

G.C.E. Advanced Level

Business Studies

New Syllabus



Business Plan

N.B.KAJEN

B.Com (Hons) M.M.Spl. Dip.in.Edu.

J / Holy Family Convent
(National School)

Jaffna

18.1: Exhibits the readiness to prepare a business plan suitable to the business idea examining the components of a business plan.

Learning Outcomes:

- Explains the business idea.
- Explains the macro and the micro factors to be considered when selecting a suitable business idea.
- Selects a suitable business idea after macro and micro analysis.
- Explains the business plan.
- Explains the importance of a business plan.
- Points out the factors to be considered when preparing a business plan.
- Lists the content of a business plan.

Business idea

- The idea originated within an entrepreneur about a product which could satisfy a need or a want of an individual or an organization is referred to as business idea.
- A business opportunity should be decided through macro and micro analyses of those business ideas.

Macro analysis of business ideas

- Evaluating all the business ideas to identify suitable business ideas is known as macro analysis.
- This evaluation should be done based on the external environmental factors.

Macro environmental factors considered in macro analysis of business ideas

- Economic environment
- Democratic environment
- Social and Cultural environment

Micro analysis of business ideas

- The analysis done to select the most rewarding business idea out of the ideas selected from macro analysis.
- This analysis should be done on internal and task environmental factors.

Micro environment factors considered in micro environment analysis

- Internal environmental factors:
Ex : Owners, Managers, Employees, Resources
- Task environmental factors
Ex: Customers, Suppliers, Competitors

Business plan

- A business plan is a document which describes the goals and objectives of a business and strategies that should be followed to achieve them. This is a route map showing the way of the business idea.
- A business plan is prepared for a new business opportunity, as well as when expanding an existing business, when amalgamating businesses, when modifying a business and when purchasing a business.

The importance of a business plan

- The business plan depicts where the business should go in the future (explaining of vision, mission, goals, and objectives).
- It gives a comprehension about the business to the interested parties.
- To get financial facilities required by the business.
- To identify the required resources for a business and to maneuver them easily.
- Ability to organize the future business activities in order and well through the depiction of everything suitably.
- Useful for evaluating the performance of the business.
- Assists in attracting employees for the positions of the business.
- Easy in regulation and control.

Factors to be considered in preparing a business plan

1. Focus

Depicting clearly such as, what are you? What is the product or a service you are going to present? How is the business going to be started? How can it be improved?

2. Customers

Identify your target customers clearly. Depict clearly about how to reach towards them.

3. Goals

Depicting information such as the main goals and the way of reaching them, if they are reasonable to the market and about how to evaluate the successfulness and unsuccessfulness of the goals.

4. Required Financial resources

Depicting that how much money is required to start and conduct the business and how to obtain it.

Components included in a business plan

- Cover page
- Executive Summary
- Business Description
- Marketing plan
- Operational plan
- Human resources plan
- Financial plan
- Appendixes

Cover Page

The exclusive identity of the business can be presented in the cover page. The suitable place to include the symbols of identifying business is the cover page. The information relevant to identify the business (address, phone no., fax, web page) should be included in the cover page. The referee who should be conducted regarding a question or information should also be included here.

Executive Summery

The executive summery is the section in which the basic facts in a business plan are briefly stated. While this is the section that gives the reader of the plan a gross comprehension of the whole plan, it always should be brief and attractive.

Business Descriptions

- This is the section in which the information such as what is the business, the details about the good or the service that the business provide, the benefits that customers gain by that and the exclusiveness of that are explained.
- The following information is included in it.
 - Name and address of the business
 - Goals/objectives of the business
 - Pioneers
 - Organization structure
 - The type of organization
 - Director board
 - Details on goods and services

Marketing plan

The section which describes in detail the facts such as the market competition, marketing strategies, sales forecasting etc. is known as the marketing plan.

Operations plan

The section consisting the details about production procedure, production machines & equipment, required quantity of products , locating the factory, national and international standards followed is known as the operations plan.

Human Resources Plan

The section that includes the determination of the future human resources requirements and the ways of attaining them is known as Human Resource Plan.

Financial Plan

The section in which all the estimated financial information are included is known as the financial plan.

Appendix

The information that are presented at the end of the business plan.

- Diagrams
- Charts and tables
- Date reports
- Bio data information
- Ratios

Factors to be considered in preparing a business plan

- The cover page should be made with an attractive finishing. The name of the organization, address, telephone number, email address etc... should be mentioned in a cover page.
- Content page should be prepared well with accurate page numbers.
- This should be produced having printed on good quality papers.
- If there are any additional facts to be produced further, those should be presented as appendix.
- Highlight the important information.
- Start every main topic on a new page.
- Tables should be prepared completely without keeping blank places.
- All table numbers, headings and sources of data should be clearly stated.]
- Numbers should be used in orderly manner

Ex: - 1.0

1.1

1.2

1.2.1

1.2.2

- Should be prepared it as a fascinating booklet.

18.2: Prepares the marketing plan that is suitable to the business idea.

Learning Outcomes:

- Defines the marketing plan.
- Point out the importance of a marketing plan.
- Explains the content of a marketing plan.
- Prepares the marketing plan using given information.

Marketing plan

The section which describes the facts such as the market, competition, marketing strategies, sales forecasting etc... in detail is known as the marketing plan.

Some reasons for a marketing plan to be important

- It points out that there is an adequate and expanding market for the product.
- It points out that can be faced.

Elements (information) included in a marketing plan

- Analyses of industry and market
- Goods or services expected to be sold
- Target market.
- Analysis of competition
- Expected sales
- Marketing strategies of competitors
- Proposed marketing strategies
 - Product strategies
 - Pricing strategies
 - Distribution strategies
 - Promotion strategies
- Annual sales forecast
- Marketing expenses

Industry and marketing analysis

In the industry and market analysis, a complete description about the industry is presented. That means, the current position of the industry, sales, profits, growth rates and other trends are analyzed such as,

- who are the buyers
- whether the market is local, national or international etc.

Product

The following details should be presented about the expected product to be sold.

- Product or service
- Product mix (details about the length, width, depth)
- Usage of products.
- Design, quantity and type of each product

The information that should be presented about the target market

- Exclusive features of the target market and the segments of it
- Basic trends and expected changes of target market
- Strategies to reach the target market

The information that should be presented in the competition analysis

- Existing competition
- Competitors and their strengths
- Entrepreneur's strengths and weaknesses to face the competition
- Barriers to access the market such as cost, time, technology, patent rights

information that should be presented about expected sales

- Size of the target market
- The number and the purchasing power of the expected customers
- The expected market growth

The facts that should be presented about the strategies of competitors

- Pricing strategies
- Distribution strategies
- The promotion strategies of competitors

information that should be included for proposed marketing strategies

- Product strategies
- Price Strategies
- Distribution Strategies
- Promotional Strategies

Information that should be included in sales forecast

- Type of the product
- Sales volume
- Unit price
- The annual income

Information that should be included in the marketing expenses

- Distribution expenses
- discounts
- promotional expenses
- sales commissions
- marketing fixed assets depreciation etc.

A sample of marketing plan

1. Details about the products expected to be sold
Describe briefly the type, design, quality, etc. related to your product

.....
.....
.....
.....

2. Target market

Product	Target Customers

3. Competition analysis

Existing customers	Their strengths	Their weaknesses

4. To face competition,

Strengths	Weaknesses

5. Marketing strategies

Marketing mix	Strategies of competitors	Strategies of businessmen
Product		
Price		
Place		
Promotion		

6. Annual Sales revenue and expenditure forecast

Prepare only for one year.

Types of product	Expected sales	Unit price	Sales revenue	Total value
1.				
2.				
3.				
Total selling revenue expected				
Marketing expenditures:				
Transportation				
Advertising				
Depreciation (Transportation vehicle)				
Sales Commissions				
Total selling expenditure				

18.3: Prepares the operational plan according to the marketing plan.

Learning Outcomes:

- Explains the operational plan.
- Explains the importance of an operational plan.
- Explains the content of an operational plan.
- Prepares the operational plan using given information.

Operational plan

The section consisting of the details of the production of a certain product such as the production procedure, quantity of products, production expenditure, the national and the international standards followed, locating the factory etc. is known as the operational plan.

The reasons for an operational plan to be important

- Ability to have a comprehension about the future operations beforehand
- Ability to improve the quality of the product.

- Ability to minimize the possible wastages and delay in the process of manufacturing.
- Ability to determine the cost of the production unit beforehand.

Components that should be included in an operational plan

- Fixed assets requirements
- Raw materials requirements
- Employee requirements
- Manufacturing overheads
- Factory layout plan
- Disposal of wastage
- Social and environmental influence.
- Total manufacturing cost and the unit cost
- Operational activities and expenditures prior to the beginning of the business

Production Volume

The maximum number of units that can be obtained according to the inputs used in the production process within a certain period of time.

Fixed assets requirements

The cost that have to be incurred regarding the assets used for production process such as motor vehicles, machinery and buildings and the depreciation of those assets belong to this.

Raw material requirements

Information with regard to the number of units expected to be produced, accordingly the amount of materials needed and the cost that have to be incurred for that can be stated here.

Employee requirements

Including the information that are related to employees and managers who engage in the production activities, In other words the number of employees

required, the nature of employees and the wages paid for them etc... are included here.

Production overhead costs

The costs that have to be incurred regarding the production activities but cannot be specified directly for a production unit, incurred commonly are known as production overhead costs. These are referred to as factory overhead costs as well. Accordingly, by identifying indirect material cost, indirect labour cost and other indirect costs that have to be incurred for production activities, they are included here.

Factory layout plan

The plan that is presented regarding the way of locating the machinery, equipment and attachments used for production is known as factory layout plan.

Disposal of wastage

The information and data related to the costs that have to be incurred in disposing garbage created in the production process are included here.

Social and environmental influence

In this section, the action that have been taken to minimize the unfavourable impact that happen to society and the environment because of the production process and the estimated cost for them are included.

Total production cost and unit cost

- The total cost that is expected to be occurred for goods or services expected to produce within a specific period of time is known as total production cost.
- The total cost consists of direct cost and indirect cost.
- When the total production cost is divided by the number of units produced, the unit cost will be obtained.

Operational activities and expenditures prior to the establishment of the business

- The cost related to the conducting of researches
- The cost incurred for the registration of a business
- The cost incurred obtaining capital
- The cost incurred for obtaining required fixed assets

A sample of operational plan

Production volume

Product :

Amount

Year	Amount (Units)
1 st year	
2 nd year	
3 rd year	
4 th year	

Materials and labour requirements

	Amount	Unit price
Non-current assets		
Materials (only for one year)		
Operational Manager 1. Employee 2. Employee	The number	Monthly salary

Factory layout plan

Depict here by drawing, the way the operational layout is planned. Use an appropriate type of layout planning for that.

Disposal of garbage

- State the actions that are expected to be taken for the disposal of garbage in brief.
- Estimate the costs that have to be incurred for that.

Expected actions	Expected cost
1.	
2.	
3.	
Total cost	

Social and environmental influence

State here, the actions that have been taken to minimize the unfavourable impact that happen to society and the environment because of the production process and the estimated cost for them.

Expected actions	Expected cost
1.	
2.	
3.	
Total cost	

Production cost plan (only for one year)

Expected number of units			
Direct cost			
Direct material cost			
.....			
.....			
Direct labour cost			
.....			
.....			
Total direct cost			
Overhead cost			
Indirect material cost			

.....			
.....			
Indirect labour cost			
.....			
.....			
Other indirect cost			
.....			
.....			
Total overhead cost			
The production cost			

Production cost per unit is Rs.

18.4: Prepares the human resources plan of the business.

Learning Outcomes:

- Explains the human resources plan.
- Explains the importance of preparing human resources plan.
- Explains the contents of a human resources plan.
- Prepares a human resources plan using given information.

Human resource plan

The plan that is prepared by determining the future human resource requirements including the estimation of costs relevant to them to achieve the goals and objectives of a business is referred to as human resource plan.

Reasons for a human resource plan to be important

- Ability to forecast the future employee requirements and the cost
- Ability to utilize the human resource more efficiently and productively
- Ability to prevent breakdowns of business activities due to pre recognition of future human resource requirements
- Ability to minimize the sudden recruitments cost
- Ability to recognize the training and development needs of the employees
- Getting the opportunity to recruit highly competent employees

Details included in a human resource plan

- The details about entrepreneurs/ partners
- Managerial skill
- The basic posts and responsibilities of an organization structure
- Organization chart
- Annual expenditure for the human resource

The details about entrepreneurs / partners

- In this section, the personal details, names and addresses of entrepreneurs / partners should be included.
- The educational qualifications, experience and strengths of managers of an organization should be stated separately here.

The basic posts and responsibilities of an organization structure

When preparing a human resource plan, it is necessary to create posts with regard to various functions of the organization and to mention the functions, power and responsibilities relevant to those posts.

Examples :

Posts	Functions	Responsibilities
Chief executive officers (CEO)	<ul style="list-style-type: none">• Making decisions with regard to managerial activities of the business.• Making decisions with regard to strategic planning.	Overall Organization

(The posts and the functions vary according to the nature of the organization)

Organization Chart

The inter relationship among the various sections and posts of an organization is referred to as organization structure, this can be shown by summarizing in an organization chart.

Annual expenditure for the human resources

- Salaries and wages paid for various existing posts differ according to the nature of the business. The annual total expenditure for human resource can separately be identified as direct labour cost and indirect labour cost.

- Apart from this, the total managerial expenditures of the organization should be included in this plan

A sample of human resource plan

- Details entrepreneurs / partners:

Personal details entrepreneurs / partners:

Names	Addresses
1.	
2.	

- Managerial skills:

Name of manager	Educational qualification	Experience	Other skills
1.			
2.			

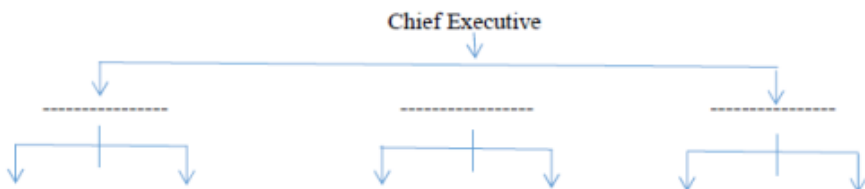
- Non-managerial employee skills:

Name of employee	Educational qualification	Experience	Other skills
1.			
2.			

- The basic posts and responsibilities of the organization structure

Posts	Functions	Powers

- Organization chart:



- Estimation of Annual expenditure

Item	Monthly (Rs.)	Annual (Rs.)
Wages:		
- Managers:		
Marketing Manager		
Operations Manager		
Financial Manager		
- Non-managerial employees		
1.		
2.		
Other administrative expenses		
Telephone charge		
Insurance premium		
Stationery expense		
Depreciation of office equipment		
Total cost		

18.5: Prepares the financial plan of the business.

Learning Outcomes:

- Introduces the financial plan.
- Explains the importance of preparing financial plan.
- Lists the documents to be included in a financial plan.
- Explain the each component of the financial plan.
- Explains the factors to be included under the each component of the financial plan.
- Estimates the project cost that should be included in the financial plan using given information.
- Prepares the estimated income statement that should be included in the financial plan using given information.
- Prepares the estimated cash flow statement that should be included in the financial plan using given information.
- Prepares the estimated balance sheet that should be included in the financial plan.
- Prepares the estimated schedule of repayments of loan that should be included in the financial plan using given information.

Financial plan

The section in which all the estimated financial information of a business are included in known as the financial plan.

The importance of preparing a financial plan

- To determine and obtain the amounts of funds required for business affairs.
- To make investment decisions on the funds available in the business.
- To identify the periods when financial shortcomings may arise and to decide possible solutions.
- To identify the periods when there can be excess funds in the business and make effective investment decisions.

The facts included in a financial plan

- Estimated project cost (capital requirement)
- Estimated profit and loss (income) statement
- Estimated cash (cash flow statement)
- Estimated balance sheet
- Loan repayment chart

Estimated Project Cost

The cost that has to be borne for the project that is expected to be implemented and continued according to a selected business idea is known by this.

The costs included in the project cost

- **Total cost of fixed assets**

This refers to the cost for the assets with a long term existence required for the continuity of business affairs.

Examples :

Land and buildings

Machines and equipment

Motor vehicles

Other assets with a long life span

- **Preliminary operational expenses**

The expenses needed prior to the starting of the operations.

Examples :

To develop the land

To get infrastructure facilities like water and electricity

To get licenses

To get the business registered

- **Total working capital**

Funds required for daily business operations is known by this.

Examples :

To purchase raw materials (direct cost)

To incur production overhead cost

To incur administrative overhead cost

To incur marketing overhead cost

Estimated profit and loss (income) statement

The document containing expected income, expected cost of goods sold and expected operational expenses is known as the income statement.

Contents of estimated profit and loss statement

- **Sales revenue**

The value that is obtained after deducting the values of returns inwards from the value cash sales and credit sales is known by this.

- **Cost of sales**

This value is obtained after deducting the values of returns outwards and closing stocks from the total added value of opening stock, purchase and expenses of carriage inward.

- **Gross profit**

Gross profit can be obtained after deducting the cost of sales from the sale revenue.

- **Operating profit**

The profit that is obtained by deducting operating expenses from the sum of gross profit and operating income is known as operating profit.

- **Profit for the period**

The amount available after deducting the income tax from the operating profit is known as profit for the period.

Estimated cash flow statement

- The schedule prepared containing the estimated cash inflows and outflows during a particular future period of business is known as the estimated cash flow statement.
- A cash flow statement contains the total cash inflows, the total cash outflows of a particular period and the cash balance at the end of that period.

Cash inflows and cash outflows

- **Cash inflows**

Examples:

- Owners' capital
- Obtaining of loans
- Cash sales
- Receipt of income
- Receipt from debtors

- **Cash outflows**

Examples:

- Purchasing non-current assets.
- Purchasing raw material and goods for sale.
- Payment for insurance, electricity bills, telephone bills, transport, rates, salary etc.
- Payment of taxes

Estimated balance sheet

The statement that shows the financial condition of a business firm as at the last date of a particular future period is known as the estimated balance sheet.

Facts included in an estimated balance sheet

- **Non – current Assets**

Assets acquired with the purpose of using for more than one year is called noncurrent assets.

Examples:

- Land and buildings
- Machinery
- Motor vehicles

- **Current Assets**

Assets that keep on changing less than a year is called current assets.

Examples:

- Inventory
- Debtors
- Cash
- Bank money

- **Non-current liabilities**

Examples:

- Bank loans

- **Current liabilities**

Examples:

- Creditors
- Accounts payable
- Tax payable

Loan Repayment Chart

A chart including the details of the loans obtained by the business, repayment methods of loan and the interest and the loan balance at the beginning and the end of the period is known as loan repayment chart.

Examples:

- Creditors
- Accounts payable
- Tax payable

Summary of the project

The summarized document in which the information given in such as the estimated project cost, income statement, cash flow statement, loan repayment chart and estimated balance sheet etc. is known as summary of the project.

A Sample of Estimated cash flow statement

Items	Rs.
Cash Inflows	
Cash invested by the proprietors/owners	
Sales revenue	
Total cash inflows	
Less: Cash out-flows	
Purchase of land and buildings	
Purchase of machinery and equipment	
Purchase of other fixed assets	
Expenses prior to the operations	
Total direct cost	
Production overhead cost	
Marketing overhead cost	
Administrative overhead cost	
Tax payment	
Income tax payment	
Other payments	

Total cash flows	
Cash balance at the end of the period	

A sample of income statement

..... Business

Estimated income statement for the year ended

Items	Rs.	Rs.
Sales revenue		
Less : VAT		
Net Sales revenue		
Less :		
Total direct cost		
Gross Profit		
Less :		
Production overhead cost		
Marketing overhead cost		
Administrative overhead cost		
Less :		
Depreciations		
Interest on loans		
Net profit before tax		
Less :		
Income tax		
Net profit after tax/ operations profit		

A sample of statement of financial position

..... Business

Estimated statement of financial position as at

Details	Cost	Acc.dep.	Net value
Fixed Assets			
Motor vehicle			
Machinery and equipment			
Furniture and attachments			
Other			
Total Fixed Assets (A)			
Current Assets			
Cash			
(The final balance of the cash flow statement)			
Final stock			
Total Current Assets (B)			
Total Assets (A) + (B)			
Liabilities			
Current liabilities			
.....			
(Only if there is) (C)			
Long term liabilities			
.....			
(Only if there is) (D)			
The input of the business (capital)			
Net profit			
Total input (E)			
Total liabilities (C) + (D) + (E)			

18.6: Evaluates the feasibility of the business idea according to the business plan

Learning Outcomes:

- Explains what the analysis of financial and non-financial statements are.
- Explains the non-financial criteria used in financial statement analysis.
- Lists the financial criteria used in financial statement analysis.
- Comes to conclusions about a business according to the analysis of financial and nonfinancial criteria.

Analysis of financial statements

- The evaluation done using the information included in the financial statements prepared at the end of a financial period is known as the analysis of financial statements.
- In analyzing the financial reports, financial measurements are used.

Example : Break Even Point Analysis

Break-Even Graph

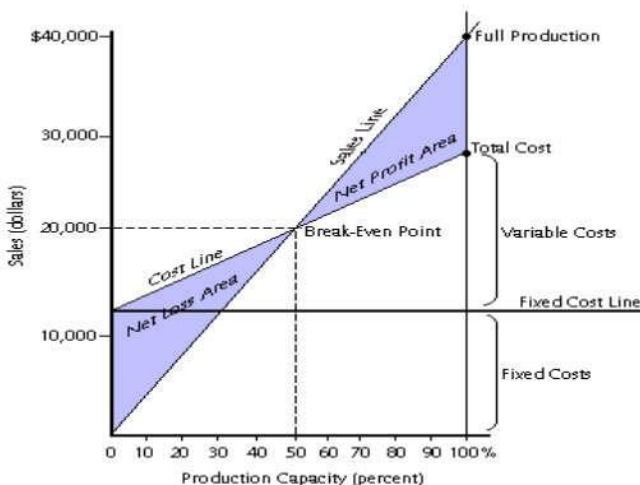


Figure 1
A Break-Even
Graph

Non-financial criteria used in analyzing non-financial reports

- Is there raw materials?
- Are there raw materials for the expected business?
- Can they be acquired in required quantity at required time?
- Otherwise it is a problem to continue the business.
- Can the expected business be implemented?
- Is it possible to start and conduct it in accordance with the plan?
- Is the required environment ready?
- Are they under legal conditions?
- Eco-friendliness

It is important to examine the eco-friendliness. The environmental protection process should be analyzed through examining about the usage of eco-friendly materials and disposal of garbage.

- The concept of corporate social Responsibility (CSR) is important

According to the concept of corporate social responsibility, the businesses, which by turning towards an optimum process of reducing the wastage and environmental pollution and by sponsoring for various programs, act to obtain optimum benefits out of human resources and act on behalf of the community and the environment with a responsibility.

- Various rules and regulations have been implemented by the government for this.

Examples: Provision of environment protective license. (EPL)

18.7: Prepares the executive summary

Learning Outcomes:

- Explains the executive summary
- Points out the importance of the executive summary
- Explain the content of an executive summary.

Executive summary

- The section in which the basic facts of a business plan are briefly stated is known as the executive summary.

- This is what presents a summarized important factors of the business to the reader of the business plan.
- By the time that the executive summary is finished reading by a person who refers to the business plan, the executive summary should succeed in creating a scenario about the business in his mind through the facts included in it.
- Therefore it has to be prepared in a way to fulfill this purpose. The most important part of a business plan aimed at external parties is the executive summary.

Basic purpose of an executive summary

The basic purpose of an executive summary is to persuade the external parties to search about the business affairs further. The executive summary should always be brief and attractive.

The importance of an executive summary

- Executive summary creates a fore view about the entire business plan.
- It gives a guideline about the business plan.
- It builds up confidence about the business plan.

The details included in an executive summary

- Name and the address of the business
- The history of the business
- Vision, Mission, Goals, Objectives of the business
- Good or service that is manufactured
- The market where the business should compete
- The reasons to make business successful and the reasons for obtaining advantages from competition
- The main management group
- Total investment – the amount the businessman invest
- Expected amount of credit