Vocational Higher Secondary Education (VHSE)

Second Year

ENTREPRENEURSHIP DEVELOPMENT

Reference book

Government of Kerala
Department of Education

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Foreword

Dear learners,

Entrepreneurship plays a pivotal role in industrial development. The industrially developed countries bear the evidence that an economy is an effect for which entrepreneurship is the cause. In India, business was traditionally considered to be the domain of scholarly challenged individuals. It was also considered the result of natural inheritance within business communities. Recent initiatives of the Government promoting entrepreneurial projects among youths will definitely empower them to start new ventures for years to come.

In this backdrop, the subject 'Entrepreneurship Development' assumes more significance. The learning material is prepared with an objective to develop interest among learners towards entrepreneurship and imparting practical knowledge to start and run new endevours. Sincere efforts have been taken to make this book simple, comprehensive and self explanatory. Self evaluation and term evaluation questions have been included to help the learner to know the progress of learning. Assignments and extended activities are also included to sharpen entrepreneurial skills.

Hope that the material will make your learning a delightful, interesting and rewarding experience. Suggestions for improvement are always welcome.

With regards,

Dr. P. A. Fathima
Director, SCERT, Kerala

CONTENTS

ABOUT THE COURSE

Although the field of education has made a tremendous progress in the recent years in terms of number of institutions and student enrolment. Universities produce thousands of graduates and post graduates every year. But the gap between the supply and demand for skilled manpower across various industries have been widened. This shortage of skills has translated directly into unemployment or under employment among youth. Hence vocational education is the need of the hour, offers practical training and skills needed to persue an occupation straight away at a comparatively lower age.

The aim of the Government is to create employment opportunities for youth. Entrepreneurship Development is one of the mechanisms adopted by the Government towards the creation of job opportunities. There have been notable efforts taken by the Government by announcing conducive polices towards the promotion of innovation for entrepreneurial development

Establishment of National Skill Development Agency (NSDA), National Skill Development Fund (NSDF) and new initiatives like Startup funds, Startup Village, Incubation Centres, Make in India, Digital India and standup India are roadmaps towards this direction.

In this backdrop, the subject 'Entrepreneurship Development' assumes more significance This course aims at providing the basic concept of Entrepreneurship, thereby equipping the learners with entrepreneurial values, attitudes and moulding them as a successful entrepreneur. The curricular goals are being formed to instigate the spirit of Entrepreneurship Development among the students of Vocational Higher Secondary Education and also to take up innovative entrepreneurial project.

SYLLABUS

Unit 1 ENTREPRENEURIAL OPPORTUNITY IDENTIFICATION

Basic concept and elements of business opportunity -Sensing of business opportunity - Sources of business opportunity - Environmental scanning, business environment micro and macro environment- (PESTEL Model) - Implementation of business idea - market assessment- (Demand, Supply, nature of competition, Cost, pricing of products, Project innovation and Trend spotting (Read trends, Talk trends, Watch trends, Think trends). **(15 Periods)**

Unit 2 ENTERPRISE PLANNING

Forms of private sector enterprises a) sole trading concern b) Partnership c) Joint Stock Company d) co-operative society - Characteristics, features and registration procedure-Registration procedure under MSMED Act- , Legal formalities expected to be complied by the entrepreneur to start an enterprises, Recent Trends in Entrepreneurship Development, E-Entrepreneurship, Technopreneur, Virtual Marketing, Enlightened Marketing ((brief study only), Institutional finance to entrepreneurs (brief study only). **(15 Periods)**

Unit 3 PROJECT FORMULATION

Project - Meaning, Characteristics - phases of project - Stages of Project formulation -Project finance - Determinants of working capital - Operating cycle of working capital- Concept of working capital - Calculations working capital- Sources of finance - short term medium term and long term sources - Types of costs - fixed, variable, semi variable, total cost, average cost and marginal cost - Break even analysis, problems- Ratio Analysis, current ratio, debt-equity ratio, debt service coverage ratio, profitability ratio, calculations - Return on investment - Cash flow statement- projected income statement- projected balance sheet. **(20 Periods)**

Unit 4 PROJECT APPRAISAL AND REPORT

Meaning and importance of project appraisal- Aspects of project appraisal, technical aspects, management aspects -environmental aspects-market aspects- Economic and financial aspects - Tools of project appraisal - Payback method, calculations - NPV Method, Calculations - Profitability index - Internal Rate of Return- Meaning and significance of Project Report- Process of Project Report-Contents of Project Report- Performa of a Project Report-Preparation of a Project Report. **(15 Periods)**

Unit 5 ENTERPRISE MANAGEMENT

Meaning and Definition of Management- Importance of Management- Functions of Management-principles of management - Meaning and Definition of Marketing Management- Functions of Marketing Management- Marketing Mix- Elements or components of Marketing Mix. **(15 Periods)**

Unit 1
ENTREPRENEURIAL OPPORTUNITY IDENTIFICATION

Introduction

An Entrepreneur will always look for business opportunities. He continuously scans the environment for opportunities, identifies it and seizes them. This initiative is embodied in an entrepreneur and is also regarded as his inherent feature. This unit deals with the basic concepts and elements of business opportunities, factors involved in sensing it, different sources available and implementation of the idea.

Learning Outcomes

The learner:

- *explains the concept of a business opportunity and selects the best way used to identify it*
- *enlists the various factors affecting business environment*
- *differentiates micro and macro elements of environment.*
- *explains the concept of PESTEL model*
- *illustrates practical example of PESTEL model*
- *lists out various components of market assessment*
- *elaborates upon the procedure to be followed to select the best opportunity to be persued as business enterprener*
- *identifies various trend spotting technique*

1.1. Concept of Business Opportunity

A private bus operator has introduced AC bus in his available route that is between Palakkad and Thrissur. He is only charging normal rates when compared to other private buses plying in the same route. A lot of ordinary passengers utilise this opportunity to beat the heat which is surging above 40^{o} celsius in Palakkad District.

- Why did the operator introduces the A/C bus?
- Will this improve profit earning capacity of business? How?
- Is there any increase in value addition and consumer satisfaction?

From the above case, you can see that the owner has sensed a business opportunity.

Business Opportunity refers to an attractive and accessible economic idea which could be implemented to create a business, earning profit through customer satisfaction, leading to further growth. It is a favourable change available to run a specific business in a given environment at a given point of time.

1.2 Sensing entrepreneurial opportunity

The information gathered from different sources has to be analysed and utilised for identification of the right opportunity .The ideas about opportunity can be generated from various sources - both internal and external. These may include;

i) Knowledge of potential customer needs - it can be known through customer feedback about existing products and services they have been using and would want to use in future. Solution of a problem often leads to an Opportunity.

ii) Watching emerging trends/ changes happening in social, legal, technological and political aspects, will create new business opportunities. E.g. Health consciousness of people has led to numerous multi-speciality hospitals. Changing perception relating to education led to the growth schools of international standards.

iii) Innovation --It includes creating new things of value as well as new and creative processes that add value to the existing products or services. For example, from computers to tablets.

iv) Success stories of known entrepreneurs.

v) Studying Governent's promotional schemes and facilities offered to run some specific business enterprises.

vi) Availability of inputs at cheaper rate. Eg. Certain seasonal fruits like mango, jackfruits etc. can be processed and stored which can be sold in off season.

Vii) A new product introduced by competitor

viii) Their own or partners' past experience in a particular business line.

ix) Going through certain professional magazines catering to specific interest s like electronics, computers etc.

x) Making visits to trade fairs and exhibitions displaying new products and services.

1.2.1. Business Opportunity vs Business Idea

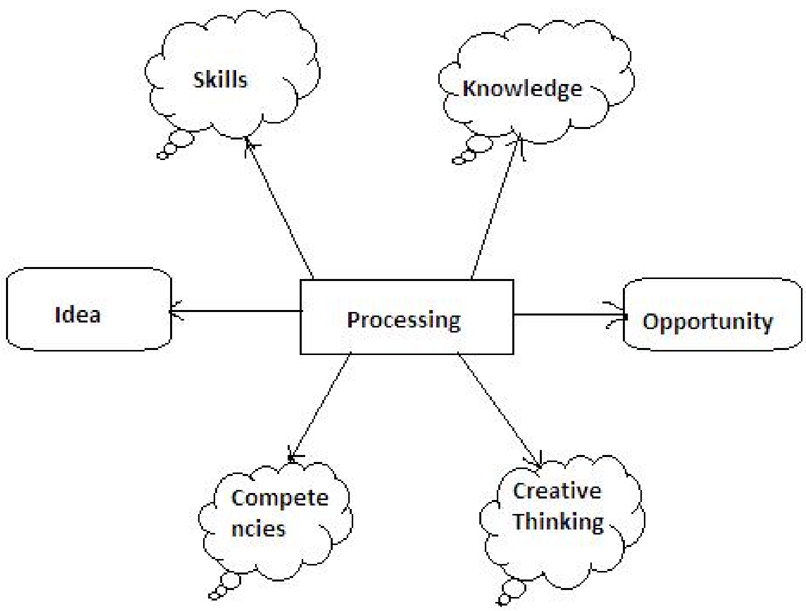
After going through the above process, one might have been able to generate some ideas that can be considered to be pursued as ones business enterprise.At this juncture he has to differentiate between business idea and business opportunity. At the idea stage, there is simply an idea about what to do. But at the opportunity stage, idea has actually been germinated about what to do and how to do.

An idea become a business opportunity only when the following conditions are satisfied

- An attractive and acceptable rate of return on investment
- Practicability of the idea
- Competence of the entrepreneur to encash the opportunity
- Potential of future growth

1.2.2. Transformation of idea into opportunity

The process of transformation of idea into opportunity is shown in the following diagram.



This simply means that knowledge, skills, competencies and creative thinking needed to develop an idea are backed by factors critical for market success. When knowledge, skills, competencies, and creativity are strategically applied, a viable venture is born.

ASSESSMENT ACTIVITY

1. A sizeable population in India depends on two wheelers for travelling. And most of these people will not be able to offer a car which is tagged with heavy price. A company in India has conceived a business idea and invented a car at a considerably low price when compared to middle segment cars.
   - Name the company which has secured this business opportunity?
   - What are the sources that lead the company to such an invention?
2. Identify various business opportunities in your locality?

1.3. Environment scanning

Careful monitoring of an organisation's internal and external environment for detecting early signs of opportunities and threats that may influence its current and future plans.

1.3.1. Needs and Importance of Environmental Scanning

- It helps to understand the actual happenings in the environment
- It helps to identify Strength, Weakness, Opportunity and Threats of a Business idea
- It act as a tool in understanding, forecasting and decision making in all situations
- It helps an Entrepreneur to act quickly

1.3.2 Process of Environment Analysis

Spotting an Opportunity ⇒ **Scanning of Environment** ⇒ **Identification of Project** ⇒ **Starting a Business**

1.4. Business Environment

Business environment consists of two levels, i.e., Micro environment and Macro environment.

Business Environment

Micro Environment

- Suppliers
- Customers
- Intermediaries
- Competitors
- General Public

Macro Environment

- Political
- Economic
- Social
- Technological
- Ecological
- Legal

1.5. PESTEL Model

Macro Environments are summarized by "PESTEL" model. It is an analysis of the Political, Economic, Social, Technological, Ecological and Legal factors in the External environment of an organisation, which can affect its activities and performance.

Political Environment includes: Taxation policy, Governmental stability and foreign trade regulations.

Economic Environment includes interest rates, inflation, business cycles, unemployment, disposable income and energy availability and cost.

Social environment includes population demographics, social mobility, income distribution, lifestyle changes, attitude to work and leisure, levels of education and consumerism.

PESTEL

Technological factor is influenced by Government spending on research, new discoveries and development, Technological effort and speed of technology.

Ecological factors are considered to be the ways in which the organisation can produce its goods or services with the minimum environmental damage.

Legal factors influences such as Taxation, employment law, monopoly legislation and environmental protection laws

Activity

Suppose an airline is planning to expand the business. Can you list out some PESTEL factors that the company will consider as part of environmental scanning

- Political - Terrorism , Landing right in foreign country
- Economic - ……………………………………………..
- Social - ……………………………………………..
- Technological - ……………………………………………..
- Ecological - ……………………………………………..
- Legal - ……………………………………………..

1.6 Market assessment

Market Assessment consists of;

1. Demand

The demand assessment is based on the size of market, groups of consumers, tastes and preferences of the consumers etc. of the market being targeted.

2. Supply and nature of competition

It is a complete picture of the product made available in the market by all the existing players and their respective share in the market. It should also take in to account future competitors.

3. Cost and Price of product

Cost and price of the proposed product should be compared with cost and price of the competitors.

4. Project Innovation and Change

Market assessment require a study of prevailing innovations; and changes being carried out by existing entrepreneurs using technological advancements in the field.

5. Trend spotting

Trend Spotting refers to identification of new trends which helps an Entrepreneur to understand the market and produce goods or services with the market trends. Trend Spotting is an immediate identification of new trends like fashions, activities, designs, assumptions, etc. Different types of trends are discussed below:

1. **Read Trends**

   Entrepreneurs regularly read the leading publications and going through websites affecting their business in order to identify new trends in their field.

2. **Talk Trends**

   Talking to people from different walks of life like Industry, trade association, social network, etc helps in trend spotting.

3. **Watch Trends**

   Watching and observing the customers in the market place, eg: eating habit of the people, what do they do while being in public, their dress code etc.

4. **Think Trends**

   Entrepreneur should put together all the sources of information (Read trends, Talk trends and Watch trends)and start thinking about potential trend that may emerge in future.

Extended Activities

1. List your own strengths and weakness as an entrepreneur. Explain how you can further strengthen your strengths and weaken your weaknesses or even convert your weaknesses into strengths to become a successful entrepreneur.

2. Meet two entrepreneurs, preferably one successful and the other unsuccessful , and delineate their entrepreneurial process. Then list out the factors responsible for both successful and unsucceful entrepreneurs.

TE Questions

1. A hike in price of natural rubber increases the cost of production of tyres. To overcome this crisis, the Government of India has slashed the import duty on raw rubber.

   Identify the environment in the given case?

   How will the decease in import duty affect the business of tyre manufactures and foreing trade?

2. Change from Joint family to nuclear family increased the use of packed food stuffs.

   Identify the business environment referred to?

   Name the industrial sector which found new business opportunity by this change?

3. Manu suggested his brother Melwin to start a gymnasium in his out-house. He thought that the building is available at a cheaper price and it would reduce the investment. Evaluate the feasibility of the proposed venture in terms of :

   - Assured market scope
   - An attractive and acceptable rate of return on investment
   - Practicability of the idea
   - Competence of the entrepreneur to encash the opportunity
   - Potential of future growth

4. Meera decides to start a business venture and explores various sources for a promising business opportunity. Explain the sources from where she can get some good business ideas.
5. Hrisheekesh was always dreaming about a high speed motor bike with using various fuels like petrol, diesel, gas, electricity and solar energy. After studying, the situation, he came up with an idea of multiple fuel engine bike. Could you suggest how he could convert his idea in to opportunity?
6. "An opportunity may be derived from the needs and problems of the society". Comment.
7. "Sensitivity to environmental factors is essential for an entrepreneur." In light of above statement, explain the importance of environment scanning.
8. Suggest the factors involved in the process of sensing an entrepreneurial opportunity?
9. Enlist the various sources which lead to the emergence of basic ideas?
10. Conduct a survey in your colony for identifying any problem faced by them and identify whether there is any scope to solve that problem through a business?

11. Fill in the blanks.

Resources	Existing use	Business opportunity
Jackfruit	Household use	?
E- waste	No use leading to pollution	?
Rain water	?	Fortified mineral water
Yoga	Physical Health	?
?	?	?
?	?	?

UNIT 2
ENTERPRISE PLANNING

Introduction

Every business entity needs to select an appropriate legal structure or framework to work in. Setting up a business is not an easy task because the entrepreneur has to decide on the form of business and should be aware about the legal procedures and formalities to start an enterprise and should also be aware of the role of supporting financial institutions.

Learning Outcomes

The learner :

- *describes different forms owership structure open to an enterprise*
- *outlines the main features of each form of ownership.*
- *explains the advantages and disadvantages of each form of business ownership*
- *enlists the formalities required for starting an enterprise under MSMED Act.*
- *Identifies the specialised financial institutions*
- *identifies recent trends in the field of entrepreneurship*

2.1 Forms of Private Sector Enterprises

"The enterprises which are owned, controlled, and managed by private individuals, with the main objective of earning profit comes under this category. Private individuals can start a venture as: a) Sole proprietorship b) Partnership c) Joint Stock Company d) Co-operative Society.

Forms of Private Sector Enterprises

Sole Trading Concern	Partnership	Joint Stock Company	Co-operative Society

2.1.1 Sole proprietorship

Historically, it appears that business first started with this form of organisation. One of the oldest, simplest and most commonly used forms of business organisation which is owned, financed, controlled and managed by only one person is called Sole proprietorship or Single entrepreneurship or Individual proprietorship.

The term 'sole' means single and 'proprietorship' means 'ownership'. So, only one person is the owner of the business organisation. This means, that a form of business organisation which owned and managed by a single person and takes the profits or the losses, is known as sole proprietorship.

'Sole Proprietorship' form of business organisation refers to a business enterprise exclusively owned, managed and controlled by a single person with all authority, responsibility and risk.

2.1.2 Characteristics of sole proprietorship

'Sole' means single and 'proprietor' means owner, this type of business is one person show exhibiting following features

1) *One man ownership and control*

   This business is exclusively owned by a single person.

2) *Individual financing*

   All investment is made by the proprietor. Though if required, he/she has access to loans and debts to procure funds for business.

3) *No separate legal entity*

   Legally, the proprietor and proprietorship are one and the same. Business and owner exists together, thus with owner's death, business too dies.

4) *Unlimited liability*

   The proprietor is liable for all losses arising from business. In case the business assets are insufficient to pay off liabilities, his/her personal property can be called upon to pay his business debts.

5) *Sole beneficiary*

   The sole proprietor alone is entitled to all the profits and losses of business. So he/she puts his/her heart and soul to increase his/her profits.

6) *Easy formation and closure*

   Sole proprietorship is subjected to minimum legal formalities and regulations both at the time of commencing and closing.

7) *Limited area of operation*

   This form of business generally has a limited area of operation, limited financial availability and limited managerial abilities.

Additional Information

Suitability of sole proprietorship form of business

Before opting for sole proprietorship, an entrepreneur should carefully compare and evaluate the pros and cons of Business Organization. Basically, this type business is suitable when

- *Capital requirement is limited*
- *Confidentiality / secrecy is important*
- *Market is local*
- *Goods are of artistic nature*
- *Quick decision–making is necessary*
- *Size of the business is small.*

ASSESSMENT ACTIVITY

Kannan runs a grocery shop in the local market. He buys goods from the wholesale market and sells it to the customers as per their requirements. By doing so, he earns some profit. He had started his business two years ago by investing Rs. 2 lakh, out of which one lakh is borrowed from his friend. Today , he is running his business successfully , earning a good profit, and has been able to repay the borrowed money. He has also employed two persons to help him in the shop. Kannan says that, he is the owner of a sole proprietor concern.

Do you agree?

Could you now make a list of sole proprietorship concerns engaged in different types of businesses?

2.1.3 Registration of Sole proprietorship

A sole proprietorship need not to be registered . However, in order to start a sole proprietorship in a certain specific industry or area, an entrepreneur requires specific licenses. A few general factors are also to be considered

1. **Business name**

   Sole proprietors are under no obligations to select a trade name for their business. However they are free to do so, if they desire to.

2. **Service tax registration**

   Through appropriate Form, the sole proprietor should register under the service tax if their revenue from services exceeds the specified limit.

3. VAT/CST registration

If proprietorship sells tangible goods within a state, then Value Added Tax (VAT) applies, if it is inter-state, then Central Sales Tax (CST) applies.

4. Others requirements

PAN Card number of the sole proprietor, bank account number in the name of sole proprietorship business, Shops and Establishment License, Employee Provident Fund Registration or Importer Exporter Code (in case of export-import business) as and where applicable, have to be complied with.

5. Payment of taxes

A sole trader has to ensure his/her business meets the State and Central taxation requirements. Due to the fact that legally, a Sole Proprietorship and a sole trader are single entity, the sole trader bears the taxes of the business.

ASSESSMENT ACTIVITY

Case Study

Mr. Sivaram runs a tea shop in a local market. Every morning people visit the market and most of them have tea from his shop. He works as the owner, manager and labourer of his business. He learned the taste of his customers. Hence he is able to manage his business successfully. He was blessed with profits and is willing to bear the risk that might arise in future.

Identify any five features from the above cited cases.

2.2 Partnership

"two heads being better than one."

Ram, Rahim, Robert were friends, who used to meet daily and chat over several issues. Rahim belonged to a family of landlords. Ram was engaged in the sales of firework products, while Robert was a money lender. A casual conversation among them focused on how Ram was finding it difficult to run his business alone, for want of adequate capital and required land to set up a production centre for his product. Rahim and Robert suggested that they could help him, provided they too enjoy the benefits of a full fledged fireworks business unit. This leads to the formation of a new form of a business among them where Ram's operational skill, Rahim's land and Robert's money were pooled together.

Discussion points

- Ownership with more than one person
- There must be an agreement
- Sharing of result (profit/loss)

From the discussion let us conclude that, Partnership' is an association of two or more persons who pool their financial and managerial resources and agree to carry on a business, and share its profit. The persons who form a partnership are individually known as partners and collectively known as firm.

2.2.1 Partnership – Definition

Indian Partnership Act 1932 defines Partnership as "the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all."

2.2.2 Characteristics of partnership

The essential features of partnership are as follows:

1) *Two or more persons*: Partnership is the outcome of a contract.

   a) There must be at least 2 persons to enter into contract to form partnership.

   b) Minors cannot form a partnership firm as they are incompetent to enter into contract but can be admitted to the benefits of a running firm.

   c) As per Act, the present maximum number of partners can be one hundred.

2) *Agreement*

   Partnership is the result of an agreement between partners. This agreement may be oral or written. The written agreement is called partnership deed. The written agreement is much more advisable as to resolve the future disputes.

3) *Profit sharing*

   The profits of the firm is to be distributed among the partners in accordance with their agreement.

4) *Unlimited liability*

   The liability of the partners of a firm is unlimited. The partners are individually and jointly liable for the debt.

5) *Implied authority*

   There is an implied authority that any partner can act on behalf of the firm.

6) *Mutual agency*

The business of partnership can be carried on by all the partners or any one of them acting for all.

7) *Utmost good faith*

Every partner is supposed to act honestly and give proper accounts to other partners.

8) *Restriction on transfer of share of interest*

No partner can sell or transfer his share of interest to anybody else without the consent of the other partners.

9) *Continuity*

A partnership continues upto the time that all partners desire to continue it. Legally, a firm dissolves on the retirement, death, bankruptcy, or disability of a partner if not, otherwise, provided for in the partnership deed.

2.2.3 Registration procedure of a partnership firm

Registration of a partnership firm is optional. A partnership firm can be registered whether at the time of its formation or even subsequently.

Partners needs to file an application with the Registrar of Firms of the area in which his/her business is located. Application for partnership registration should include the following information:

1) Name of the firm
2) Name of the place where business is carried on
3) Names of any other place where business is carried on
4) Date of partners joining the firm
5) Full name and permanent address of partners
6) Duration of the firm, if any

Every partner needs to verify and sign the application**.** Ensure that the following documents and prescribed fees are enclosed with the registration of application.

a) Application for registration in the prescribed form.
b) Duly filled specimen of affidavit
c) Certified copy of the partnership deed
d) Proof of ownership of the place of business

Once the Registrar is satisfied with the application procedure, he will issue the Certificate of Registration.

Additional Information

Consequences for non–registration of a partnership firm

Partnership firms in India are governed by the Indian Partnership Act, 1932. While it is not compulsory to register your partnership firm as there are no penalties for non registration, it is advisable since the following rights are denied to an unregistered firm:

1) *A partner cannot file a suit in any court against the firm or other partners for the enforcement of any right arising from a contract or right conferred by the Partnership Act.*
2) *A right arising from a contract cannot be enforced in any Court by or on behalf of the firm against any third party.*
3) *Further, the firm or any of its partners cannot claim a set off (i.e. mutual adjustment of debts owned by the disputant parties to one another) or other proceedings in a dispute with a third party.*

ASSESSMENT ACTIVITY

A nearby non registered partnership firm owned by Arun, Sunil and Anil approaches you for help for registering their firm. As an student of VHSE how can you help them to register their firm?.

2.3. Joint Stock Company

2.3.1 Meaning of Joint Stock Company

Joint stock company is a modern form of business organisation emerged to meet the requirements of large sized business. A company means a voluntary association of many persons formed for some common objective with capital divisible into units of equal value called 'shares' and with limited liability?

A company is an association of many persons who contribute money or money's worth to a common stock and employs it in some trade or business, and, who share the profit and loss arising there from." — James Stephenson

According to section 3 of Indian companies act, 1956, "A company means a company formed and registered under this act or any previous act."

2.3.2 Characteristics of a Company

1) *Voluntary association*

A single person cannot constitute a company. At least two persons, voluntarily, must join hands to form a private company, while a minimum of seven persons are required for a public company.

2) *Artificial person*

A company is an artificial person created by law. Like a human being it can buy, sell and own property, sue others, be sued by others, its called as an artificial person.

3) *Separate legal entity*

A company has an independent status, different from its members. This implies that a company cannot be held liable for the actions of its members and vice-versa. Company has a distinct entity separate from its members.

4) *Common seal*

Being an artificial person, company cannot sign the documents. Hence, it uses a common seal on which its name is engraved. Putting the common seal on papers, is equivalent to that of signature.

5) *Limited liability*

The liability of the shareholders of a company is normally limited to the amount of shares held or guarantee given by them.

6) *Transferability of shares*

The shares of public limited companies are freely transferable. The private companies do impose some restrictions on the transfer of shares.

7) *Separation of ownership and management*

Separation of ownership from management exists in Joint stock Company . As the shareholders could be scattered across world, they give the right to the board of directors to manage the company's affairs.

Additional Information

Milestones of Companies Act

Joint stock company was started first in Italy in the thirteenth century. During seventeenth and eighteenth centuries, joint stock companies were formed in ENGLAND under *ROYAL CHARTER OR ACTS OF PARLIAMENT.*

The joint stock company form of organisation got a great set back when "BUBBLES ACT OF 1720" declared promotion of companies as ILLEGAL by ENGLAND'S PARLIAMENT. It was much later in 1844, that the company form regained status after passage of ***THE JOINT STOCK COMPANIES ACT IN 1844*** *and LIMITED LIABILITY granted only in 1855. The first Companies Act was passed in India in 1850 and the principle limited liability was introduced only in 1857. Much later in 1956, a comprehensive bill was passed and any firm incorporated under this Act was started to be referred as* ***"COMPANY".***

The Company's Act 2013 supersedes company's act of 1956. *The 2013 Act introduces significant changes in the provisions related to governance, e-management, compliance and enforcement, disclosure norms, auditors and mergers and acquisitions. Also, new concepts such as one-person company, small companies, dormant company, and corporate social responsibility have been included.*

2.4 Co-operative Organisations

2.4.1 Meaning of Co-operative Organisations

The term co-operation is derived from the Latin word 'co-operari', where the word 'Co' means 'with' and 'operari' mean 'to work'. Thus, the term co-operation means working together. So those who want to work together with some common economic objectives can form a society, which is termed as co-operative society.

It is a voluntary association of persons who work together to promote their economic interest. It works on the principle of self-help and mutual help. The primary objective is to provide support to the members. People come forward as a group, pool their individual resources, utilise them in the best possible manner and derive some common benefits out of it.

The Section 4 of the Indian Co-operative Societies Act 1912 defines Co-operative Society as "a society, which has its objectives for the promotion of economic interests of its members in accordance with cooperative principles."

Additional Information

Structure of Co-operative Credit Institutions in India

Co-operative Credit Institutions

- Urban Co-operative Banks
- Rural Co-operative Credit Institutions
  - Short- Term structure
    - State Co-operative Banks/ Central Co-operative Banks / Primary Agricultural Credit Societies
  - Long -Term Structure
    - State Co-operative Agriculture and Rural Development banks
    - Primary Co-operative Agriculture and Rural Development banks

2.4.2 Features of Co-operative Organisations

Features Co-operative is a self-help as well as mutual help system, exhibiting following characteristics:

1. *Voluntary association*

   Co-operative organisation is a voluntary association of persons desirous of pursuing a common objective. They can come and leave the organisation at their own will without any coercion or undue influence.

2. *Democratic management*

   The management of a co-operative organisation is vested in the hands of the managing committee elected by the members on the basis of 'one member-one vote'. Democracy is, thus, the key note of the management of a cooperative society.

3. *Service motive*

   Rendering services to its members rather than to earn profit as the primary objective is the feature that distinguishes a co-operative organisation from the other forms of business. The primary objective of a co-operative society is to render services to its members rather than to earn profits.

4. *Capital and return thereon*

   The capital is procured from its members in the form of share capital. A member can subscribe subject to a maximum of $1/5^{th}$ of the total share capital. Shares cannot be transferred but surrendered to the organisation.

5. *Government control*

 In India, the activities of co-operative societies are regulated by the Co-operative Societies Act and the State Co-operative Societies Act. Cooperative societies are required to submit their annual report and accounts to the Registrar of Co-operatives.

6. *Distribution of surplus*

 After giving dividends to the members, the surplus of profits, if any, is distributed among the members on the basis of goods purchased by each member from the society.

2.4.3 Registration procedures of co-operative society

As per section 6,7 and 8 and rule 3 and 4 of the Kerala Co-operative Societies Act, 1969, in order to form a co-operative society, a preliminary meeting of the beneficiaries will be held first. After that, Promoter's meeting will be held to draft the bye law, enlist the promoters, appoints Promoter's Committee and prepares Application for Registration.

The procedure for registration of co-operative societies are detailed below :

1. Every application of registration of a society under sub-section (i) of section 6 shall be in duplicate in Form NO. 1. The application form should be accompanied by:
   - Three copies of the proposed Bye Law of the Society.
   - A certificate from the bank stating the credit balance in favour of the proposed society therein.
   - A list of persons in duplicate who have contributed to the share capital together with the amount contributed and the entrance fee paid by each of them.
   - The scheme showing the details as to the Economic Soundness of the proposed society ; and
   - Such other documents as may be specified by the Registrar.
2. When the applicants are individuals, the application shall be signed by not less than 25 persons and each of such persons drawn from different families.
3. A court fees stamp of the value of Rs. 5 shall be affixed to the original application.
4. The application shall be sent to the Registrar by registered post or delivered in office in person.

Registration

(As per section 7 and rule 4)

1. On receipt of an application, the Registrar shall enter the particulars of the application in the Register of Application to be maintained in Form No.2.

2. The Registrar will then examine the application and bye laws.
3. If the Registrar is satisfied, a certificate of registration(form no 3)signed by him

   The certificate of registration shall contain the register number of the society and the date of its registration
4. When the Registrar is not satisfied, he shall pass an order of refusal together with the reasons therefore and communicate it by registered post to the chief promoter with in 7 days of such order.
5. A copy of the certificate of Registration together with a copy of the byelaw shall be furnished to the financing bank.

Additional Information

Types of cooperative societies

Co-operative organisations are set up in different fields to promote the economic well-being of different sections of the society. So, according to the needs of the people, we find different types of co-operative societies in India. Some of the important types are given below:

Consumers' Co-operative Societies

These societies are formed to protect the interest of consumers by making available consumer goods of high quality at reasonable price.

Producer's Co-operative Societies

These societies are formed to protect the interest of small producers and artisans by making available items of their need for production, like raw materials, tools and equipments etc.

Marketing Co-operative Societies

To solve the problem of marketing the products, small producers join hands to form marketing cooperative societies.

Housing Co-operative Societies

To provide residential houses to the members, housing co-operative societies are formed generally in urban areas.

Farming Co-operative Societies

These societies are formed by the small farmers to get the benefit of large-scale farming.

Credit Co-operative Societies

These societies are started by persons who are in need of credit. They accept deposits from the members and grant them loans at reasonable rate of interest.

2.5 The Micro Small and Medium Enterprises Development (MSMED) Act 2006

The Act has come into force from 2nd October 2006.The earlier concept of industries has been changed to enterprises. The registration system has discontinued. At present the system is to file a memorandum.

2.5.1 Classification of Enterprises under MSMED Act

The enterprises have been classifies broadly into two.

1. Manufacturing enterprises
2. Service enterprises

Manufacturing enterprises

Manufacturing Enterprises have been further classified into 3 in terms of investment in plant and machinery(excluding land and building) . They are:

a) Micro enterprises-investment up to Rs. 25 lakhs

b) Small enterprises-investment above Rs. 25 lakhs and up to Rs. 5 crore.

C) medium enterprises- investment above Rs. 5 crore and up to Rs. 10 crore.

SERVICE ENTERPRISES

Service Enterprises have been further classified into 3 in terms of investment in plant and machinery (excluding land and building) . They are:

a) Micro enterprises - investment up to Rs. 10 lakhs

b) Small enterprises - investment above Rs. 10 lakhs and up to Rs. 2 crore.

c) Medium enterprises - investment above Rs. 2 crore and up to Rs. 5 crore.

2.5.2 Registration procedure under MSMED Act, 2006

1. Any person who intends to establish Micro, Small and Medium Enterprise, whether in manufacturing or in service sector, shall file Part -I and after commencing the production shall file Part -II. The validity of Part -I is for two years, after the lapse of which, no renewal will be granted. But the existing units who have already commenced production or rendering services shall file Part -II directly without filing Part -I.
2. Application for registration can be made by following persons:

   a) A Director of the company, who is authorised by resolution, passed by Board in this regard. b) Any partner of the Partnership Firm c) Sole proprietor for proprietorship firm d) Any person authorised by the organisation in this connection. Information of applicant as to name, residential address, contact number and e-mail id shall be stated in the application form. For the administrative convenience, address of Enterprise shall be given as address for communication in Point 2 (a) of the registration form.

3. As the application is made on behalf of the enterprise, it requires following information

   a) Name of the Enterprise b) Location of the Enterprise. c) Category of the Enterprise d) Nature of Activity **e**) Nature of operation f) Month of installation of plant and machinery g) Any other information

4. The Disclosure of installed capacity of machinery per annum, in terms of quantity and units shall be stated in the registration form. Units in service industry are not required to provide these details.

5. The power requirements of enterprise, in terms of Horse Power or Kilo Watts shall also be stated along with requirements of any other sources of power (such as coal, oil, generator etc.)

6. Details of Employment: In part -I of the memorandum, the details of expected employment shall be given along with bifurcation of manpower in three categories namely, Management and office staff, Supervisory Personnel and Workers. In part -II of the memorandum additional information of total male and female staff in all the three categories mentioned above shall also be provided**.**

7. The EM also requires that the details of all partners or directors, needed to be disclosed i.e. Entrepreneur’s Profile.

8. Date of commencement of productivity or activity shall be mentioned and the applicant shall sign all the four copies of memorandum under the rubber stamp of enterprise.

9 . The Memorandum shall be filed in four copies, and it shall be accompanied by Copy of Board Resolution (in case the unit is company), Income Tax Receipt for tax payment for the last assessment year (applicable only to existing units), Proof of nature of investment in Land and Building. The proof will either be ownership documents (if the same is owned by the company/ partnership firm) or agreement of lease or rent, as the case may be. Extract of Index II for the said premises shall also be part of attachment. It is advisable to submit a copy of No Objection Certificate (NOC) for carrying on the business activities from the concerned Municipal Corporation or Gramapanchayat.

2.6 Legal formalities expected to be complied by the entrepreneur

Following are the Legal formalities expected to be complied by the entrepreneur to register an entreprise

1. Obtain PAN number from Income Tax Department

Permanent Account Number (PAN) is a ten-digit alphanumeric number, issued by the Income Tax Department. PAN enables the department to link all transactions of the person with the department. These transactions include tax payments, TDS/TCS credits, returns of income/wealth/ gift/FBT, specified transactions, correspondence, and so on. PAN, thus acts as an identifier for the person with the tax department. It is mandatory to quote PAN in all documents pertaining to financial transactions.

i) All existing assesses or taxpayers or persons who are required to furnish a return of income, even on behalf of others, must obtain PAN.

ii) Any person carrying on any business or profession whose total sales, turnover or gross receipts are or is likely to exceed five lakh rupees in any previous year;

iii) Any person, who intends to enter into financial transaction must also obtain PAN.

iv) The Assessing Officer may allot PAN to any person either on his/her own or on a specific request from such person.

2. Open a current account

Who can open a current account?

i) Any person, competent to contract and satisfactorily introduced to the Bank may open an account in his/her own name. He/she may not open more than one such account. Accounts may be opened in the names of two or more persons and may be made payable to.

ii) Accounts can be opened for sole proprietorship firms, partnership firms, private limited and public limited companies, Joint Hindu families, trusts, clubs, associates etc. satisfactorily introduced to the Bank and on fulfilling laid down procedures and tendering required credentials.

iii) Accounts can be opened by minors of 14 years and above, if able to read and write, in their sole names.

3. `Register your company (Pvt. Ltd/Public limited Company)

The following steps are involved in incorporating a private or public company in India

1. Name of the business entity
2. Register for e-filing at MCA (Ministry of Corporate Affairs) portal
3. Apply for Director Identification Number (DIN)
4. Obtain Digital Signature Certificate (DSC)
5. Register DSC at MCA website
6. Apply for approval of the name of the company
7. Formulate Memorandum of Association
8. Formulate Articles of Association
9. Verify, stamp and sign Articles of Association
10. Verify the various forms required for incorporation of the company

4. Register for service tax : Service tax is, as the name suggests, a tax on Services. It is a tax levied on the transaction of certain services specified by the Central Government under the Finance Act, 1994. It is an indirect tax (akin to Excise Duty or Sales Tax), which means that normally, the service provider pays the tax and recovers the amount from the recipient of taxable service.

5. Register for VAT/sales tax : Value added tax (VAT) is a multi-point destination based system of taxation, with tax being levied on value addition at each stage of transaction in the production/ distribution chain. The term 'value addition' implies the increase in value of goods and services at each stage of production or transfer of goods and services. VAT is a tax on the final consumption of goods or services and is ultimately borne by the consumer.

For identification/registration of dealers under VAT, the Tax Payer's Identification Number (TIN) is used. TIN consists of 11 digit numerals throughout the country. Its first two characters represent the State Code and the set-up of the next nine characters can vary in different States.

Sales tax: Sales tax is levied on the sale of a commodity, which is produced or imported and sold for the first time. If the product is sold subsequently without being processed further, it is exempted from sales tax. Sales tax is paid by every dealer on the sale of any goods made by him in the course of inter-state trade or commerce, despite the fact that no liability to tax is raised on the sale of goods under the tax laws of the appropriate state.

Sales tax ID number : A state Sales Tax ID number is essentially a business version of your PAN number, under which you collect and pay tax for any service or product you sell, which in turn, qualifies for taxation in your state.

6. Excise duty (If applicable) : What is excise duty? Is it collected by the State Government or the Central Government? How is it different from sales tax? Excise duty is a tax on manufacture or production of goods. Excise duty on alcohol, alcoholic preparations, and narcotic substances is collected by the State Government and is called "State Excise" duty. The Excise duty on rest of goods is called "Central Excise" duty and is collected in terms of Section 3 of the Central Excise Act, 1944. Sales Tax is different from the Excise duty as former is a tax on the act of sale while the latter is a tax on the act of manufacture or production of goods. What categories of persons are required to obtain registration with the Central Excise department? Subject to specified conditions, generally the following categories of persons are required to get themselves registered with the central excise department: i) Every manufacturer of dutiable excisable goods; ii) First and second stage dealers or importers desiring to issue Cenvatable invoices; iii) Persons holding bonded warehouses for storing non-duty paid goods; iv) Persons who obtain excisable goods for availing end-use based exemption.

7. Customs duty : Customs Duty is a type of indirect tax levied on goods imported either in or to India, not both, as well as on goods exported from India. Taxable event is imported into or exported from India. Import of goods means bringing goods to India from a place outside India. India includes the territorial waters of India which extend up to 12 nautical miles into the sea to the coast of India. Export of goods means taking goods out of India to a place outside India.

8. File entrepreneurship memorandum at DIC (optional) : Although not mandatory, you may file part I of entrepreneurs memorandum to the district industries centre. This may be necessary for claiming certain incentives / subsidies and for certain formalities at the state level.

9. Apply for TAN : TAN or tax deduction and collection account number is a 10 digit alpha numeric number required to be obtained by all persons who are responsible for deducting or collecting tax. It is compulsory to quote TAN in TDS/TCS return (including any e-TDS/TCS return), any TDS/TCS payment challan and TDS/TCS certificates.

Who must apply for TAN?

All those persons who are required to deduct tax at source or collect tax at source on behalf of Income Tax Department are required to apply for and obtain TAN.

10. Permissions required at the construction stage : The permissions to be obtained from the government requires: Application for plot/shed, offer letter, payment of earnest money deposit, Allotment of plot/shed, payment of balance occupancy price, taking over possession thereof, Application for issuance of NOC/SSI registration, Execution of lease agreement, Application for grant of connection for construction water, Application for grant of connection for construction power, Post construction clearances, Building completion/drainage completion/tree plantation certificate, Permission for mortgage, NOC from Pollution Control Board, Final fire clearance, NOC from environment department, Industrial safety permit, Sanction of permanent power, Sanction of permanent water and sewerage connection.

11. Employee's Provident Fund (EPF) : Applicable for establishments employing 20 or more persons and engaged in industry.

12. Employee's State Insurance (ESI) scheme: The Act is applicable to non-seasonal factories employing 10 or more persons.

2.7 Recent Trends in Entrepreneurship Development

2.7.1 E-Entrepreneurship

E-Entrepreneurship refers to establishing a new company with an innovative business idea within the net economy, which, using an electronic platform in data networks, offers its products and services based upon a purely electronic creation of value. Essentially this value offer was only made possible through the development of Information technology.

2.7.2 Technopreneur

Technopreneur means an Entrepreneur with high technology.

Technopreneur may be defined as " type of entrepreneur that has a strategic role in accelerating national development is the one with innovation as its base". It includes;

- Website Design and development
- Software design and development
- Animation and 3D
- Game development
- Blogging
- Online selling

2.7.3 Virtual Marketing

In such markets, buyers purchase goods and services through internet. In such a market the buyers and sellers do not meet or physically, instead the transaction is done through internet. Examples – Rediff shopping, e-Bay, etc.

2.7.4 Enlightened Marketing

Enlightened Marketing is based on the philosophy that a company should make good marketing decisions by considering some of the long term factors in mind. Those factors should support the best long run performance of the marketing system. Some of those factors are consumer's wants, the company' s requirements, and society's long term interests.

2.8 Institutional Support to Entrepreneurs

There are institutions that meet the financial and non-financial requirement of entrepreneurs which are explained below:

2.8.1. Specialised financial Institutions

Apart from commercial banks, the following special financial Institutions are giving financial and re-financial assistance to the Entrepreneurs.

2.8.1.1. Industrial Finance Corporation of India(IFCI)

Established on July 1, 1948 to cater to the long-term finance needs of the industrial sector

2. 8.1.2 Industrial Credit and Investment Corporation of India (ICICI)

Incorporated in 1955 at the initiative of the World Bank, the Government of India and representatives of Indian industry. Its main objective is to provide medium-term and long-term project financing.

2.8.1.3. Industrial Development Bank of India (IDBI)

Incorporated in 1964 which provide refinancing facility to industrial loans granted by banks and financial institutions

2.8.1.4. Small Indistries Development Bank of India (SIDBI)

Apex financial institution for Promotion, Financing and Development of industries in SSI

2.8.1.5 National Bank for Agriculture and Rural Development (NABARD)

National Bank for Agriculture and Rural Development (NABARD) was established by an Act of the Parliament on 12 July1982 to facilitate credit flow for agriculture , rural infra structure and development.

2.8.1.6. The Industrial Investment Bank of India(IIBI)

The *Industrial Investment Bank of India* is a 100% Government of India-owned financial investment institution which offers assistance for project finance

2.8.2. State level

2.8.2.1.Kerala Financial Corporation (KFC)

KFC has been incorporated under the SFC Act 1951 with its headquarters at Thiruvananthapuram which provides assistance to the new industrial units and for expansion, diversification and modernisation of existing units.

2.8.2.2.State Industrial Development Corporation (SIDCs)

Incorporated under the Companies Act 1956. SIDCs were setup in different states as wholly owned companies for promoting industrial development in their respective states. The main aim is to prove term finance to all small, medium, and large industrial enterprises set up in the state.

2.9.Supporting Institutions

2.9.1 National Skill Development Corporation(NSDC)

The National Skill Development Corporation(NSDC) is a one of its kind, Public Private Partnership in India, under the Ministry of Skill Development and Entrepreneurship. It aims at promoting skill development by catalysing creation of large quality for promote vocational institutions.

NSDC provides funding to build scalable for promote vocational training initiatives. Its mandate is to enable support systems quality assurance, information systems and to train the trainer academies either directly or through partnerships. NSDC acts as a catalyst in skill development by providing funding to enterprises, companies and organizations that provide skill training. It will also develop appropriate models to enhance, support and coordinate private sector initiatives.

2.9.2 Kaushal Kendra

Kaushal Kendra are being set up as community centre focused on rural population .It is being set up in all Districts with the objectives of enhancing global level competency to the rural youth, career path and orientation.

2.9.3 Mudra Bank (Micro Units Development and Refinancing Agency)

Mudra Bank is a new institution being set up by Government of India for development and refinancing activities relating to micro units.

Micro Units Development and Refinance Agency Ltd were launched on 8 April,2015 with a corpus of Rs. 20,000 crore.

Objectives of Mudra Bank

1. Extend finance and credit support to Micro-finance Institutions (MFI) and agencies that lend money to small business, retailers, self-group and individuals.
2. Offer a Credit Guarantee scheme for providing guarantees to loans being offered to micro business.
3. Register all MFIs and introduce a system of performance rating.
4. Provide structural guidelines for the borrowers.

2.9.4.Kerala Academy for Skills Excellence(KASE)

The young workforce of Kerala and elevating their skills to global standards for employment in India and abroad, the Government of Kerala has set up Kerala Academy for Skills Excellence(KASE), a non-profit public company as the nodal agency for all skill development activities of the state.

2.9.5 Kerala State Entrepreneur Development Mission(KSEDM)

KSEDM is an ambitious scheme of the Government of Kerala, aims at inculcating entrepreneurial confidence among youth of the State through the process of selecting persons with aptitude and earnestness, training them meticulously and enabling them avail finance on easy terms from Banks/ Financial Institutions.

ASSESSMENT ACTIVITY

List out the specialised financial institutions from where an entrepreneur gets support to meet his long term financial requirements.

TE Questions

1. “One man control is the best in the world if the man is big enough to control everything”. Do you agree? Give reasons.
2. “Selecting one best form of business ownership is like looking for a shirt that may fit everybody in the family”. Elaborate.
3. Prepare a chart showing the legal formalities for setting up of a 'Sole Trading concern’.
4. Compare the features of Partnership and Joint Stock Company.
5. Explain the “Legal formalities expected to be complied by the Entrepreneur to start an Enterprise”.

6. "These organisations are functioning for rendering service to its members than profit making" .
    - Name of that organisation.
    - Identify its features.
7. Examine the Role of Co-operative form of Organisation in the development of Rural Sector.
8. Prepare a flow chart showing the Registration and Legal procedure of " Partnership"
9. Meera has decided to start a small leather belt manufacturing unit, She is not aware of the various formalities involved in the process of setting up the unit. Explain the Procedures.
10. Difference between PAN and TAN.
11. Amal an Entrepreneur has his area of operation in Kerala and Tamil Nadu . Explain the drawback of not having PAN and TAN.
12. List out the phrase used for the owners of the below mentioned business:
    - Sole Proprietorship - Sole trader
    - Partnership business - ?
    - Joint Stock Company - ?
    - Co-operative society - ?
13. Your friend has decided to start a production plant for manufacturing leather cases for mobile phones and requested you to prepare all the formalities that he should complete before starting the plant. What is the checklist that you provide him?
14. Match the following:

A	B
Virtual Marketing	Community Skill centre
Mudra Bank	Entrepreneur with high technology.
Kaushal Kendra	Rediff shopping
E-Entrepreneurship	Credit support to MFI
Technopreneurs	Purely electronic creation of value

15. Expand the following:
    - MUDRA
    - KSEDM
    - MFI
    - KASE
    - NSDC

16 Compare the functions of KASE and KSEDM.

17 . Give the objectives of Mudra Bank.

18. Kaushal Kendra are being set up as community centers focused on ……….

UNIT 3
PROJECT FORMULATION

Introduction

After gaining knowledge about the current business environment and the role of small scale sector, an enterprising individual can think in terms of taking certain concrete steps for setting up of his own enterprise. At this juncture, the entrepreneur has to decide the most effective and profitable project ideas identified by him in the pre-investment phase. This unit emphasises is given to various techniques of Project Formulation.

Learning Outcomes

The learner :

- *identifies the meaning and characteristics of a projects.*
- *identifies various phases of project.*
- *expalains various stages of Project Formulation*
- *analyses the importance of project finance and its various sources*
- *estimates working capital requirement of a project.*
- *explains various types of cost.*
- *calculates breakeven point.*
- *calculates various ratios connected with project report preparation*
- *identifies the format of Cash flow statement, Projected income statement and balance sheet*

3.1 Project- Meaning

Project is an investment opportunity or any programme of action exploited for profit. It is an investment proposal carried out, according to a scientific plan in order to achieve a definite objective within a specified period of time and cost.

3.2 Characteristics of project

1. Project is a well planned investment or economic activity.
2. Well defined objectives and target groups.
3. Time bound action programme for implementation.
4. Linking project activity with inputs, supply, marketing and infrastructural facilities.

5. Assessment of viability by systematically estimating the costs and benefits.
6. Systematic scheme for scheduling and monitoring.

3.3 Phases of Project

An entrepreneur has to consider various factors from the start to the finish in converting profitable opportunities into realities. The phases of project may be divided into six broad phases — identification, formulation, appraisal, selection, implementation, and management of projects.

1 *Identification*

Selection of project after a careful scanning of environment of investment opportunity and its likely return.

2. *Formulation*

Translation of the idea into a concrete project with scrutiny of its important preliminary aspects and preparation of feasibility reports.

3. *Appraisal*

Searching scrutiny, analysis and evaluation of market. technical, financial and economic variables. Assessing the profitability, return on investment and break-even points.

4. *Selection*

Rational choice of a project in the light of objectives and inherent constraints.

5. *Implementation*

Expeditious completion within the allocated resources.

6. *Management*

Judicious operation of a project/enterprise with objectives like maximisation of net present value, maximisation of return, and increase in the rate of return at low risk

3.4. Stages of Project Formulation

The project formulation starts with an explanation of the nature and purpose of the problem and passes through the following stages.

1) Feasibility Analysis
2) Techno-Economic Analysis
3) Project Design and Network Analysis
4) Input analysis
5) Financial Analysis.
6) Social Cost Benefit Analysis
7) Pre-investment Analysis

1) **Feasibility Analysis**: This Analysis is undertaken to ascertain the desirability of investing funds in the development of a project idea. In other words, the project idea is examined in the context of different constraints. At this stage, there could be three alternatives, via

   a) The project idea seems to be feasible

   b) The project idea is not feasible

   c) Unable to arrive at a conclusion- (If the Project idea seems to be feasible, we proceed to the second step. If the project idea is not feasible, we abandon the idea).

2). **Techno-Economic Analysis**: At this level, project demand potential is estimated and choice of optimal technology is made. Market analysis is also an important step in this stage.

3). **Project Design and Network Analysis:** This step defines individual activities which constitute the project and their relationship with each other.

4) **Input Analysis:** The input requirements during the construction of the project are assessed at this step. Input assessment will help in assessing the cost of the project which in turn is essential for financial analysis.

5) **Financial Analysis:** Financial analysis seeks to examine whether the proposed project will be financially viable and whether the proposed project will satisfy the expected returns.

6) **Social Cost Benefit Analysis:** The aim of this analysis is to ascertain all social costs and benefits with the purpose of finding out the impact of the Project on society.

7). **Pre-investment Analysis:** The project proposal gets a formal and final shape at this stage, and will decide whether to accept the proposal or not.

Assessment Activity

Public transport system is an efficient user of space and with reduced level of air and noise pollution. As the population grows, share of public transport whether road or rail based should increase. As per the records, around 8,000 vehicles plying on the roads of Greater Cochin area. Under such circumstances Cochin Metro rail was introduced in Kerala covering a route length of 25.612 kms in Cochin and would get the benefits of 3,81,868 passengers across the length and breadth of Cochin area (Aluway-Pettta-Corridor). The estimated completion cost of the Metro project would be 5,146 crores and made operated by the year 2016.

From the above case, list out various phases of project formulation.

3.5. Project finance

It means the arrangement of sufficient funds to finance a specific project. The ways and means of financing a project will vary from project to project. It depends on the nature, duration and size of the Project.

The sources of project finance may be internal (own fund, accumulated profit and retained earnings in case of existing business) and external (borrowings from banks and financial institutions).

Besides, the entrepreneur can make use of available subsidies and grants- in-aid from government and non-governmental agencies.

The Capital requirements of an entrepreneur can be sub divided into two, such as;

1. Fixed Capital
2. Working Capital

1. **Fixed capital :** Capital required to finance fixed assets is called fixed capital. It includes share capital, debentures, long term loans , assistance from foreign financial institutions and subsidies /margin money from promotional agencies.

2. **working capital :** Capital required to meet the day to day activities of business is termed as working capital. It includes advances and overdrafts from commercial banks, credit facilities from suppliers, discounting of bills etc.

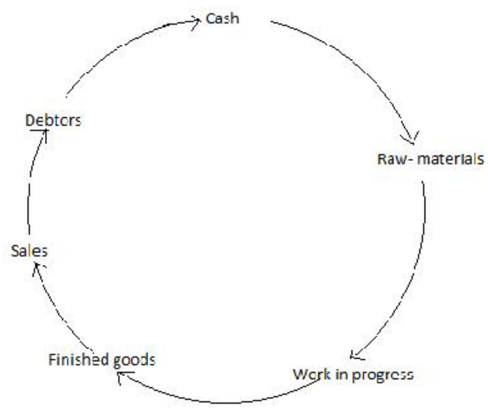
3.5.1. Determinants of working capital

The requirement of working capital varies from business to business which depends on the following factors.

1. Nature of business: Trading concerns required huge investment in working capital since they have to stock large quantities of finished goods. The requirement of working capital of public utility concern is comparatively lesser.
2. Size of business: Larger the business, larger will be the need for working capital vice versa.
3. Cost and time involved in manufacture (production cycle): If the time taken to manufacture is more the need for working capital will also be more.
4. Terms of purchase and sales: If a concern would be able to sell it products on cash basis and make it purchases on credit basis, the requirement of working capital will be lesser.

5. Turnover of working capital: If the time taken for conversion is more working capital required will also be more.
6. Trade cycle (business cycle-boom/prosperity, recession, depression and recovery): During depression, more working capital is required compared to boom period.
7. Liquid current assets: I f the current assets are highly liquid the working capital requirement will be less.
8. Other factors: – Absence of banking relationships, absence of transport facilities etc will result in more working capital.

3.5.2. Operating Cycle of Working Capital



3.5.3. Concept of Working Capital

There are two concepts of working capital:

1. Gross Working Capital Concept : According to this concept working capital is the total of current asset.
2. Net working capital concept: According to this concept working capital is the difference between Current assets and current liabilities.

   Current assets are those assets which are converted into cash within one year. Examples of current assets are cash in hand, cash at bank, stock, bills receivable, debtors, etc. Current liabilities are those liabilities which are payable within a period of one year. Examples are Bank overdraft, sundry creditors, bills payable, outstanding expenses, etc.

Illustration 1

From the following information calculate working capital under Gross working capital and Net working capital concept.

Current Asset	Rs.2,00,000
Current Liabilities	Rs.1,30,000

Solution:

Under Gross working capital concept:

Working capital = Sum of current assets

= Rs.2,00,000

Net Working capital concept:

Working capital = Current Assets – Current Liabilities

= 2,00,000 – 1,30,000

= Rs.70,000

Illustration 1I

Calculate Working Capital of Shaji & Co., according to Gross working capital concept and Net working capital concept from the following data :-

Stock	-	50,000.
Trade Creditors	-	32,000
Debtors	-	75,000
Cash	-	1,00,000
Dividend Payable	-	50,000
Tax	-	44,000
Short term loan	-	61,000
Short term Investment	-	76,000

Solution:

Total Current Assets = Stock + Debtors + Cash +Short term Investment

= 50,000 + 75,000 + 1,00,000 + 76,000

= 3,01,000

Total Current Liabilities = Trade creditors + Dividend payable + Tax + Short term loan

= 32,000 + 50,000 + 44,000 + 61,000

= 1,87,000

Gross Working Capital = 3,01,000.

Net Working Capital = Current Assets – Current Liabilities

= 3,01,000 - 1,87,000

= 1,14,000

Illustration 1II

From the following is the balance sheet of XYZ Ltd. As on 31st March, 2016

Liabilities	*Amount*	*Assets*	*Amount*
Share capital	4,00,000	Land and Building	1,50,000
General Reserves	1,20,000	Plant and Machinery	2,50,000
Debentures	1,70,000	Stock	1,50,000
Creditors	1,00,000	Debtors	70,000
Bills payable	50,000	Bills receivable	80,000
		Cash at bank	1,00,000
		Cash in hand	40,000
	8,40,000		**8,40,000**

Calculate Working capital under Gross working capital concept and Net working capital concept.

Solution

Under Gross working capital concept:

Working capital = Sum of current assets

= Stock + Debtors + Bills receivable + Cash at Bank + Cash in hand.

= 1,50,000 + 1,70,000 + 80,000 + 1,00,000 + 40,000.

= <u>4,40,000</u>

Net Working capital concept:

Working capital = Current Assets – Current Liabilities.

Current Asset = Stock + Debtors + Bills receivable + Cash at Bank + Cash in hand.

= 1,50,000 + 1,70,000 + 80,000 + 1,00,000 + 40,000.

= <u>4,40,000</u>

Current liabilities = Creditors + Bills payable

= 1,00,000 + 50,000

= 1,50,000

Net Working capital = 4,40,000 – 1,50,000

= 2,90,000

3.6. Sources of finance

1. *Long Term finance*

   This source is needed for acquiring fixed assets like land and building, plant and machinery, furniture and fixtures etc. Sources of long term financing may be issue of shares, issue of debentures, assistance from foreign financial institutions, loans from special financial institutions like KFC, IDBI subsidy from promotional agencies, etc.

2. *Medium term finance*

   Medium term funds are usually required for a period ranging from 5 to 10 years. Sources of medium term funds are: issue of redeemable debentures, loans from commercial banks and other financial institutions.

3. *Short term finance*

   This is required for financing working capital requirements. This fund is invested in current assets like cash in hand, debtors, inventories, cash at bank, bill receivables, short term investments etc. The sources for finding short term finance are:

   - Advances and overdrafts from commercial banks
   - Credit facilities from suppliers
   - Instalment credit
   - Discounting of bills

3. 7. Types of cost

1. **Fixed cost**: Those costs which do not change with changes in the volume or level of activity within the limit of plant capacity. Eg: Rent of business premises, insurance, depreciation, taxes, salary of executives etc.

2. **Variable cost:** Cost which tends to vary directly with variation in the volume of output. It varies in direct proportion to the volume of production. Variable cost per unit remains the same at all levels of activity. Eg : direct material, direct labour. Variable costs are also referred as product cost.

3. **Total cost:** It is the total of all implicit and explicit costs incurred for producing a certain product. It represents the money value of all resources sacrificed for producing goods and services. It includes fixed costs and variable cost.

4. **Average cost:** It is the cost per unit of output. It is obtained by dividing the total cost by the total number of units produced.

5. **Marginal cost:** It is the extra cost incurred for producing an extra unit of output. It is the cost of marginal unit produced.

Marginal cost = Change in Total Cost / Change in Unit

Assessment Activity

Classify the following into **Fixed Cost and Variable Cost**

a. Rent of godown

b. Telephone bill

c. Daily wages of sweepers

d. Salary to permanent staff

e. Cost of raw material

f. Interest on capital invested by an Entrepreneur.

3.8 Break Even Analysis

It is a method of cost volume profit analysis widely used in practice. It is used in two senses- in narrow sense and in broad sense. In narrow sense, it refers to a technique of determining that level of operation where total revenue is equal to the total expenses. It is the technique of determining the no profit no loss point. In its broad sense, breakeven analysis refers to the study of relationship of cost-volume and profit at different levels of activities.

3.8.1 Breakeven point

It may be defined as that point of sales volume at which total revenue is equal to total cost. It is the point of no profit no loss.

Breakeven point can be stated in the form of an equation

Breakeven point (in sales) = Fixed cost/ Profit Volume (PV) Ratio

PV Ratio = Contribution/Sales ò 100

Breakeven point in units = fixed cost /contribution per unit or breakeven sales/selling price per unit Contribution is the difference between sales and variable cost of sales or it is the total of fixed cost and profit.

Sales = Total cost + profit

Total cost = fixed cost + variable cost

Therefore, sales = Fixed cost + variable cost + profit

Sales- variable cost = fixed cost + profit = contribution

Contribution = sales – variable cost or fixed cost + profit

PV ratio =Contribution/sales × 100 or

PV Ratio = change in profit/change in sales × 100

Contribution and profit statement	
Sales	***
Less Variable cost	***
Contribution	***
Less Fixed cost	***
Profit	****

Illustration I

From the following information Calculate profit.

Sales : 3,50,000

Total cost : 2,50,000.

Solution:

Sales = Total cost + profit

Thus, Profit = Sales - Total cost

= 3,50,000 – 2,50,000

= 1,00,000

Illustration II

From the following information find out Total cost.

Fixed cost : 75,000

Variable cost : 35,000

Solution:

Total cost = Fixed cost + Variable cost

= 75,000 + 35,000

= 1,10,000

Illustration III

From the following information find out contribution .

Sales : 2,00,000

Variable cost 1,20,000

Solution:

Contribution = Sales – Variable cost

= 2,00,000 – 1,20,000

= 80,000.

Illustration IV

From the following infromation calculate Contribution

Total Cost = 3,00,000

Variable cost = 1,60,000

Profit = 90,000

Solution

Contribution = Fixed cost + profit

Fixed cost = Total cost – Variable cost

= 3,00,000 – 1,60,000

= 1,40,000

Therefore, Contribution = 1,40,000 + 90,000

= 2,30,000

OR

Contribution = Sales – Variable cost

Sales = Fixed cost + Variable cost + profit

Fixed cost = Total cost – Variable cost

= 3,00,000 – 1,60,000

= 1,40,000.

Sales = 1,40,000 + 1,60,000 + 90,000

= 3,90,000

Contribution = 3,90,000 – 1,60,000

= 2,30,000

Illustration V

Prepare a statement for finding contribution and profit from the following:

Sales : 1,00,000

Varible cost : 60,000

Fixed csot : 30,000

Solution:

Contribution and profit statement

Sales	1,00,000
Less Variable cost	60,000
Contribution	40,000
Less Fixed cost	30,000
Profit	**10,000**

Illustration VI

Find PV ratio from the following:

Contribution : 40,000

Sales : 1,00,000

Solution:

$$\text{PV ratio} = \frac{\text{Contribution}}{\text{Sales}} \times 100 = \frac{40,000}{1,00,000} \times 100 = 40\% \text{ Sales}$$

Illustration VII

Compute Break Even Opportunity in sales value and in units with the help of the following items:

- Total output 10,000 units
- Selling price per unit Rs. 20.
- Variable cost per unit Rs.12
- Fixed cost Rs.40,000.

Solution:

Method -I

Break even sales = F.C/PV Ratio

P.V.Ratio = Contribution per unit/ Selling price $\times$ 100

= 20- 12/20 $\times$ 100 = 40%

Fixed Cost = Rs. 40,000

Break Even Sales = 40,000/40 $\times$ 100 = Rs. 1,00,000.

Method –II

Break Even Sales = F.C/ Contribution $\times$ Sales

Contribution = Sales - Variable cost

= 2,00,000 – 1,20,000 = 80,000.

Break Even Sales = 40,000/ 80,000 $\times$ 2,00,000 = Rs. 1,00,000.

Method –I

Break Even Units= Fixed cost/ Contribution per unit

= 40,000 / 8 = 5,000 units

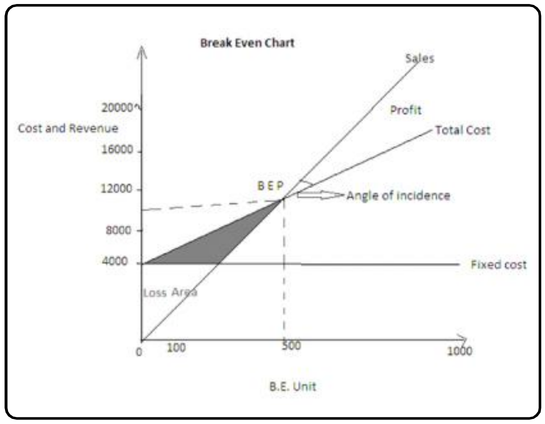
Method –II

Break Even Units= Break even sales/ Selling price per unit

= 1,00,000 / 20 = 5,000 units

Graphical representation of Break even point

3.9 Ratio Analysis



Here relation between two variables ie. liquidity, solvency, profitability and efficiency of the business. It gives a true picture of the financial health of the unit. For analysing the feasibility of a project, the following ratios are mainly used.

1) Current Ratio/Working capital ratio
2) Debt-equity ratio
3) Debt-service coverage ratio
4) Profitability Ratio.
5) Return on Investment (ROI)

3.9.1 Current Ratio/Working capital Ratio

Current ratio is the most common ratio for measuring liquidity. It represents the ratio of current assets to current liabilities. It is also called working capital ratio. Currents assets includes Cash in hand, Cash at bank, Bills receivable, Sundry debtors, Stock, Prepaid expenses, short term investments, etc. Current Liabilities consists of creditors, bills payable, bank overdraft, outstanding expenses, income tax payable, Proposed dividend ,etc. An ideal current ratio is 2:1.

Current Ratio/Working Capital Ratio: $= \dfrac{\textbf{Current assets}}{\textbf{Current liabilities}}$

Illustration-I

From the following information find current ratio.

Cash in hand	: 50000
Cash at bank	:150000
Debtors	: 40000
Stock	: 60000
Creditors	: 60000
Bills payable	: 40000
Bank overdraft	: 50000

Solution:

Current ratio = current assets/current liabilities

Current assets = 50000+150000+40000+60000 =300000

Current liabilities = 60000+40000+50000 = 150000/-

Current ratio = 300000/150000=2:1

3.9.2 Debt-equity ratio

This ratio indicates the relative proportion of debt and equity in financing the assets of a firm. This ratio is computed by dividing the total debt of firm by its net worth. Here debt refers to the outside liabilities such as long term loans, debentures etc

Equity refers to net worth or shareholders fund. Shareholders fund includes Equity capital + Preference Capital + Reserves + Surplus – Fictitious assets. An ideal debt equity ratio is 2:1.

$$\text{Debt-equity ratio} = \frac{\text{Debt}}{\text{Equity}} \quad \text{OR} \quad \frac{\text{Outsiders' Fund}}{\text{Shareholders fund}}$$

Illustration-I

From the following information , find out Debt-Equity ratio.

Equity share 200000

Preference share 200000

General reserve 80000

Long-term loan 100000

Debentures 220000

Solution:

$$\text{Debt-equity ratio} = \frac{\text{Debt}}{\text{Equity}} \quad \text{OR} \quad \frac{\text{Outsiders Fund}}{\text{Shareholders fund}}$$

Debt = 100000+220000

= 320000/-

Equity = 200000 + 200000 + 8000 = 480000/-

Debt equity ratio = 320000/480000

= 0.67:1

3.9.3 Debt-service coverage ratio :

This ratio expresses the relation between earning before interest and taxe and fixed interest charges. This ratio shows how many times the interest charges are covered by EBIT out of which they will be paid. Higher the ratio, better is the position of long term creditors and vice versa.

$$\textbf{Debt-service coverage ratio} = \frac{\textbf{EBIT}}{\textbf{Fixed Interest Charges}}$$

Illustration-I

From the following information calculate Debt Service coverage ratio.

Payment after interest and tax	: 40000
Interest	: 5000
Tax	:10000

Solution:

$$\textbf{Debt-service coverage ratio} = \frac{\textbf{EBIT}}{\textbf{Fixed Interest Charges}}$$

Calculation of earnings before interest and tax (EBIT)

Earnings after interest and tax	= 40000
Add interest	5000
Earnings after tax before interest	= 45000
Add tax	10000
Earnings before interest and tax	= 55000
Fixed interest charges	= 5000
Debt service coverage ratio	= EBIT/Fixed interest charges
	= 55000/5000 =11 times

3.9.4 Profitability ratio:- It reveals the profit earning capacity of the business. Important profitability ratios are :

1. Gross profit ratio: It helps in ascertaining whether the average percentage of profit on the goods is maintained or not.

$$\text{Gross profit ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

2. Net profit ratio: It is used to measure the overall profitability. It is an index of an efficiency and profitability of the business. Higher the ratio, better is the operational efficiency of the concern.

$$\text{Net profit ratio} = \frac{\text{Net Profit}}{\text{Sales}} \times 100$$

Illustration-I

From the following information find out gross profit ratio and net profit ratio.

Net sales : 150000/-

Gross profit : 50000/-

Net profit : 30000/-

Solution:

$$\text{Gross profit ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100 = 50000/150000 \times 100 = 33.33\%$$

$$\text{Net profit ratio} = \frac{\text{Net Profit}}{\text{Sales}} \times 100 = 30000/150000 \times 100 = 20\%$$

3.9.5 Return on Investment (ROI)

ROI is found out by dividing the net benefit /net profits after depreciation but before interest by the capital employed.

$$\text{ROI} = \frac{\text{Net Profit (after depreciation but before interest and tax)}}{\text{Capital employed}} \times 100$$

Illustration-I

From the following information calculate Return On Investment (ROI).

Net profit before depreciation, interest and tax : 40000/-

Depreciation : 10000/-

Capital employed : 300000/-

Solution:

$$\text{ROI} = \frac{\text{Net Profit after depreciation before interest and tax}}{\text{Capital employed}} \times 100$$

Net profit after depreciation and before tax = 40000-10000

= 30000/-

Capital employed = 300,000/-

ROI = 30000/300000 × 100 =10%.

Assessment Activity

Complete the following:

Ratio	***Calculation***	***Discussion***
1. Current	Current Asset Current Liability	Standard ratio to evaluate working capital
2. Debt Equity	Total debt Equity	Direct comparison of Debt to Equity.
3. Debt Equity Service coverage	?	?
4. Profitability	?	?
5. Return on Investment	?	

Illustrations:

From the given data calculate Current ratio, Grows profit ratio, Net profit ratio

Current Assets : Rs.70000

Sales : Rs 120000

Current Liabilities : Rs. 35000

Gross profit : Rs. 60000

Net profit : Rs. 30000

Current Ratio/working capital ratio $= \frac{\text{Current assets}}{\text{Current liabilities.}} = \frac{7000}{3500} = 2:1$

Gross profit ratio $= \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$

Gross profit ratio $= \frac{60000}{120000} \times 100 = 50\%$

Net profit ratio $= \frac{3000}{120000} \times 100 = 25\%$

Illustration 2

From the given information calculate Debt equity ratio and Debt-service coverage ratio

Equity Capital : Rs. 340000

Debt : Rs. 190000

EBIT : Rs.88000

Fixed Interest Charges : Rs. 8000

$$\text{Debt-equity ratio} = \frac{\text{Debt}}{\text{Equity}}$$

$$\text{Debt-equity ratio} = \frac{190000}{340000} = 0.55$$

$$\text{Debt-service coverage ratio} = \frac{\text{EBIT}}{\text{Fixed Interest Charges}}$$

$$\frac{88000}{8000} = 11 \text{ times}$$

3.10. Cash flow statement

A cash flow statement is a statement depicting the reasons for the change in cash position from one period to another. A projected cash flow statement will help the management in ascertaining how much cash will be available to meet the obligations to trade creditors, to repay bank loan and to pay dividend to share holders.

3.10.1. Specimen form of a Cash Flow Statement

A .Sources:

Profit after Tax:	XXX
Add: Depreciation	XXX
Interest	XXX
Tax	XXX
Increase in Liabilities	XXX
Decrease in Assets	XXX
Total(A)	**XXX**
B. Applications:	
Interest	XXX
Tax	XXX
Increase in Assets	XXX
Decrease in Liabilities	XXX
Loan repayments	XXX
Others	XXX
Total(B)	**XXX**

3..11. Projected Income Statement

It is used to project the sales and revenue.

Projected Income Statement

Sales		*******
Less cost of sales	*****	
Gross profit		******
Less administration and selling expenses	*****	
Operating profit		******

3.12. Projected Balance sheet

It is prepared by incorporating the expected changes in the assets and liabilities of the firm. It can be prepared for subsequent year or years

Projected Balance sheet

Liabilities	***Amount***	***Assets***	***Amount***
Current liabilities	*****	Current assets- cash and cash equivalents	*****
Long term liabilities	*****	Bills Receivables	*****
		Sundry debtors	*****
Capital	*****	Stock	*****
Retained earnings	*****	Investments	*****
	****	Fixed assets less depreciation	****
		Other assets	****
Total	****	Total	****

Assessment Activity

Prepare a brief note on the following concepts.

1. Projected profitability statement
2. Balance sheet
3. Cash flow statement

TE Questions

Objective type Questions

1. Name any Two Project Evaluation techniques.

2.Current Ratio means ……………………

3.Current Assets- Current Liability =……………………………….

4.Stock and Receivables are …………………………type of assets.

5. The excess of sales over variable cost is...............

6. At break even point, total cost is equals to..................

7. The techniques of Marginal cost is based on classification of cost into .... and ....

8. At break even point the contribution will be equal to ....

9. BEP = Total Fixed Cost / ?

II. Descriptive Questions

10. Give the meaning of the term "Project"

11. List out any five characteristics of a Project.

12. Give a flow chart of “Phases of Project Formulation”.

13. Explain the different phases of Project Cycle.

14. Mention any two difference between Working Capital and Fixed Capital

15. Analyse the term Break Even Point with the help of Break Even Chart.

16. Discuss the need for Working Capital

17. Compute Average Cost, Marginal Cost and Total Cost with the help following items.

Output	Fixed Cost	Variable Cost	Total Cost	Average Cost	Marginal Cost
0	120		?	?	?
1	120	60	?	?	?
2	120	100	?	?	?
3	120	135	?	?	?
4	120	160	?	?	?
5	120	210	?	?	?
6	120	276	?	?	?

18. The ABC Ltd, manufactures fully automatic washing machines in different variety (Small, Medium, Large, Industrial). From the given information , Calculate the ' Break Even Quantity'

Machine	Unit Selling price	Unit Variable cost	Fixed Expenditure per month
Small	10,000	3,000	35,000
Medium	15,000	8,000	35,000
Large	20,000	13,000	70,000
Industrial	35,000	20,000	1,50,000

19. Pranavu India Ltd, are the producers of different sizes of Television. From the information given below, Calculate the "Break Even Quantity" of the T.V sets manufactured per month.

Size of T.V sets	Unit Selling price	Unit Variable cost	Fixed Expenditure per month
24"	5,000	2,000	4,000
32"	10,000	7,000	6,000
36"	15,000	12,000	8,000
42"	20,000	14,000	9,000

20. The following information :

Sales – Rs.4,00,000.

Direct labour Cost (2000 units) – Rs.40,000.

Direct Material Cost (2000 units) – Rs. 1 Lakh.

Direct Expenses(2000 units) – Rs.20,000.

Fixed Cost Rs. 1,20,000.

Find out:

(a). Variable Cost per unit.

(b). Total Cost.

(c). Quantity to be sold at Break Even Point

21. Classify the following costs into Fixed cost and Variable Cost.

a. Direct material

b. Direct labour

c. Rent,rates and taxes

d. Executive salaries

e. Power and fuel

f. Salesmen's commission

g. Insurance

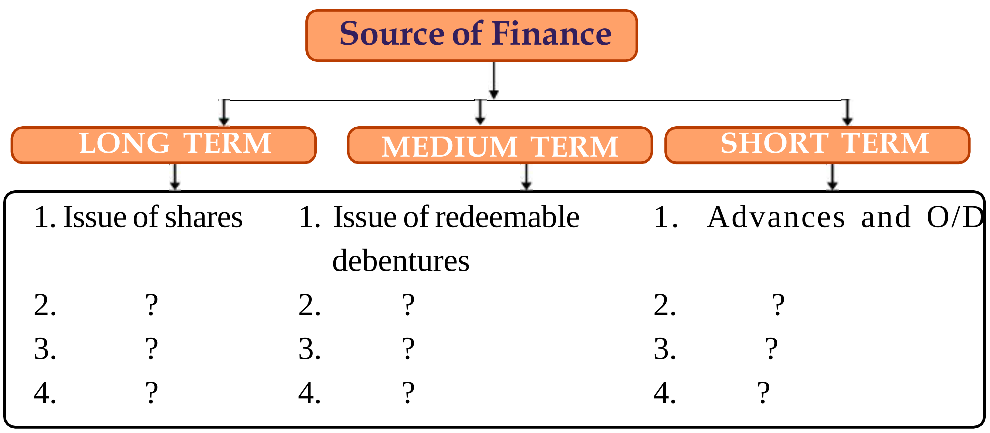
h. Audit fees

22. Review your understanding of the following:
    1. Current ratio.
    2. Return on Investment
    3. Debt equity ratio.
    4. Profitability ratio.

23. State whether each of the following statement is True or False.
    1. Project Formulation is also known as Project Planning.
    2. Market analysis is included under the Techno-Economic analysis.
    3. Project feasibility and Project viability is one and the same.
    4. Financial analysis is an analytical tool used to study of Cash flows, Cost Vol ume Profit (CVP) and Ratio analysis.
    5. Cost benefit analysis will consider the direct cost and direct benefits of cost.

Answer: (1). True (2) True (3) False (4) True (5) True.

24. Complete the chart



Extended Activities

1. An intending entrepreneur has approached you with a request to estimate and identify the sources of funds for his food processing unit. Prepare his fund requirement

2. Take a project report either from an entrepreneur or from a financial institution and then appraise the same. Show your project appraisal to your subject teacher and seek their opinion about your appraisal.

3. Visit a branch of SIDBI and prepare a detailed account of SIDBI's various financial schemes for small enterprises, and the problems faced if any, while extending loans. Based on above, submit your recommendations for improving the present situation.

UNIT-4
PROJECT APPRAISAL AND REPORT

4. Introduction

Risk is inherent in every project. No one can be sure about the success of the proposed project. Financial institutions are concerned with the soundness of the proposal before extending any financial help. Detailed study of the project will end up in a Project Report which furnishes all elements involved in formulating a project. It acts as a road map that directs to function within the frame work obtained. Moreover it also be treated as check list to guide orderly implementation. The focus of this unit is on project appraisal and preparation of project report.

Learning outcomes

The learner:

- explains the concept of project appraisal
- explains the various aspects of projects appraisal
- identifies various project appraisal tools
- evaluates the project on the basis of different appraisal techniques
- calculates payback period, net present value and profitability index
- identifies various project appraisal tools
- explains the meaning and significance and content of a Project Report
- states the process of Formulation of a Project report.
- outlines the Performa of a Project Report
- prepares a Project Report independently.

4.1 Meaning and importance of project appraisal

It is the appraisal of cost and benefits associated with a particular project to predict the viability of the proposed project. Financial institutions undertake a careful evaluation of the proposed project for determining its creditworthiness before committing any financial assistance. Project appraisal is the systematic and comprehensive review of economic, environmental, financial, social, technological, and other aspects of a project to determine whether it will meet the organisational objectives.

4.2. Aspects of Project Appraisal

Different aspects of a project are not independent but in reality they are interrelated and a project appraisal is incomplete without a comprehensive study of different aspects. Various aspects that can be considered for assessing the viability of a project are

4.2.1 Technical appraisal

Technical feasibility implies the adequacy of the proposed plant and equipment to produce the product within the prescribed norms. The technical analysis of a project involves designing the various processes, installing equipment, specifying material, and prototype testing. The project manager has to select the technology required in consultation with technical experts and consultants.

While assessing the technical feasibility of the project, the following factors are to be considered.

1. Availability of land and site.
2. Availability of other inputs like water, power, raw materials, transport, and communication facilities.
3. Availability of servicing facilities like machine shops, electric shop etc.,
4. Availability of work force as per required skill and arrangements proposed for training-in-plant and outside.

4.2.2 Management appraisal

Management appraisal is a process of monitoring the managerial components of the promoter. It plays an important role for the organisational success. To judge the managerial capability of promoter an appraisal should be made regarding their resourcefulness, and commitment, industrial experience and past performance. In the absence of managerial competence, the projects which are even feasible, may fail.

Research studies report that most of the enterprises fall sick because of lack of managerial competence or mismanagement. This is more so in case of small-scale enterprises where the proprietor is all in all, i.e., owner as well as manager. Due to his one-man show, he may be jack of all but master of none.

4.2.3 Environmental Appraisal

In the modern world, because of the rapid development of industry, pollution has reached alarming proportions. There are various factors, such as Government regulations, pressure from consumers, local people and investors, which force the firm to act in a more environment-friendly manner. Therefore, location of the project, type of technology to be used, and method of effluent disposal are to be decided only after taking the following factors into consideration

- Public health and occupational safety
- Control of air, water and land pollution
- Management of renewable natural resources (plants and animals)
- Efficient use of natural resources through multiple use, recycling and erosion control
- Conservation of unique habits (forests, game reserves) for rare species and cultural preservation

4.2.4. Market Appraisal

Before the production actually starts, the entrepreneur needs to anticipate the possible market for the product. He/she has to anticipate who will be the possible customers for the product and where and when the product will be sold. This is because production has no value for the producer unless it is sold. Thus, knowing the anticipated market for the product to be produced becomes an important element in every business plan. Market analysis is concerned primarily with two questions.

- What would be the aggregate demand of the proposed product / service in future?
- What would be the market share of the project under appraisal?

To answer the above questions, the market analyst requires a wide variety of information such as

- Consumption trends in the past and the present
- Past and Present supply position
- Production possibilities and Constraints
- Imports and Exports
- Structure of competition
- Cost Structure
- Elasticity of Demand
- Consumer behavior, intentions, motivations, attitudes, preferences & require ments

- Distribution channels & marketing policies in use
- Administrative, technical, & legal constraints

4.2.5 Economic and Financial Appraisal

In economic analysis, an effort is made to find out as to whether the benefits associated with the project are more than the project cost for justifying investment made on it. Since all the business activities revolve around finance, the importance of financial aspects cannot be under estimated. This analysis consists of the following elements.

- Source of fund (internal or external)
- If the funds are to be borrowed, would the entrepreneur be able to pay back the loan.
- Possibility of grant from the Government or from any other sources.
- Effective cost recovery mechanism, aimed to recoup the project cost

Economic analysis also referred to as social cost benefit analysis. It is concerned with judging a project from the social point of view. In such an evaluation the focus is on the social costs and benefits rather than monetary costs and benefits. Social cost benefits analysis consists the following elements.

- Economic benefits and cost of the project
- Impact of the project on the distribution of income in the society
- Impact of the project on savings and investment in the society

Assessment activity

1. A project which is viable at present may not be sustainable in future. How can you overcome this issue?
2. Identify the method of appraisal to which the following decision belongs.

1 At what price customer will buy	Market appraisal
2. Efficient disposal and utilisation of bye-product	?
3. Plant layout	?
4. Manufacturing process	?
5. Taxes and subsidies	?
6. Return on investment	?

4.3 Tools of project appraisal

Tools of Project appraisal are used to asses a proposed project's success and viability. After identifying the associated cost and expected revenues, an entrepreneur tries to evaluate the project by using any or combination of the following methods.

4.3.1 Payback Method

Payback period represent the number of years required to recover the original investment. Projects will be selected if initial outlay can be recovered within a predetermined period. This method is relatively easy since the cash flow doesn't need to be discounted. It is an attempt to measure the period of time taken for the original cost of a project to be recovered from the earning of the project itself.

4.3.2 Formula for Calculating Payback Period

a) when annual cash inflows are equal

Payback period = original cost of a project/annual cash inflow after tax before depreciation

b) when annual cash inflows are not equal

The payback period can be found out by adding up the cash inflows until the total is equal to the initial cash outlay of the project

Illustration-1

A project cost Rs.50000 and yields annual cash inflow of Rs.10000 for 7 years. Calculate its payback period.

Solution

Payback period = original cost of the project/annual
cash inflow =50000/10000
=5 years

Illustation-2

Determine a payback period for a project which require a cash outlay of Rs.12,000 and generate cash inflow of Rs.2000, Rs.4000, Rs.4000, Rs.5000 in the first, second, third and fourth year respectively

Solution

year	Annual cash inflow	Cumulated cash inflow
1	2000	2000
2	4000	6000
3	4000	10000
4	5000	15000

Up to third year the initial investment of Rs.12,000 is not recovered, rather only Rs.10,000 is recovered. But the cash inflow for the fourth year is Rs.5000, i.e. Rs.3000 more than the cost of the project. Thus the time required to recover Rs.2000 will be

2000/5000 = 0.4 years

Hence payback period is 3.4 years

Additional Information -- Computation of CFAT

Annual Sales	*500000*
Less:Cost of production including depreciation of Rs.100000	*300000*
Profit before tax	*200000*
Less:Tax @ 40%	*80000*
Profit after tax	*120000*
Add:Depreciation (non cash expense)	*100000*
Cash flow After Tax before Depreciation (CFAT)	*220000*

4.3.3 Net Present Value

A project's net present value is determined by summing the net cash inflows, discounted at the project's cost of capital and deducting the initial outlay. Decision criteria are to accept a project with a positive net present value.

Net present value = present value of all cash inflows - present value of all cash outflows

The following steps are involved in the NPV method:

1. Determine appropriate rate of interest to discount cash flows
2 Compute the present value of total investment outlay
3. Compute the present value of total cash inflows
4. Subtract the present value of cash outflow from the present value of cash inflows
5. Choose the project if the **NPV** is positive. If the **NPV** is negative, i.e., the present value of cash outflow is more than the present value of cash inflow the project proposal will be rejected

Illustration-1

Calculate the net present value of two projects and suggest which of the project should be accepted assuming a discount rate of 10%

	Project A	Project B
Initial investment	Rs.40000	Rs.60000
Estimated life	5years	5 years
Scrap value	Rs.2000	Rs.4000

The profits before depreciation and after tax are as follows:

Project A-12000, 18000,7000,5000,4000 respectively

Project B-35000, 25000, 12000, 4000, 4000 respectively

Calculation of net present value

PROJECT-A

Year	*Cash inflows*	*Present at 10% value of Re.1*	*Present value of cash inflows*
1.	12000	0.909	10908
2.	18000	0.826	14868
3.	7000	0.751	5257
4.	5000	0.683	3415
5.	4000	0.621	2484
6 (scrap)	2000	0.621	1242
		Present value of all cash follows	38174

Net present value=Present value of all cash inflow - Present value of all cash outflows

NPV =38174 – 40000 =-1826

PROJECT-B

Year	*Cash inflows*	*Present at 10% value of Re.1*	*Present value of cash inflows*
1.	35000	0.909	31815
2.	25000	0.826	20650
3.	12000	0.751	9012
4.	4000	0.683	2732
5.	4000	0.621	2484
6 (scrap)	4000	0.621	2484
		Present value of all cash follows	69177

Net present value=Present value of all cash inflows-Present value of all cash outflows

NPV = 69177-60000 = 9177

As the net present value of project B is more, it is suggested that project B may be selected

Note: the scrap valued is considered as a cash inflow at the end of the life of the project

4.3.4 Profitability Index

This is the ratio of the present value of project cash inflow to the present value of initial cost. Projects with a Profitability Index of greater than 1.0 are acceptable

Profitability index=Present value of cash inflows/Present value of cash outflow

Illustration-1

The initial cash outlay of the project is Rs.50000 and it generates cash inflows of Rs16000,Rs19000,Rs22000,and Rs 13000 in four years. Ascertain the profitability index of the proposed investment assuming 10% rate of discount.

Year	*Cash in flows*	*Present at 10% value of Re.1*	*Present value of cash inflows*
1.	16000	0.909	14544
2.	19000	0.826	15694
3.	22000	0.751	16522
4.	13000	0.683	8879

TOTAL 55639

Profitability index = present value of cash inflows/present value of cash outflows

= 55639/50000 = 1.113

4.3.5 Internal Rate of Return (IRR)

This method equates the net present value of the project to zero. The project is evaluated by comparing the calculated internal rate of return to the predetermined required rate of return. Projects with Internal rate of return that exceeds the predetermined rate are accepted. The major weakness is that when evaluating mutually exclusive projects, use of internal rate of return may lead to selecting a project that does not maximize the shareholders' wealth.

Assessment Activity

Consider the following case:

Raju intends to start a 'Supermarket' . He has formulated a project for their purpose and conducted a viability study. The total cost of the project is estimated to be

Rs.17,00,000. He needs external financial assistance from banks or financial institutions.

- How can we convince the feasibility and viability of the Project?
- What all documents are to be filed to get financial assistance from an external agency ?

4.4 Meaning and Significance of Project Report

A Project Report is an important document to convince people about feasibility and viability of a project. It is a Blue Print of an investment proposal. It can be defined as a well evolved course of action derived to achieve the specific objective within a specified period of time. Whether a Project should be proceeded with or not, depends upon their report. Moreover, Banks or financial institutions usually provide financial support on the basis of the Report.

From the above, can you list out the significance of a Project Report

- It acts like a road map
- For getting financial assistance from Banks or other financial institutions
- To act as means of communication
- To serve as valid proof
- To meet legal requirements
- To measure the progress
- To control the performance

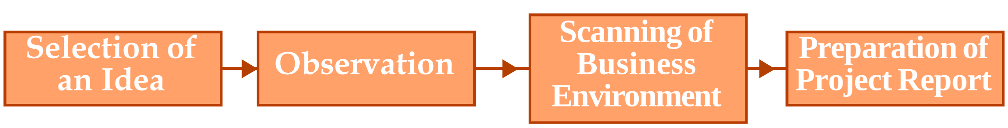
The need and importance of a Project Report is clear from the above discussion. The following questions are relevant in this regard:

o How can we prepare a formal report ?

o What are the contents to be included in it?

Let us have detailed discussion:

4.4.1.Process of Project Report



4.4.2.Contents of a Project Report

The information to be included in a project report may be broadly classified as :-

1. General Information:-

The information of general nature in the project report includes the following:

a. Bio-data of promoter: It includes the name and address of the entrepreneur, his qualification, experience, etc.

b. Industry profile: Analysis of industry to which the project belongs.

c. Constitution and organisation: Organisational structure of the enterprise.

d. Product details: Utility of the product, the range and design of the product and advantages of the products over it substitutes.

2. Project description:

A brief description of the project is to be included here:-

a. Site : Location of the enterprise – whether owned or leasehold industrial or residential area.

b. Availability of raw material and skilled labour.

c. Utilities – power, fuel and water.

d. Pollution control – scope of dumps and sewage system

e. Transport facilities – Mode of transport and distance from various locations.

f. Machinery and equipments – A complete list of machinery and equipments indicating their size, type and cost.

g. Production process – the process involved in production and conversion period.

3. Market potential :

The following aspects are to be covered

a. Demand and supply position – expected demand for the product, present supply position of the product and also the gap to be filled up by the proposed unit.

b. Expected price – Price at which the product is to be sold.

c. Marketing strategy – arrangements made for selling the products.

d. After sales service- provision regarding repair and maintenance of the product sold.

4. Capital cost and sources of finance:

An estimate of various components of capital items like land and building, plant, etc and the probable source of financing the same.

5. Working capital requirements:

Estimated working capital and its source should be mentioned here.

6. Economic and social variables:

The source economic benefit expected to accrue from the project should also be stated in the report which includes employment generation, local resource utilisation, development of the area etc.

7. Other financial aspects:

To assess the Profitability of the project, a projected profit and loss account and to assess the financial position , a projected balance sheet and cash flow statement is to be appended.

8. Project Implementation:

A time table for the project to ensure the timely completion of the project is also to be presented.

4.4.3 .Proforma of a Project Report:-

1. **Introduction:**
   - a. Nature of activity
   - b. Constitution
   - c. The entrepreneur and his ability to implement the project
   - d. Market analysis
2. **Investment analysis:**
   - a. Fixed capital requirements (Fixed assets and sources)
   - b. Working capital requirements
   - c. Material and labour
3. **Analysis of costs**:
   - a. Fixed costs
   - b. Variable costs
   - c. Cost of production
4. **Calculation of surplus:**
   - a. Sales realisation
   - b. Non-cash costs
   - c. Finance charges
   - d. Surplus
5. **Sources of finance:**
   - a. Cost of the project
   - b. Own funds
   - c. Borrowed funds
   - d. Sources
6. **Project performance and profitability**

A. Sales	XXX
Other income	XXX
Total **(A)**	**XXX**

B. Cost of sales	
Raw materials	XXX
Wages	XXX
Others	XXX
Total **(B)**	**XXX**
C. Surplus (A-B)	XXX
Depreciation	XXX
Profit before interest and tax (B-C)	**XXX**
D. Interest	XXX
Profit before tax (C-D)	**XXX**
Tax	XXX
E. **Profit after Tax**	**XXX**

7. **Project Balance Sheet**

A. Assets:	XXX
	XXX
B. Liabilities:	XXX

8. **Cash Flow Statement**

A. Sources:	
Profit after Tax:	XXX
Add: Depreciation	
Interest	XXX
Tax	XXX
Increase in Liabilities	XXX
Decrease in Assets	XXX
Total(A)	**XXX**
B. Applications:	
Interest	XXX
Tax	XXX
Increase in Assets	XXX
Decrease in Liabilities	XXX
Loan repayments	XXX
Others	XXX
Total(B)	**XXX**

C. Surplus (A-B)	XXX	
D. Drawings	XXX	
Balance of Cash	**XXX**	
Opening balance of Cash		XXX
Closing balance of Cash		XXX

9. **Ratio Analysis**
   a. Current Ratio
   b. Debt- Equity ratio and DSCR
   c. Profitability Ratio

10. **Break-even Analysis**

Sales		XXX	
Less :	*Variable Costs*	XXX	
	Materials	XXX	
	Wages	XXX	
	Overheads	XXX	XXX
	Fixed Costs		
	Salaries		XXX
	Electricity		XXX
	Depreciation		XXX
	Others		XXX
	Total		**XXX**

Break-even Sales:

$$\frac{\text{Fixed Cost}}{\text{Contribution}} \times \text{Sales}$$

% of BEP : $\frac{\text{BEP Sales}}{\text{Total Sales}} \times 100$

Margin of Safety : Total Sales – BEP Sales

11. **Conclusion**

A brief concluding summary is to be given.

4.4.4 Model Project Report

Project Report of
RIDE COMFORT AUTO TECH, CHANGUVETTY

List of Contents

Details of project

Sl.	Particulars	Details
1	Name of enterprises	**RIDE COMFORT AUTO TECH, Changuvetty**
2	Name and address of the Promoter	Khurbani, Changuvetty, Kottakkal, Malappuram Dist
3	Location	S No. 121/1, Thennala Village
4	Part I Acknowledgement No.	
5	Plant and Machinery	Rs. 580000.00
6	Working Capital	Rs. 384470.00
7	Others	Rs. 30000.00
8	Total project cost	Rs. 994470.00
9	Bank Loan a) Term	Rs. 366000.00
10	b) W/C	Rs. 230682.00
11	Own Capital	Rs. 49724.00
12	PMEGP Subsidy	Rs. 348065.00
13	Name of products	Seat cover
14	No of employment	10
15	Turn over 80% capacity	Rs. 6048000.00
16	Net Profit	Rs 3.98 lakh
17	BEP	44.87
18	Net profit ratio	6.58
19	Average DSCR	03.59
20	Cash balance 1 st Year	Rs. 3.73 lakh
21	Rate of return on investment	40.03
22	Name of Bank	**CanaraBank, Changuvetty**

PROJECT REPORT OF RIDE COMFORT AUTO TECH, KHURBANI, CHANGUVETTY.

1. Introduction:

RIDE COMFORT AUTO TECH, Khurbani, Changuvetty, Kottakkal, Malappuram Dist. is proposed a Micro Enterprise for the manufacturing and marketing of car seat covers. It is a proprietary concern. The unit has been registered in the Department of Industries and Commerce bearing Acknowledgment number.

2. The Promoter:

Smt. Khurbani, is the proprietor of the unit. She is a young woman of 38 years and has having good physique to handle any kind of work in connection with the production and the marketing of the Seat cover. She has more than 1 year practical experience in the same line of business. She has good contact with people in various walks of life. Hence she has good confidence to make the venture a very great success. The family members will actively help her for the day to today activities of the enterprise.

3. Scope of the Project:

The Enterprise is situating nearly to Kottakkal Town, the world famous city of Ayurveda. Most of the people are sound in wealth. The product has good market in this town and local markets. In Malappuram district almost all houses have at least a vehicle. Hence seat cover has great demand. There is no such a mechanised seat cover manufacturing unit in our District. Direct Marketing and through agents can be adopted by easy terms. There is a vast gap between the demand and supply. Hence the product has good scope.

Rexene can be designed and shaped, then cut with machine. The same can be stitched in the required shape of the seat. Joints of the Rexene will be welded with P V C welding machine.

4. Location:

The Unit is proposed to be located in the leased land, RS No. 121/1 of Thennala Village, Edarikkode Grama panchayat is having all infrastructure facilities like easy transport, water, Electricity, Post Office, Telephone, Hospital etc. The Location is near at Kottakkal Muncipality and town. The rent will come to Rs 4000/-

5. Power and Fuel

The Unit required only 5 H.P. electric power for running the Unit. Generator can also be used when power fails in the Unit. Approximate power charge will be Rs. 2500 per Month.

6. Raw Materials:

The main raw materials required for the Unit is different varieties of Rexene, Poly Urethane foam, elastic, net, thread etc. It can be purchased from the production centers directly, Mumbai, Chennai etc. The annual requirement of raw materials is assessed and given in the annexure‘

7. Employment:

The Unit can provide employment to 10 persons directly. They are locally available. The annual expenditure is assessed and given in the annexure.

8. Preliminary and Pre-operative expense:

Prior to the setting of the Unit, the unit has to meet some expenditure towards the preparation of the project report, getting MSE Acknowledgement and other statutory clearance, license etc, for which a sum of Rs. 5000 is allotted.

9. COST OF PRODUCTION AND PROFITABILITY:

The estimate of this project is on the basis of the following:

1) The unit will work for 300 days in a year on single shift basis.
2) The capacity utilisation has been assumed at 80% from the first year onwards.
3) The price of the raw material and finished goods are taken at the prevailing market price.
4) Wages salaries have been increased by 5% every year.
5) Repairs, insurance, telephone charge, etc., are taken at lump.
6) No contingency provision is made since the costs are taken at prevailing market price.
7) Interest on Term Loan is taken at 13% per annum.
8) Depreciation has been calculated on Written down Value Method.
9) Income tax has been calculated at the rate applicable to proprietary concern.
10) This unit is proposed to set up under PMEGP scheme in which maximum subsidy of 35 % on total project cost is considered.

10. PMEGP

Prime Minister’s Employment Generation Program (PMEGP) is a new scheme launched by the Government of India to promote rural people for generating employment opportunities. As per the norms maximum subsidy of 35% will get to SC, ST, OBC, Minorities, women etc. those who living in rural area of the Country and 25% will get those who reside at Urban area.

11. CASH FLOW STATEMENT

A cash flow statement for a period of 7 years on the basis of the above profitability is furnished as annexure. The cash generation is found sufficient to serve the term obligations.

12. PROJECTED BALANCESHEET

A projected balancesheet for a period of 7 years is given as an annexure.

13. DEBT SERVICE COVERAGE RATIO

A statement showing debt service coverage ratio (DSCR) of the unit for each operating year is given as an annexure. The ratio is satisfactory.

14. MACHINERY AND EQUIPMENTS

Sl.No	DESCRIPTION	QTY	RATES
1	PVC Welding Machine	1	93600.00
2	Sewing Machine double needled - Industrial	7	273520.00
3	Upholistery Dies	1	52000.00
4	Generator	1	52000.00
5	Computer and accessories	1	25000.00
6	Tools		59000.00
	Total		555120.00

T E Questions

1. Identify the following statements:

   a. Current Asset/ Current Liability = …………………..

   b. Break Even Point in units = Contribution per unit/ …………………….

   c. An ideal Current Ratio is …………………

   d. Debt/Equity = ……………………..

   e. Gross Profit Ratio = Gross Profit /…………………….. X 100

   f. Net profit Ratio = …………………./ Sales X 100

2. Expand the following:-

   (a) BEP (b) IRR.

3. Project Report is like a road map to an Entrepreneur, Elucidate your views.

4. Suppose you are going to take up a business unit after completion of your VHSE course. Then what would be your business plan for the Project proposed. Give details of the Project.

5. Project Report of a unit is mainly prepared for availing financial assistance from Banks. Imagine you are appointed as a financial expert to appropriate viability of a Project. Identify the different aspects of Project Appraisal.

6. Give a specimen form of Project Report for your vocational course.

7. State four steps in the Process of preparing a 'Project Report'.

8. Explain the uses of the Project Report for the following :

   (a) The Entrepreneur

   (b) Financial Institutions/Bankers

   (c) The Government

9. Explain the following as elements of a Project Report :

   (a) Description of the enterprise

   (b) Economic viability and marketability

   (c) Technical feasibility.

10 Projects will only be selected if initial outlay can be recovered within a predetermined period. Identify the method of appraisal.

11. Project investment decisions are irreversible in nature - Comment

12. Industrialisation and preservation of environment go hand in hand - Explain

13. Match the following

Public health	Marketing aspects
Communication facility	Environmental aspects
Elasticity of demand	Technical aspects
Social cost benefit analysis	Economical aspects

14. List out the environmental issues while appraising the project

15. Cash flows-Rs.100000

    Average annual cash inflow for eight years-rs.20000

    Find payback period

16. Mr Vinod is the marketing manager of a distributing company. As a part of introducing new product into the market,Mr.vinod is appointed for assessing marketing potentials of new product. What are the aspects to be considered by Mr.vinod in this regard?

17. A project cost Rs.50,000 and yields annual cash inflow of Rs. 10,000 for 7 years. Calculate payback period.

18. Determine the payback period for a project which require a cash outlay of Rs.20,000 and generate cash inflow of Rs.5,000, Rs.7,000, Rs.6,000, Rs.5,000 in the first, second, third and fourth year respectively

19. The initial cash outlay of the project is Rs100000 and it generates cash inflows of Rs30000,rs40000,rs45000,and Rs 25000 in four years .Ascertain the profitability index of the proposed investment assuming 10% rate of discount.

UNIT 5
ENTERPRISE MANAGEMENT

Introduction

As you know that there are five factors of production namely land, labour, capital, organisation and entrepreneurship. So long these factors remain separated and scattered, there is no possibility of production. In fact this requires a special skill and knowledge about how to seek their fullest cooperation by establishing a good combination among them to effectively achieve the objectives set by the enterprise. such skills and knowledge are called management. The present chapter aims at exposing you to the fundamentals of management with special reference to small scale enterprises.

Learning Outcomes

The learner:

- *explains the meaning, definition and importance of management*
- *outlines the functions of management*
- *explains the principles of management*
- *states the meaning and definition of marketing management.*
- *explains functions of marketing management*
- *list outs meaning and definition of advertising*
- *describes the and qualities of salesmanship*
- *identifies the elements of Marketing Mix*

5.1 Concept of Management

Management consists of different interconnected and interdependent activities or functions aimed at achieving the goals of the organisation. Management is an activity which is necessary whenever there is group of people working in an organisation. Management aims at guiding their efforts towards achieving the common goal or objective.

Management may be defined as "the art of getting things done through others".

Management may be defined as " To manage is to forecast and to plan, to organize, to command, to coordinate and to control".

5.2. Importance of Management

- Management helps in achieving group goals.
- It increases efficiency.
- It creates a dynamic organisation.
- Management helps in achieving personal objectives.
- Helps in the development of the society.
- Ensure optimum utilisation of resources.

Activity: I

Suresh and Sumesh are on for venturing a building work on behalf of Pradeep. This being a heavy project for them. Suresh is of the opinion that unless we plan the activities with utmost care the mission will be a failure. Let us hear their conversation now.

Sumesh : What would we plan ? What I mean is the various aspects involved in this context.

After discussion on the point, Sumesh continued.

Is planning alone enough to make our endeavour a success?

Suresh : No. Now we have to decide the various activities involved and decide whom the work has to be entrusted and also to fix the authority, responsibility ,etc wherever a division of work exists.

Sumesh : Then what else?

Suresh : After organising our activities in the above manner the next emphasis is upon seeking the necessary work force(Staffing).

Sumesh : After managing, they are to be properly directed? What about communication on the things to be done by the work force? They should be motivated.

Suresh : Yes of course, this is to be done. They have to be motivated and lead properly. Last but not the least, one more important aspect is that we should see whether they do things in accordance with the plan established.

From the above conversation, you might have got a general idea about the functions to be performed by a manager. Let us have a glimpse over it.

5.3.Functions of Management:

Different experts have classified functions of management in different ways. The most widely accepted functions of management is one which is given by KOONTZ. According to him, functions of Management consist of;

Planning

Planning means to decide in advance what is to be done. It is setting objectives and targets and formulating an action plan to achieve them efficiently and effectively.

Following are the ***Steps in Planning***:

- Establishing objectives
- Developing the planning premises
- Development of alternatives.
- Formulating derivative plans.
- Selection of the best course of action.

Organising

Organising is the management function of assigning duties, grouping tasks, establishing authority and allocating resources required to carry out a specific plan. Organising involves bringing together the manpower and material resources to achieve the goals set by the enterprise.

Staffing

Staffing may be defined as the managerial function which deals with the recruitment, selection and appointment of suitable persons to the organisation. Finding the right people for the right job is known as Staffing.

Directing

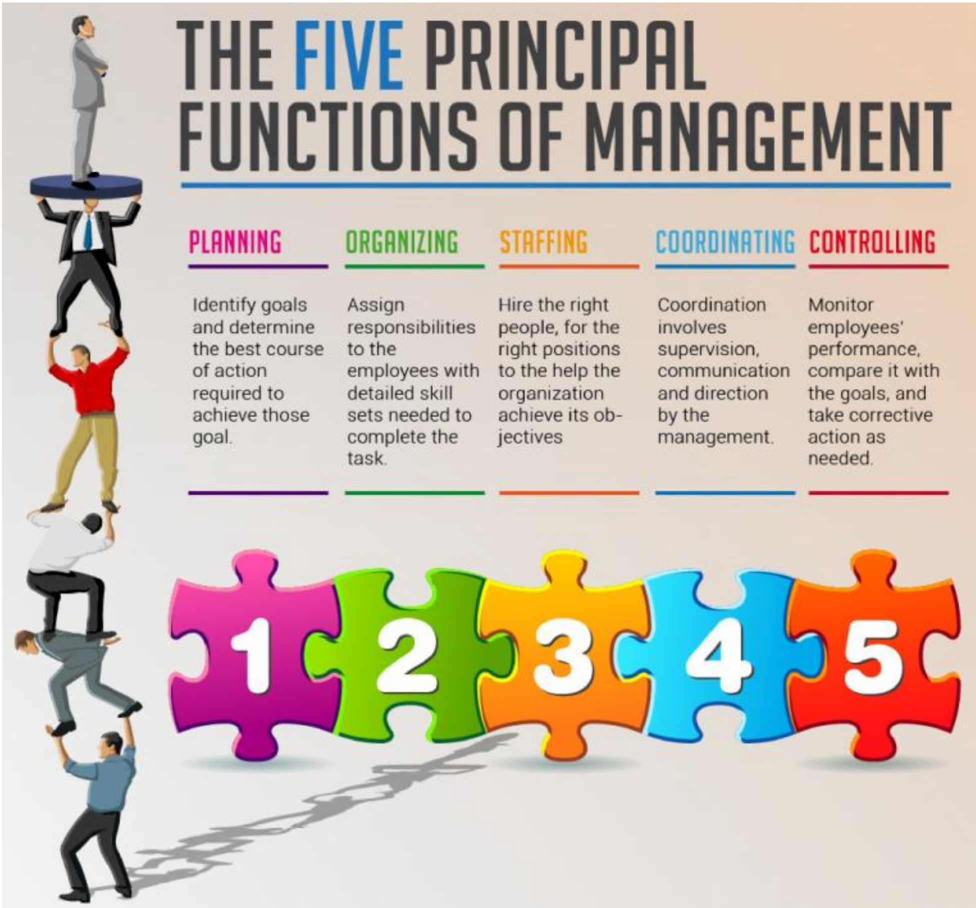
Directing is concerned with instructing, guiding, and inspiring people in the organization to achieve its objectives. Directing involves leading, influencing and motivating employees to perform the tasks assigned to them.

There are Four elements of Directing:

- Supervision
- Motivation
- Leadership
- Communication.

Controlling

Controlling means ensuring the activities in an organization which are performed as per the plans and the resources are being used effectively and efficiently for the achievement of predetermined goals.



Controlling has the following steps:

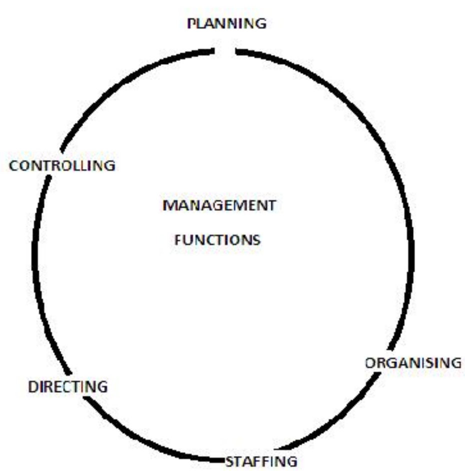
a. Establishment of standard performance

b. Measurement of actual performance

c. Comparison of actual performance with standards and find out deviations if any

d. Taking corrective action

For theoretical purpose, it may be convenient to separate the management functions. But practically, these functions are overlapping in nature. ie, they are highly inseparable. Each function blends into the other and each affects the performance of others. Hence the functions of management can be depicted as:



Assessment activity

Suggest an appropriate Management function for the statements given below:

a.	Thinking in advance the future course of action	?
b.	Various elements to achieve common objectives	?
c.	…………………. refers to filling the post with people.	?
d.	Instructing, guiding, communicating and inspiring people in the organization.	?
e.	It refers to bringing the actual results closer to the desired results.	?

Activity

Case Study

Thezneem and Hizana are on the move to set up a BPO. Having completed the formation of the company they were about to commence its operations. The unwieldy size of the organisation comprising numerous and varied activities may cost even to a stand still and shut down in the near future. In order to survive such pitfalls they have initiated certain arrangements as follows:

- The entire organisation has to be classified into various departments according to their respective functions and each department has to be engaged with suitable persons of the departmental heads under them. [The departments are production, marketing, HR, Finance, etc]
- They have also established a relationship ranging from top to bottom and the management was very strict regarding the path of communication. Because they wanted their subordinates to be wholly responsible for their deeds.
- The company has put up a notice board on which the rules and regulations has been laid down. There was also strict warning that equipments and weapons after use must be kept at the proper place where it has to be. It is equally applicable to workers too.

  a. What do you think of the benefits that shall be accrued to the firm, if the activities are classified as above ?

  b. Who are at the top in respect of authority?

  c. Can you see this throughout the organisation?

  d. Was there a free flow of communication? or prescribed channels for this purpose?

  e. Despite of the positions and ranks to which they belong, the management always welcomes the bright and creative ideas of the workers.

f. Why does the company framed the rules and regulations ? Will it be beneficial? If so in what manner ?

g. Why the men are encouraged to contribute innovative ideas? Will it be beneficial? How?

h. Why does the management want its men and materials in the proper place?

5.4 Principles of Management

Management principles are guidelines for the decision and action of management . Different management experts have explained different principles on the basis of their research. Henri Fayol, a famous industrialist of France, has described 14 principles of management in his book 'General and Industrial Management'. These are:

a. Division of work
b. Discipline
c. Unity of direction
d. Order
e. Stability of personnel
f. Espirit de corps
g. Subordination of individual interest to general interest
h. Centralisation and decentralisation
i. Authority and responsibility
j. Unity of command
k. Scalar chain
l. Equity
m. Initiative
n. Remuneration of employees

The list of principles of management is suggestive and all principles are not applicable to all organizations as such. These principles are flexible and changes can be made in them in case of need.

When you run a small business, all activities of the enterprise is to be managed by yourself. But when the size of the business expands, the activities of the organization is to be grouped into different functions like production, finance, marketing, etc for the effective control When theory and principles of management are applied to these functional areas, it is termed as functional management.

5.5 Functional areas of management

1. Financial Management
2. Human resource Management
3. Production Management
4. Marketing Management.

The heart of your business success lies in its marketing. Despite the best product or services offered by you, none of the potential customers would know about it without marketing . Effective marketing will increase sales which in turn lead to overall growth to the business. Considering the importance of marketing, it is dealt in detail.

5.5.1. Concept of Marketing Management

Marketing Management refers to planning, organising, directing, and controlling the activities which facilitate exchange of goods and services between producers and consumers.

Marketing may be defined as "the performance of business activities that direct the flow of goods and services through producers to consumers”

5.5.2 .Objectives of Marketing Management

- Creation of demand
- Market share
- Increase employment opportunities
- Earns profit

5.6. Marketing Functions

Marketing Functions

Functions of Exchange	Functions of Physical supply	Facilitating Functions
• Buying	• Storage	• Financing
• Assembling	• Transportation	• Risk taking
• Selling	• Warehousing	• Market research
		• Standardization
		• Grading
		• Packaging
		• Branding
		• Pricing
		• Advertisement
		• Salesmanship

1. Buying

Buying means the purchase of raw materials for use in manufacturing of the purchase of finished goods for the purpose of resale.

2. Assembling

It involves collection of particular type of goods bought from different suppliers under a common roof.

3. Selling

Selling is the act of transferring the ownership of goods by the seller to the buyer in exchange o f money . Selling helps the firm to achieve the objective of earning profits.

4. Storage and warehousing

Storage is the process of holding and preserving goods from the place of production to the place of consumption. The storage function is made possible by warehouses.

5. Transportation

It refers to the physical movement of goods from the place of production to the place of consumption. It helps in assembling and dispersing goods.

6. Financing

Financing in marketing implies the provision of money and credit necessary for the producer or seller to make goods available to the consumers.

7. Risk taking

Marketing involves a number of risks owing to unforeseen circumstances. There can be loss of goods due to fire, flood, earth quake, etc. All these risks are handled by the entrepreneur.

8. Marketing Research

It means systematic collection, recording and analysing of data about problems relating to the marketing of goods and services.

9. Standardisation and Grading

Standardisation refers to the process of setting certain standards of a product on the basis of some desirable qualities. Grading refers to the division of products into different classes made up of units possessing similar qualities like size, weight, shape, color and quality.

10. Branding

A brand is a name, sign or symbol o design of a combination of all these used to distinguish the product of one firm from others.

Assessment activity

Identify to which marketing function of the following relates:

a. The act of designing and producing the container or wrapper of a product.

b. The process of holding and preserving goods from the place of production to the place of consumption.

c. Systematic collection, recording and analyzing of data about problems relating to the marketing of goods and services.

d. The process of using a name sign, symbol or design to a product.

5.7. Advertising

Advertising is the most commonly used tool of promotion. It is an impersonal form of communication which is paid for by the marketers to promote some goods or services.

Advertising may be defines as the " mass communication of information intended to persuade buyers as to maximise profits".

5.7.1.Benefits of Advertising

1. Increases Sales
2. Creates demand
3. Helps in introducing new products
4. Controls product price
5. Helps analysing consumers need
6. Easy purchasing
7. Educates the customers

8. Provide employment opportunities
9. Connecting link
10. Helps press

5.8 Salesmanship

Salesmanship or Personal Selling involves oral presentation of message in the form of conversation with one or more prospective customers for the purpose of making sales.

Salesmanship is an ability to remove ignorance, doubt, suspicion and emotional objection concerning the usefulness of a product.

5.8.1 Qualities of a Salesman

1. A salesman should have educational background
2. He should have memory
3. He should be honest and loyal
4. He should be tactful and courteous in dealing with his customers
5. He must possess sound health
6. He should have great interest in his work
7. Personal qualities like personality, aptitude, patience and politeness
8. Knowledge about products
9. Good posture and friendliness
10. He should understand the problems of customers

Assessment activity:

Sales Promotion Activities/Techniques/ Methods/ Tools

Sl. No.	Sales Promotion Activities/ Techniques/ Methods/ Tools	Examples
1.	Rebates	Offer Maruthi to sell Swift car at discount of Rs.10,000 for a limited period.
2.	Discounts	Bata's offer of discount up to 50%.
3.	Refunds	?
4.	Product Combination	?
5.	Quantity Gift	*Buy three get one free* offer currently available for soaps like Nirma and Lux
6.	Sampling	?
7.	Usable benefit	?
8.	Full finance	?
9.	Instant draws and assigned gift.	Scratch a card and instantly win a refrigerator car, T-shirt, with the purchase of a TV.

5.9 Concept of Marketing Mix

Marketing Mix refers to the ingredients or the tools or the value of variables which the marketer mixes in order to interact with a particular market.

"Marketing Mix may be defined as the set of marketing tools that the firm uses to pursue its marketing objectives in the target market".

5.9.1 Elements or Components of Marketing Mix

The variables or elements of Marketing Mix have been classified into four categories, popularly called the **" the Four P's of Marketing Mix" ie Product, Price, Place and Promotion** . These elements are combined to create an offer.

Elements of Marketing Mix

Product
Colour and design
Product quality
New product design
Packaging
Labelling
Branding

Price
Price level
Margins
Pricing policy
Pricing strategies
Price change

Place
Channel strategy
Physical distribution
Location
Layout of stores

Promotion
Advertising
Personal selling
Sales promotion
Publicity
Public relations

Additional Information

The traditional Marketing Mix is expressed as the 4 P's ie. Product, Place, Price and Promotion. With the emergence of service marketing, marketing mix was redefined as 7 p's by expanding the three additional P's like **Process**, **Physical environment** and **People**. Because of such a rise in the digital era and internet marketing, marketing mix was again redefined as 11 P's by adding four more P's like Publicity commentary, Privacy, Personalization/ Personal interest and Personal network. The list is not exhaustive and subject to change/ modification as a result of change in the marketing environment.

TE Questions

I .Find the odd one out:

1 Planning, Organising, Marketing, Directing.

2 Buying, Foresight, Selling, Market research.

3 Price, Place, Promotion, publicity, product.

II. Answer the following:

4. Name the four elements of Directing.
5. Finding the right people for the right job is known as ....

6 The buyer and seller assembled place is....................

7 Name the term for systematic collection, recording and analyzing of data about problems relating to the marketing of goods and services.

III. Descriptive questions.

1. List out and explain the various managerial functions to be performed, if you are appointed as manager in an organisation.
2. Identify the management function from the following:
   "It is the process of searching for prospective employees and stimulating them to apply for job in the organization".
3. Khalid Ltd is manufacturing and distributing plastic home appliances. Draw a diagram and explain the Functions of Marketing ?
4. Ashok, the manager of a business unit opinion that " control without, planning is meaningless".

a. Do you agree with Ashok?

b. State the reasons?

5. "Marketing is a social process where by people exchange goods and services for money or for something of value to them". Explain the functions of Marketing.
6. Bajaj Auto wants to promote its sales in the market. Suggest any three Sales Promotion techniques for the purpose.
7. Marketing Mix is the combination of different marketing decision variables, Explain.
8. List the benefits of Advertising.
9. Identify the principles of management

10. A salesman need not possess any personal quality to sell the product . If the product is good, it would automatically be sold in the market, Comment.
11. The management of Saidu Soaps Ltd, manufactures of toilet sops is facing the production of poor sales. As a marketing expert, suggest them a suitable sales promotion measure to increase their sales.
12. Match the following

A	B	C
Product	Skimming	Transportation
Price	Advertising	Personal selling
Promotion	Warehousing	Formal product
Place	Core product	Penetrating

13. If the quality of the product is good, it will find its place in the market. Express you opinion.

REFERENCES

1. *Aruna Bhargava. Every Day Entrepreneurs: The Harbingers of Prosperity and Creators of Jobs Vikas Publishing House.*
2. *Entrepreneurship - Robert D Hisrich; Michael P Peters: Dean A Shepherd / Tata McGraw Hills Education Private Limited*
3. *Entrepreneurship: Creating and leading an Entrepreneurial Organization, Arya Kumar/Pearsons Publication.*
4. *Theories of Entrepreneurship - Vasant Desai/Himalaya Publishing House.*
5. *Entrepreneurship in Action - Mary Coulter/PHI Learning.*
6. *Entrepreneurship Development - Dr. T.N. Chhabra/Sun Indai Publications.*
9. *Entrepreneurship - Class XIth CBSE Text Book*
10. *Entrepreneurship Development - Dr. T.N. Chhabra/Sun Indai Publications.*

APPENDIX I.

Useful Websites for Entrepreneurs

1. MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES – msme.gov.in
2. DIRECTORATE OF INDUSTRIES AND COMMERCE– www.dic.kerala.gov.in
3. MAKE IN INDIA – makeinindia.com
4. DIGITAL INDIA – www.digitalindia.gov.in
5. SKILL INDIA – www.skillindia.gov.in
6. BUSINESS ADVICE, BUSINESS SOLOTIONS AND E-MARKET PLACE –www.allbusiness.com
7. FINANCING AND MANAGING THE ACCOUNTS – www.americanexpress.com
8. BENCHMARKING AND PROCESS IMPROVEMENT –www.benchnet.com
9. CURRENT INTEREST RATE, MORTGAGE RATE, AND CURRENCY RATE – www.bloomberg.com
10. MARKETING OF BUSINESS –www.bplans.com
11. ISSUES AND OPPORTUNITIES TO THE OWNERS – www.businessforum.com
12. START-UP AND BUSINESS PLAN –www.morebusiness.com
13. RECENT STORIES AND NEWS –www.businessweek.com
14. INTERNATIONAL BUSINESS STATISTICS AND SMALL BUSINESS LOW –www.ceoexpress.com
15. INFORMATION ABOUT GEOGRAPHY, PEOPLE, GOVERNMENT AND ECONOMY –www.odci.gov
16. PRACTICAL TIPS FOR EXPORTERS –www.bena.com
17. COMPREHENSIVE COVERAGE OF FINANCIAL TOPICS – www.dowjones.com
18. ARTICLE ABOUT SMALL BUSINESS TOPICS –www.entrepreneurmag.com
19. STAGES OF BUSINESS DEVE3LOPMENT –www.entreworld.org
20. BUSINESS OPPORTUNITIES FOR CONTRACTORS –www.govcon.com
21. TECHNICAL REVIEW FOR SMALL BUSINESS –www.ideacafe.com
22. HOW TO START A BUSINESS AND HOW TO OPERATE IN THE GLOBEL MARKET PLACE –www.onlinewbc.gov
23. DEVELOPING BUSINESS AND STRATEGIC PLAN –www.bizplan.com
24. INTERNATIONAL TRADE, WORKPLACE ISSUE, TAXLAWS AND REGULATIONS –www.business.gov
25. FOR YOUNG ENTREPRENEURS –www.yeo.org

APPENDIX –II

APPLICATION FOR REGISTRATION

Schedule I

Form No...............

ENTREPRENEURS MEMORANDUM
FOR
SETTING UP MICRO, SMALL OR MEDIUM ENTERPRISE

GENERAL INSTRUCTIONS.

1. MEMORANDUM IS TO BE FILED WITH THE DISTRICT INDUSTRIES CEN TRE* BY A MICRO, SMALL OR MEDIUM ENTERPRISE, AS THE CASE MAY BE, UNDER SUB-SECTION 8 OF THE MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT (MSMED) ACT, 2006.
2. FOUR COPIES OF THE MEMORANDUM SHOULD BE FILED.
3. THERE IS NO FEE FOR PROCESSING THE MEMORANDUM.
4. EXISTING UNITS SHOULD FILL UP ONLY PART II OF THE MEMORANDUM.
5. IN CASE OF ANY CHANGE IN THE INFORMATION, AT ANY POINT OF TIME, PLEASE INFORM THE DETAILS WITHIN THREE MONTHS TO DISTRICT INDUSTRIES CENTRE.
6. WRITE/ TYPE IN BLOCK (CAPITAL) LETTERS
7. LEAVE ONE BLANK BOX AFTER EACH WORD.
8. FILL UP WHICHEVER IS APPLICABLE.
9. ALL CODES OTHER THAN PIN CODE SHALL BE FILLED BY THE OFFICE.
10. FORM WILL BE MACHINE NUMBERED BY THE DISTRICT INDUSTRIES CENTRE.

* To be filed at the District Industries Centre under whose jurisdiction the enterprise is proposed to be located.

Form No...............

FOR OFFICE USE ONLY

	D	D	M	M	Y	Y	Y	Y
DATE OF ISSUE								

CATEGORY OF ENTERPRISE
(MANUFACTURING-I, SERVICE-2) ☐

(MICRO-I, SMALL-2, MEDIUM-3) ☐

ENTREPRENEURS MEMORANDUM NUMBER ☐☐ ☐☐☐ ☐☐ ☐☐☐☐☐

(First two boxes are for State/Union Territory code, next three boxes are for District code, sixth and seventh boxes are for category of enterprise (sixth box for indicating manufacturing or service and seventh box for indicating micro or small or medium) and last five boxes are for Entrepreneurs' Memorandum number)

Form No...............

PART I

(To be filled in as expression of intent)

1. NAME OF APPLICANT

2.
(a) ADDRESS OF COMMUNICATION

PIN

2

(i) TELEPHONE NUMBER

(ii) FAX NUMBER

(iii) CELL PHONE NUMBER

(iv) E-MAIL

(v) WEB-SITE

(b) PERMANENT RESIDENTIAL ADDRESS (MAIN APPLICANT)

PIN

(i) TELEPHONE NUMBER

(ii) FAX NUMBER

(iii) CELL PHONE NUMBER

(iv) E-MAIL

(v) WEB-SITE

3. NAME OF PROPOSED ENTERPRISE (If decided)

4. PROPOSED LOCATION OF ENTERPRISE

(i) VILLAGE / TOWN

CODE

(ii) THEHSIL/TALUK/ MANDAL

CODE

(iii) DISTRICT

CODE

(iv) STATE

CODE

(v) PIN CODE

(vi) AREA (RURAL-1, URBAN-2)

5. CATEGORY OF ENTERPRISE

(MICRO-1, SMALL-2, MEDIUM-3)

6. NATURE OF ACTIVITY [(Tick Appropriate Box(es)]

(i) MANUFACTURE

(ii) SERVICE

(iii) OTHERS

In case of others, please specify

----

7. NATURE OF OPERATION (Perennial-1, Seasonal-2, Casual-3)

8. WHETHER THE UNIT WILL BE AN ANCILLARY (Yes-1, No-2)

9. PROPOSED SCHEDULE OF INSTALLATION OF PLANT AND MACHINERY M M Y Y Y Y

10. TYPE OF ORGANIZATION (PROPRIETARY-1,HINDU UNDIVIDED FAMILY-2, PARTNERSHIP-3, CO-OPERATIVE-4, PRIVATE LIMITED COMPANY-5, PUBLIC LIMITED COMPANY-6, SELF-HELF GROUP-7, OTHERS-8)

4

(a) MAIN MANUFACTURING/SERVICE ACTIVITY

NAME

CODE (NIC 98*)

(b) PRODUCTS TO BE MANUFACTURED/SERVICE TO BE PROVIDED

(i) NAME

CODE (ASICC2000*)

(ii) NAME

CODE (ASICC2000*)

(iii) NAME

CODE (ASICC2000*)

(iv) NAME

CODE (ASICC2000*)

(v) NAME

CODE (ASICC2000*)

11. (*) Codes for activities and products/services as per classification specified from time to time by the Development Commissioner (Small Scale Industries), Government of India to be filled in by the District Industries Centre or the office where the Entrepreneurs' Memorandum is submitted.
(ADD ADDITIONAL SHEET FOR MORE PRODUCTS)

12. (a) PROPOSED INVESTMENT IN FIXED ASSETS [Rupees in lakh]

(i) LAND (OWNED-0l/RENTED-02/ LEASED-03)

APPROXIMATE VALUE*

(ii) BUILDING (OWNED-01/RENTED-02/ LEASED-03)
APPROXIMATE VALUE*

(iii) PLANT AND MACHINERY VALUE*
(In case of manufacturing enterprise)

(iv) EQUIPMENT VALUE*
(In case of service enterprise)

(v) FOREIGN EQUITY, IF ANY VALUE*

[* The value in the boxes should be filled in from the right side, e.g., if the value is Rupees 10 lakhs it should be written as | | | 1 | 0 | . This will also apply to all other items (rows) where quantity, number, etc., to be given.]

13. INSTALLED CAPACITY (proposed) PER ANNUM QTY UNIT

14. POWER LOAD (ANTICIPATED) H.P / K.W.

15. (a) (i) OTHER SOURCE OF ENERGY/POWER
[IF REQUIRED]
(NO POWER NEEDED-1, COAL-2, OIL-3, LIQUID PETROLEUM GAS-4, ELECTRICITY FROM GRID-5, ELECTRICITY FROM GENERATOR- 6, NON-CONVENTIONAL ENERGY-7, TRADITIONAL ENERGY / FIREWOOD-8)

(ii) If no power required, specify reasons;

(b) INDICATE ANNUAL REQUIREMENT

SOURCE OF ENERGY	QTY	UNIT
....		
....		
....		

16. EXPECTED EMPLOYMENT (Nos.)

(i) MANAGEMENT AND OFFICE STAFF

(ii) SUPERVISORY

(iii) WORKERS

17. ENTREPRENEURS' PROFILE (OF ALL PARTNERS/DIRECTORS OF THE ORGANISATION-USE SEPARATE SHEETS, IF NEEDED)

(a) NAME

(i) MALE (M) / FEMALE (F)

6

(ii) SC (1) / ST (2) / OBC (3) / OTHERS (4)
PHYSICALLY CHALLENGED (5)

(iii) KNOWLEDGE LEVEL
[TECHNICAL GRADUATE- 1, MANAGEMENT GRADUATE-2,
POST GRADUATE-3,OTHER GRADUATE-4, UNDER GRADUATE-5,
ANY OTHER LOWER-6]

(iv) EQUITY PARTICIPATION (in Rupees)

(Percentage of total equity)

(v) STAKE IN OTHER MANUFACTURING ENTERPRISES
(Yes-1, No-2)
[ADD ADDITIONAL SHEET, IF NEEDED]

18. EXPECTED SCHEDULE OF COMMENCEMENT OF PRODUCTION / ACTIVITY

M	M	Y	Y	Y	Y

DATE:
PLACE:

[SIGNATURE OF THE APPLICANT /AUTHORISED PERSON]

NAME OF THE PROPRIETOR/PARTNER/ MANAGING DIRECTOR

(a) Enclose a self-certified copy of Power of Attorney/Board Resolution/Society Resolution, wherever applicable, while signing as Partner/Managing Director or Authorised Person.
(b) Enclose a certified/notarized copy of the Partnership Deed/Memorandum of Association/Articles of Association in case of Medium Enterprises.

Undertaking

This is to certify that the information furnished in the memorandum in Form No.............................. is true and correct to the best of my knowledge and belief.

DATE:
PLACE:

[SIGNATURE OF THE APPLICANT /AUTHORISED PERSON]

7

Department of Industries
Government of Kerala

Form No........................

ACKNOWLEDGEMENT

M/s ....HAS FILED MEMORANDUM EXPRESSING ITS INTENT TO SET UP AN...(MANUFACTURING/SERVICE) ENTERPRISE AT THE ADDRESS.. ....

....

....PIN...

.......................STATED IN FORM NO................................AND ALLOCATED ENTREPRENEURS' MEMORANDUM NO. AS BELOW

DATE OF ISSUE D D M M Y Y Y Y

CATEGORY OF THE UNIT

(MANUFACTURING-I, SERVICES-2)

(MICRO-I, SMALL -2, MEDIUM - 3)

ENTREPRENEUR'S MEMORANDUM NUMBER

(First two boxes are for State/Union Territory code, next three boxes are for District code, sixth and seventh boxes are for category of enterprise (sixth box for indicating manufacturing or service and seventh box for indicating micro or small or medium) and last five boxes are for Entrepreneurs' Memorandum number)

DATE:

PLACE:

SIGNATURE

WITH OFFICE SEAL

Appendix -III

Model Project Report - I - AGRICULTURE

PLANT NURSERY

1. INTRODUCTION

Raising of nursery for sale of flower and fruit plants is a good business.. Flowers and fruit trees are having demand from the farmers and others since every one cannot raise nursery. A few such nurseries can be encouraged to serve the interior rural areas.

2. RAW MATERIALS

Seeds, pots, manures, pesticides, fertilizers, polythene covers etc.

3. MANUFACTURING PROCESS

Initially, we have to divide the land into two parts. One part for fruits and the other part for flowers. Again each part will be divided into six parts for different variety of flower / fruit plants. Then good variety of seeds for flowers and fruits are sown. Some variety of flowers / fruits need to be planted from branches of some plants. Plants are to be watered daily and nourished with some fertilizers. After a month or two the plants are removed from the ground and kept in polyethylene covers / pots for sale.

4. MANPOWER REQUIREMENT 4:

5. PROJECT COST

A. Fixed Capital	Rs.
Land & Building	Rental
Plant & Machinery	55000
Miscellaneous fixed assets	10000
Pre operative expenses	5000
	70000
B. Working Capital (per month)	
Raw Material & Packing	8000
Utilities	4000
Salaries and wages	12000
Other overheads	5000
	29000
Working capital for 3 months	87000
Total (A+B)	**157000**

6. COST OF PRODUCTION / ANNUM

	(Rs.)
Annual recurring expenditure	348000
Depreciation on machinery	6000
Interest on investment	10000
	364000

7. PROFITABILITY

Sales turnover	Rs.450000
Operating expenses	Rs.364000
Annual profit	Rs.86000
Return on investment	54.7 %

MARKET POTENTIAL

The demand for plant nursery is high as the standard of living of people is increasing. Most of them want to keep plants and flower plants at their home. With the increase in demand of this, every year Government and other agencies organise flower shows at major cities of the State.

Annual Production capacity :

It is envisaged to produce goods worth Rs.450000/-

List of Plant, Machinery & equipment :

1 Bore well & pump set with water pipe

2 Agricultural implements like sprayers, crow bar, spades etc.

Model Project Report - II

CONSTRUCTION MATERIALS

HOLLOW CONCRETE BLOCK

1. INTRODUCTION

Hollow concrete blocks are substitutes for conventional bricks and stones in building construction. They are lighter than bricks, easier to place and also confer economies in foundation cost and consumption of cement. In comparison to conventional bricks, they offer the advantages of uniform quality, faster speed of construction, lower labor involvement and longer durability. In view of these advantages, hollow concrete blocks are being increasingly used in construction activities.

2. RAW MATERIALS

The raw materials required are cement, sand and stone chips.

3. MANUFACTURING PROCESS

The ratio of cement, sand and stone chips (metal) in the raw material mix determines the properties of hollow concrete blocks. A ratio of 1:3:6 (cement : sand : metal) confers higher strength, while a ratio of 1:5:6 can be employed for normal load bearing construction. The water to cement ratio is usually 0:4:1.

The major process steps are :

i. First stone and sand are mixed with water and cement is then poured in the mixer.
ii. Weighing of aggregate
iii. Pouring of cement slurry in moulds placed on concrete block making machine.
iv. Ramming of moulds in machine
v. Removal of moulds from machine .
vi. Curing of cast blocks for 21 days.

4. MANPOWER REQUIREMENT : **8**

5. PROJECT COST

A. Fixed Capital	Rs lakh
Land & Building	on rent
Plant & machinery	1.80
Misc. fixed assets	0.40
Preliminary and pre-operative expenses	0.20
Total (A)	**2.40**
B. Working capital	
Raw materials 1/2 month	0.25
Finished goods 1 month	0.73
Working expenses1 month	0.21
Receivables 1 1/2 month	1.35
Total (B)	**2.54**
Total (A+B)	**4.94**

MEANS OF FINANCE

Working capital may be financed as under

	(Rs lakh)
Bank finance	1.74
Margin money	0.80
	(Rs lakh)
Promoters contribution	0.80
Term loan	2.40
	3.20

6. COST OF PRODUCTION

	Rs. lakh
Raw materials	5.88
Utilities	0.40
Wages & salaries	1.92
Rent	0.14
Other overheads	0.10
Selling expenses	0.54
Interest on term loan	0.43
Interest on bank finance for working capital	0.35
Depreciation	0.24
	10.00

7. PROFITABILITY

Annual sales realisation	Rs. 10.78 lakh
Annual operating expenses	Rs. 10.00 lakh
Annual profit (pre-tax)	Rs. 0.78 lakh
Break-even point	55 %

Market potential :

Hollow concrete blocks can be used for (a) exterior load bearing walls (b) interior walls (c) panel walls (d) columns (e) retaining walls and (f) compound walls. In view of their versatile uses and properties, hollow concrete blocks are in demand by departments/agencies engaged in construction including PWD, Housing Boards and Urban Development Corporations, Road Transport Corporations and Forest Departments.

Production capacity :

Annual Production capacity 3.08 lakh blocks

List of Plant, Machinery & equipment :

1 Concrete block making machine
2 Ramming moulds
3 Concrete mixer

Model Project Report - III

HOSPITAL AIDS

1. INTRODUCTION

Products like walkers, crutches, walking stick, bed pans etc. are required in hospitals for post-operation use by patients. Though there is good potential in the market, there are very few quality manufacturers. The export potential is also very good.

2. RAW MATERIALS

Aluminium sheets and rods, MS rods, wooden rods, rubber beadings etc.

3. MANPOWER REQUIREMENT : 3

4. PROJECT COST

A. Fixed Capital	Rs.
Land & Building	Rented
Plant & Machinery	35000
	35000
B. Working Capital (per month)	
Raw Material & Packing	20000
Salary & wages	5500
Other expenses	4000
	29500
Total (A+B)	**64500**

5. COST OF PRODUCTION

	(Rs.)
Production cost per annum)	354000
Depreciation on machinery	3500
Interest on investment	7000
	364500

6. PROFITABILITY

Sales turnover	Rs.440000
Production cost	Rs.364500
Annual profit	Rs.75500
Percentage of profit on Investment	80+%

Market potential :

Due to increase in the number of hospitals and nursing homes and their expansion, the demand for hospital aids is also increasing. There is a good potential for setting up new units in this area.

Annual Production capacity :

It is envisaged to produce goods worth Rs.440000/-

List of Plant, Machinery & equipment :

1 Pipe bending machine

2 Arc welding

3 Gas cutting set

4 Bench drilling machine

5 Portable drilling machine

6 Flexible shaft grinder

7 Hand shearing machine

8 Hand press

9 Rivetting machine

10 Hand tools, instruments

Model Project Report - IV

FOOD BASED PRODUCTS

FLAVOURED MILK AND GHEE

1. INTRODUCTION

Large number of people depend upon milk as the most important source of nourishment. Of the estimated annual production of milk, approximately sixty percent is used for manufacture of different products, majority of which are prepared by traditional small scale, house hold methods. With the advent of dairy development programmes, it is noted that the annual procurement of milk and milk production of the State is increased tremendously. The proposed project is based on the manufacture of dried milk powder, ghee, flavoured milk in bottles on scientific lines under hygienic conditions.

2. RAW MATERIALS

Milk, sugar, color, flavours, packing materials etc.

3. MANUFACTURING PROCESS

Ghee: The procured milk is weighed, sampled, filtered, pasterised and passed directly to cream separator. The cream thus obtained is stored at required temperature till the sufficient quantity is collected for manufacture of ghee. The cream is then ripened. It is then heated in steam jacketed kettle, the impurities comes up at the top which is removed. and the ghee thus obtained is filtered through thin cloth and packed.

Flavoured milk: A portion of skimmed milk obtained from the cream separator is pasteurised, collected in a blending tank. The requisite quantity of ingeadients are added and is thoroughly mixed by using mechanical stirrer. The finished product thus obtained is again pasterurised and filled into washed, cleaned and dried glass bottles.

4. MANPOWER REQUIREMENT 10

5. PROJECT COST

A. Fixed Capital	**Rs.**
Land & Building	Rental
Plant & Machinery	575000
	575000
B. Working Capital (per month)	
Raw Material & Packing	350000
Salary & wages	27000
Other expenses	22000
Working capital (per month)	399000

Working capital for 3 months	1197000
Total (A+B)	**1772000**

6. COST OF PRODUCTION / ANNUM

	(Rs.)
Total recurring cost per year	4788000
Depreciation on machinery	75000
Interest on investment	200000
	5063000

7. PROFITABILITY

Sales turnover	Rs.5600000
Annual cost of production	Rs.5063000
Annual profit	Rs.537000
Return on investment	30.3%

Market potential :

Though the State Dairy Development Boards have set up their own dairy plants to process the milk available in the State, there will be still further scope in the rural and backward areas to set up small milk processing plants for the manufacture of roller dried milk, ghee and flavoured milk to meet the demand of the bakery/ ice cream industry and of the metropolitan / industrial towns of these products.

Annual Production capacity :

It is envisaged to produce goods worth Rs.5600000/-

List of Plant, Machinery & equipment :

1 Milk weighing scale
2 Milk storage tank
3 Cream separator
4 Plate type pasteuriser
5 Bottle filling and sealing machine
6 Cream storage tank
7 Steam jacketted kettle
8 Steam boiler
9 Roller drier with complete accessories
10 Refrigeration system
11 Laboratory equipments

Model Project Report - V

FOOD BASED PRODUCTS

MILK PRODUCTS

1. INTRODUCTION

Milk and milk products such as ghee, butter, sambaram, peda etc. have good demand as food materials. So these products have good demand and scope.

2. RAW MATERIALS (per month)

Milk (2,000 ltr.)

Sugar (200kg.)

Grain flower (100kg.)

Spices (80kg.)

Packing materials

3. MANUFACTURING PROCESS

Boil milk and allow to cool. Using centrifuge it is proposed for butter, sambaram and ghee. By mixing butter with sugar, grain flower etc. and peda is prepared.

4. MANPOWER REQUIREMENT : 2

5. PROJECT COST

Land & building Rented

Plant and machinery Rs.1,50,000

Contingencies Rs.5,000

Miscellaneous fixed assets Rs.5,000

Working capital Rs.40,000

Total Rs.2,00,000

MEANS OF FINANCE

Working capital loan from bank (grant-in aid) Rs.2,00,000

6. COST OF PRODUCTION / PROFITABILITY

Raw materials	Rs.6,48,000
Wages	Rs.72,000

Rent	Rs.6,000
Power charges	Rs.4,800
Water charges	Rs.2,400
Repair & maintenance	Rs.3,000
Insurance	Rs.1,500
Depreciation	Rs.15,000
Administrative expenses	Rs.6,000
Selling expenses	Rs.2,79,000
Interest on bank loan	Rs.26,600
Total	**Rs.7,70,006**
Sales	Rs.8,40,000
Net operating profit	Rs.70,000
Cash surplus	Rs.85,006
Return on Investment	42.5%

Annual Production capacity :

It is envisaged to produce goods worth Rs.8,40,000/-

List of Plant, Machinery & equipment :

1 Freezer

2 Centrifuge

Vessels and equipments