marks)

Ans:

Internal environmental factors are more controllable by the entrepreneur:

Financial resources: The financial plan should outline the financial needs for the venture.
Management team: An effective management team responsibilities assigned is needed for implementing the marketing plan.
Suppliers: Suppliers used are generally based on a number of factors, such as price, delivery time, and quality.

khurram.iddiqui2010@gmail.com

Company mission: Every new venture should define the nature of its business and what it hopes to accomplish.

Private offering?

Ans:

Private Offerings
1. Public offerings involve much time and expense.
2. Registering the securities with the Securities and Exchange Commission (SEC) requires a number of reporting procedures once the firm has gone public.
3. This public process was established to protect unsophisticated investors.
4. A **private offering** is faster and less costly than other funding.
5. These sophisticated investors still need access to material information about the company.

1. Why entrepreneur write cheque weekly. (3)

Ans:

It is good business practice for the entrepreneur to use checks as payment for all expenses in order to maintain records for tax purposes. Canceled checks provide proof of payment.

2. Factors which helps in success of joint venture. (3)

Ans:

Factors in Joint Venture Success:

One critical factor for success is the accurate assessment of the parties involved and how best to manage the new entity. A second factor involves the symmetry between the partners. Another factor is that the expectations about the results of the joint venture must be reasonable. The final factor is the timing. A joint venture should be considered as one of many options for supplementing the resources of the firm.

3. Types of private investors.

PRIVATE PLACEMENT
A final source of funds is private placement with investors who may be family and friends or wealthy individuals.
Type of Investors:
1. An investor usually takes an equity position and can influence the nature of the business to an extent.
2. The investors' degree of involvement is important for the entrepreneur to consider.
3. Some investors want to be actively involved in the business, and others are more passive.

4. Why innovation has some uniqueness discuss. (5)

khurram.siddiqui2010@gmail.com

Innovation, the act of introducing something new, is one of the most difficult tasks for the entrepreneur. Most innovations introduced in the market are **ordinary innovations**, with little uniqueness. • **Technological innovations** refer to new products with significant technological advancements. • **Breakthrough innovations** mean the development of new products with some technological change.
Regardless of the level of uniqueness or technology, each innovation evolves into and develops towards commercialization through one of three mechanisms: the government, entrepreneurship, or entrepreneurship. Entrepreneurship has assisted in revitalizing areas of the inner city. Individuals in inner-city areas can relate to the concept and see it as a possibility for changing their present situation.

5. Factor help to enhance the motivation in employees.

Question # 1: What budgets are prepared to prepare pro-forma income statement?

Ans:

- Before developing the pro forma income statement, the entrepreneur should prepare operating and capital budgets.
- In the preparation of the pro forma income statement, the entrepreneur must first develop a sales budget, an estimate of the expected volume of sales by month.
- Production or Manufacturing Budget.

Question # 2: Give the list of Pakistani financial institutions work for development.

Ans:

FINANCIAL INSTITUTIONS In order to meet this financing requirement, a number of institutions have been formed.
These are**:**

- **Small Business Finance Corporation (SBFC).**
- **Youth Investment Promotion Scheme (YIPS).**
- **Regional Development Finance Corporation (RDFC).**
- **Industrial Development Bank of Pakistan (IDBP).**

Question # 3: What is inventory turnover? how it is measured? Marks 3

Ans:

Inventory turnover measures the efficiency of the venture in managing and selling its inventory. A high turnover is a favorable sign indicating the venture is able to sell its inventory quickly.
Inventory turnover = cost of goods sold / Average inventory

khurram.siddiqui2010@gmail.com

Question # 4: You are in manufacturing organization? What will your budget constitute ?

Ans:

If a new venture is a manufacturing operation, a production plan is necessary. This plan should describe the complete manufacturing process, including whether or not the process is to be subcontracted. If the manufacturing is carried out by the entrepreneur, the plan should describe the physical plant layout and machinery and equipment needed.

Question # 5: What is importance of cash flow? How cash flow is managed? Marks 5

Ans:

Managing Cash Flow
An up-to-date assessment of cash position, such as a monthly cash flow statement, is needed. The cash flow statement may show the actual amounts next to the budgeted amounts. It is useful for adjusting the pro forma and indicating potential cash flow problems. A cash flow crisis can occur suddenly and unexpectedly. Cash flow analysis can also involve sensitivity analysis: for each monthly expected cash flow the entrepreneur can use a +/-5% that would provide a pessimistic and optimistic cash estimate. For the very new venture it may be necessary to prepare a daily cash sheet. Comparison of budgeted or expected cash flows with actual cash flows can provide an assessment of potential cash needs and indicate possible problems in the management of assets and control of costs.

Question # 6: What are the areas in which history of entrepreneur reflects his work? Is experience a major factor?

Ans:

Work History
Dissatisfaction with one's job often motivates the launching of a new venture. Previous technical and industry experience is also important once the decision to start a business is made. Experience in the following areas is particularly important: financing; product or service development; manufacturing; development of distribution channels; and preparation of a marketing plan. As the venture becomes established, managerial experience and skills become more important. Entrepreneurial experience becomes increasingly important as the complexity of the venture increases.

what is joint venture? Factors which helps in success of joint venture. (3)

Ans:

Factors in Joint Venture Success
One critical factor for success is the accurate assessment of the parties involved and how best to manage the new entity. A second factor involves the symmetry between the partners. Another

khurram.siddiqui2008@gmail.com

factor is that the expectations about the results of the joint venture must be reasonable. The final factor is the timing. **A joint venture should be considered as one of many options for supplementing the resources of the firm.**

What is Owner's equity ratio?give example?5

Ans:
Owners Equity is owner's ownership (equity) in the business, or the amount of the business assets owned by the business owners. The calculation for owners equity is assets minus liabilities. In a simplified example, if the value of the business assets is $3,500,000 and the total business liabilities are $2,500,000, the owners equity is $1,000,000. These values are expressed on the business balance sheet, which shows assets on the left and liabilities and owners equity on the right.

Regional developmeny fianance corportation ?5

Ans:

The Regional Development Finance Corporation was established in 1985 having paid up capital of Rs. 172,500 million and with the specific objective of promoting the industrialization of the less developed areas of the country. RDFC is a multi-product financial institution. It participates in money market, capital market and micro credit delivery. The head office of RDFC is located at Islamabad and a network of 14 branches carries out its operations across the country. Besides financing of medium to large sized industrial concerns RDFC has been involved in disbursing micro and small sized loans. However, over the last few years the organization has restrained from forwarding long-term project loans and currently is in the process of recovering loans from the borrowers.

Q 1- What are the expenses that are projected by a pro forma income statement ?

Ans:

The pro forma income statements also provide projections of all operating expenses for each month of the first year.
1. Selling expenses as a percentage of sales may also be higher initially.
2. Salaries and wages should reflect the number of personnel employed, as well as their roles in the organization.
3. Any unusually expenses, such as those for a key trade show, should be flagged and ex-plained at the bottom.

Q 3 - What is the education and skill level of entrepreneur in Pakistan ? 3 Marks

Ans:

Educational Level

khurram.siddiqui2010@gmail.com

"Differing from industry to industry 60% have school education and 30% have college or better education only 10% have professional or graduation level".

Skills Level

Majority is skilled in family business Most of training is as a family member. Technically they are very skilled in heredity business. New generation has professional education.

Q 5 - what are the small business administration loans? In what circumstances they are used by entrepreneurs? 5 Marks.

Ans:

Small Business Administration loan programs provide an excellent source of capital for your business. This program is supported and funded by the government. The funds from the loan can be used for anything that will help you grow your business including purchasing or rental of real estate, acquiring equipment, purchasing software, general working capital, or marketing to name a few of the specific business needs that you can address with a Small Business Administration loan.

When an entrepreneur is unable to secure a regular commercial bank loan, an alternative is a Small Business Administration (SBA) Guaranty Loan.

- The SBA guarantees that 80% of the loan will be repaid to the bank by the SBA if the company can't pay.
- This allows the bank to make loans that have higher risks.
- This procedure is the same as for securing a bank loan, except that government forms and documentation are required.

khurram.siddiqui2010@gmail.com