

BUSINESS & START-UP & DEVELOPMENT

STUDY GUIDE FOR MODULE ONE

(A full 'Study & Training Guide' will accompany the Study or Training Manual(s) you will receive soon by airmail post.)

This Study Guide - like all our Training Materials - has been written by professionals; experts in the Training of well over three million ambitious men and women in countries all over the world. It is therefore essential that you:-

- * Read this **Study Guide** carefully and thoroughly BEFORE you start to read and study Module One, which is the first '**Study Section**' of a CIC Training Manual you will receive for the Program for which you have been enrolled.
- * Follow the **Study Guide** exactly, stage by stage and step by step - if you fail to do so, you might not succeed in your Training or pass the Examination for the CIC Program.

*** STAGE ONE**

Learning how to **really STUDY** the College's Study or Training Manual(s) provided - including THOROUGHLY READING this **Study Guide**, and the full '**Study & Training Guide**' which you will soon receive by airmail post.

*** STAGE TWO**

Studying in accordance with the professional advice and instructions given.

*** STAGE THREE**

Answering Self-Assessment Test Questions/Exercises.

*** STAGE FOUR**

Assessing - or having someone assess for you - the standard of your answers to the Self-Assessment Test/Exercises.

*** STAGE FIVE**

Preparing for your Final Examination.

*** STAGE SIX**

Sitting the Final Examination.

Remember: your CIC Program has been **planned** by experts. To be certain of gaining the greatest benefit from the Program, it is **essential** that you follow precisely each one of the **SIX stages** in the Program, as described above.

STAGE ONE is your thorough reading of this 'Study Guide'

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ABOUT CIC STUDY and TRAINING MANUALS

A CIC Study or Training Manual (which comprises 4 or 6 Modules - the first Module of which follows) supplied by the College as part of your Course or Program is **NOT** simply a text book. It must therefore **not** be read simply from cover to cover like a text book or another publication. It **MUST** be **studied**, Module by Module, exactly as explained in the following pages. Each CIC Study or Training Manual has been designed and written by specialists, with wide experience of teaching people in countries all over the world to become managers, administrators, supervisors, sales and accounting personnel, business-people, and professionals in many other fields.

Therefore, it is in **your own best interests** that you use the Study or Training Manuals in the way CIC's experts recommend. By doing so, you should be able to learn easily and enjoyably, and master the contents of the Manuals in a relatively short period of time - and then sit the Final Examination with confidence. Every Study Manual and Training Manual is written in clear and easy to understand English, and the meanings of any "uncommon" words, with which you might not be familiar, are fully explained; so you should not encounter any problems in your Studies and Training.

But should you fail to fully grasp anything - after making a thorough and genuine attempt to understand the text - you will be welcome to write to the College for assistance. You must state the **exact** page number(s) in the Study or Training Manual, the paragraph(s) and line(s) which you do not understand. If you do not give full details of a problem, our Tutors will be unable to assist you, and your Training will be delayed unnecessarily.

Start now by reading **carefully** the following pages about Stages Two, Three and Four. Do **NOT**, however, start studying the first Study or Training Manual until you are **certain** you understand **how** you are to do so.

STAGE TWO - STUDYING A CIC MODULE

STEP 1

Once you have read page 1 of this document fully and carefully, turn to the first **study section** - called **Module One** - of **Study or Training Manual One**. (Note: In some Manuals the term "Chapter" is used instead of "Module").

Read the whole of Module One at your normal reading pace, without trying to memorise every topic covered or fact stated, but trying to get "the feel" of what is dealt with in the Module as a whole.

STEP 2

Start reading the Module again from the beginning, this time reading more slowly, paragraph by paragraph and section by section. Make brief notes of any points, sentences, paragraphs or sections which you feel need your further study, consideration or thought. Try to absorb and memorise all the important topics covered in the Module.

STEP 3

Start reading the Module again from its start, this time paying particular attention to - and if necessary studying more thoroughly - those parts which were the subject of your earlier notes. It is best that you do **not** pass on to other parts or topics until you are **certain** you fully understand and remember those parts you earlier noted as requiring your special attention. Try to fix everything taught firmly in your mind.

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Note: You may not wish to, or be able to, carry out Steps 1, 2 and 3 one after the other. You could, for instance, carry out Steps 1 and 2 and then take Step 3 after a break.

STAGE THREE - ANSWERING SELF-ASSESSMENT TESTS

STEP 4

When you feel that you have **fully understood and learned everything** taught in the whole Module (and if necessary after a further careful read through it) turn to the Self-Assessment Test set at the end of it, and read the Questions/Exercises in it carefully. You do not have to attempt to answer any or all of the Questions/Exercises in the Test, but it is **best** that you do so, to the best of your abilities. The reasons for this are:-

- ❁ By comparing your answers with the Recommended Answers printed in the Appendix at the end of the Module, you will be able to assess whether you **really have** mastered everything taught in the Module, or whether you need to study again any part or parts of it.
- ❁ By answering Questions/Exercises and then comparing your attempts with the Recommended Answers, you will gain experience - and confidence - in attempting Test and Final Examination Questions/Exercises in the future. Treat the Self-Assessment Tests as being “*Past Examination Papers*”.

Professional Advice on Answering Self-Assessment Test (and Examination) Questions and Exercises

1. You may answer the Questions/Exercises in a Self-Assessment Test in any order you like, but it is best that you attempt **all** of them.
2. Read very carefully the first Question/Exercise you select, to be quite **certain** that you really **understand** it and what it requires **you to do**, because:
 - ★ some Questions/Exercises might require you to give full “written” answers;
 - ★ some Questions/Exercises (e.g. in English) might require you to fill in blank spaces in sentences;
 - ★ some Questions/Exercises (e.g. in bookkeeping) might require you to provide “worked” solutions;
 - ★ some Questions/Exercises (called “multiple-choice questions”) might require you only to place ticks in boxes against correct/incorrect statements.

In your Final Examination you could **lose marks** if you attempt a Question/Exercise in the wrong way, or if you misread and/or misunderstand a Question/Exercise and write about something which is not relevant or required.

3. Try to answer the Question/Exercise under ‘**true Test or Examination conditions**’, that is, **WITHOUT** referring back to the relevant section or pages of the Module or to any notes you have made - and certainly **WITHOUT** referring to the Recommended Answers. Try to limit to about two hours the time you spend on answering a set of Questions/Exercises; in your Final Examination you will have **only two hours**.
4. Although you are going to check your Self-Assessment Test answers yourself (or have a friend, relative or colleague assess them for you) practise writing “written” answers:-

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★ in clear, easy-to-read handwriting;

and

★ in good, grammatical language.

The Examiner who assesses your Final Examination answers will take into account that English might not be your national or main language. Nevertheless, to be able to assess whether you really **have** learned what we have taught you, he or she will need to be able to read and understand what you have written. You could lose marks if the Examiner cannot read or understand easily what you have written.

5. Pay particular attention to neatness and to layout, to spelling and to punctuation.
6. When “written” answers are required, make sure what you write is **relevant** to the Question/Exercise, and concentrate on **quality** - demonstrating your knowledge and understanding of facts, techniques, theories, etc. - rather than on quantity alone. Write fully and clearly, but **to the point**. If you write long, rambling Final Examination answers, you will waste time, and the Examiner will deduct marks; so practise the **right** way!
7. When you have finished writing your answer, read through what you have written to see whether you have left out anything, and whether you can spot - and correct - any errors or omissions you might have made.
Warning: some Questions/Exercises comprise two or more parts; make **certain** you have answered **all** parts.
8. Attempt the next Question/Exercise in the Self-Assessment Test in the same manner as we have explained in 1 to 7 above, and so on until all the Questions/Exercises in the Test have been attempted.

Note: There is no limit on how much time you spend on studying a Module before answering the Self-Assessment Test set on it, and some Modules are, of course, longer than others. You will, however, normally need to spend between twelve and fifteen hours on the thorough study of each Module - and that time may be spread over a number of days if necessary - plus approximately two hours on answering the Self-Assessment Test on each Module.

STAGE FOUR - ASSESSING YOUR ANSWERS

STEP 5

When you have answered all the Questions/Exercises set in Self-Assessment Test One to the best of your ability, compare them (or ask a friend, relative or a colleague/senior at work to compare them) with the Recommended Answers to that Test, printed in the Appendix at the end of the Module. In any case, you should thoroughly study the Recommended Answers because:-

★ As already explained, they will help you to assess whether you have really understood everything taught in the Module;

and

★ They will teach you how the Questions/Exercises in subsequent Self-Assessment Tests and in your Final Examination **should** be answered: clearly, accurately and factually (with suitable examples when necessary), and how they should be laid out for maximum effect and marks.

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MARKS AND AWARDS

To assist in the assessment and grading of your answers, the **maximum number of marks** which can be earned for each answer to a Self-Assessment Test Question/Exercise is stated, either in brackets at the **end of each one**.

The maximum number of marks for any one Test is 100.

Your answers should be assessed fairly and critically. Marks should be awarded for **facts** included in your answer to a Question/Exercise, for presentation and for neatness. It is **not**, of course, to be expected that your answers will be identical to all those in the Appendix. However, your answers should contain the **same facts**, although they might be given in a different order or sequence - and any examples you give should be as appropriate to the Questions/Exercises as those given in the relevant "Recommended" Answers.

Add together the marks awarded for all your answers to the Questions/Exercises in a Self-Assessment Test, and enter the total (out of 100) in the "Award" column in the **Progress Chart** in the middle of the full '**Study & Training Guide**' when you receive it. Also enter in the "Matters Requiring Further Study" column the number(s) of any Question(s)/Exercise(s) for which you did not achieve high marks.

GRADES

Here is a guide to the grade your Self-Assessment Test Work has achieved, based on the number of marks awarded for it:

| | | | |
|------------|-------------|-------------|------------------|
| 50% to 59% | PASS | 60% to 64% | HIGH PASS |
| 65% to 74% | MERIT | 75% to 84% | HIGH MERIT |
| 85% to 94% | DISTINCTION | 95% to 100% | HIGH DISTINCTION |

STEP 6

Study again **thoroughly** the section(s) of the Module relating to the Question(s)/Exercise(s) to which your answers did not merit high marks. It is important that you understand where or why you went wrong, so that you will not make the same mistake(s) again.

STEP 7

When you receive the complete Study or Training Manual One** from the College by airmail post, '**revise**' - study again - Module One printed in it, and then turn to **Module Two** and proceed to **study it thoroughly** in exactly the same way as explained in Steps 1, 2 and 3 in this '**Study Guide**'.

When you have completed your **thorough study**, follow steps 4, 5 and 6 for the **Self-Assessment Test on Module 2**.

Continue in the **same way with each of Modules 3, 4, 5 and 6** until you have attempted and assessed your work to Self-Assessment Test 6, and have completed the study of Study or Training Manual One. But - and this is **important** - study the Modules **one by one**; complete Steps 1 to 6 on **each** Module **before** you proceed to the next one (unless during the course of your reading you are referred to another Module).

****Note:** When you receive Study or Training Manual One by airmail post, it will be accompanied by a 20-page '**Study & Training Guide**' (containing a '**Progress Chart**') which you **MUST read very carefully** before starting your study of Module Two.

TRAINING MANUAL ON

BUSINESS START-UP & DEVELOPMENT

Module One

CONTENTS

The First Steps

page 8

What a business is

What products are:

goods

services

The "idea" for your business:

considering skills, knowledge, experience

converting a hobby into a living

an invention - a new product

dangers to avoid

The Business Plan:

reasons why one should be drawn up

matters it should cover

its important uses

dangers of not producing one:

true practical example

Capital

for what money may be needed in starting a business:

working assets, stocks, paying expenses

practical example

Sources of capital:

savings

bank loans:

the term

repayments

security or collateral

interest

the loan agreement

bank overdraft:

how it works

how it differs from a bank loan:

dangers to note

interest



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business development organizations:
advice
financial assistance
Contributions to capital other than money

| | |
|---|----------------|
| <i>Self-Assessment Test One</i> | page 20 |
| <i>Recommended Answers to Self-Assessment Test One</i> | page 22 |
| <i>What You Will Learn in Modules 2 to 12</i> | page 24 |

THE FIRST STEPS

What is a 'Business'?

In different circumstances, or used in different ways, the term '**business**' can have different meanings.

When we talk about '**business**' in a general way, we are referring to '**commercial activity**' - which is concerned with the ways in which '**products**' reach those who need them from those who produce or make or provide them.

When people say they are '**in business**' we understand that they are engaged or involved in some form of commercial activity, such as a trade or a profession. It is thought that the origin of the word "business" was "busy-ness"; the state of being busy!

But '**a business**' is an entity, an organization - be it very small or very large, or anywhere in between - which has very definite **objectives**. A most important objective of any business is to make a **GAIN** - called **PROFIT** - for its owner(s) from its activities.

To put it simply, we can say that a profit is made when the total amount of money a business **receives** from its activities (its '**income**') is greater than the total amount it pays out (its '**expenditure**'). We discuss profit - how it arises and how it can be justified - in Module 2; for the moment, do note that any business is started - or "established" - and run with the intention of **gaining profits for its owner(s)**.

What are 'Products'?

All of us, all human beings, have physical "needs" or "wants"; basic ones include food and drink, clothing, protection from adverse weather or other harms or dangers, medicines and shelter. Apart from the "gifts of Nature", such as air and water, most physical "needs" or "wants" of people are '**satisfied**' by what we call '**products**'.

There are many different products, but their common feature is that they all come about as the result of **human endeavour** and **effort**. The range of products available - for sale and purchase - today can be very great in many countries; but products are only of two distinct types:-

★ Goods

What we call '**goods**' are items which can be seen and touched, and many of them can be smelt or tasted or heard; we say that they are '**tangible**' or '**physical**' items. Items of goods range from food and drinks to clothes, footwear and medicines; from simple items like pins and paperclips and books, to computers, motor vehicles, aeroplanes, satellites and space vehicles; from doorknobs to bridges and oil refineries. The list is endless, and is continually being added to!

There are some items called '**staple products**', which are mainly important or essential foodstuffs; such as rice in many countries, maize in others, flour or yams in others, and so on. Many people in the countries cannot live (survive) without these products; they are sometimes called '**necessities**'.

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Some people in business **make** or '**manufacture**' goods; they might be tailors or bakers or furniture-makers, for example; they might work in small workshops; or they might manufacture their goods in factories. They are often called '**manufacturers**'. Other people in business grow crops or raise cattle, for example as farmers or ranchers; they are often called '**producers**'.

Business people who do not make or produce goods, but who buy and sell them are said to be involved in '**trading**' and are called '**traders**'. Sometimes they are said to be in '**distribution**', and are called '**distributors**'.

Different types of goods might be called by different names, such as "produce" (mainly agricultural - farm or dairy products), "materials", "supplies", "trade goods", "stock" or "inventory", and so on. The products used in making **another** product are called '**components**'. For example, to build a wall a builder needs bricks, cement and sand. To make a chair a carpenter needs wood (timber), nails, screws, glue, and so on.

★ **Services**

Other products are '**intangible**', that is, they cannot be seen or felt. They usually involve some kind of **work**, only the '**results**' of which can be seen or felt. For example, a mechanic who repairs a broken machine has performed a service; the machine now operates - when previously it did not.

Services are performed by people in many other occupations, such as builders, carpenters, painters and decorators, hairdressers, tailors, waiters, gardeners, window cleaners, salespeople, managers, bookkeepers, secretaries, restaurateurs, hoteliers, estate agents, travel agents, and many more.

It is a little confusing that some service-providers, like electricians, carpenters, painters and decorators, are called '**tradesmen**', when they are **not** in trade.

The 'Idea'

You might have chosen to study this Program because you want to **start** ("establish") or '**take over**' a business, or because you are considering doing so. It is very important that you understand the '**basics**' of business, so that you will "lay solid foundations" on which to build a successful business.

Or you might already be '**running**' a business, which perhaps is not developing as "well" - as successfully or as profitably - as you hoped it would. The reason might be because you have overlooked the '**basics**'.

So let us start at the beginning. And the beginning is usually with an '**idea**'.

You might have found a product to manufacture, or an idea for one. Or perhaps you have decided to go into distribution, or to provide a service. It is important that you **know** what you want to do - what your '**goal**' is. It is no good thinking to yourself: "I want to go into business, but I don't know whether to be a manufacturer or a trader or a service-provider."

Only YOU can make the decision on your choice of business "venture". After all, YOU are in the best position to know where your interests lie, what skills and abilities and capabilities you have, and which of them form the best foundation for your new '**career**' - in business.

You might feel able to make use of skills, or knowledge of a trade or profession, or business training or sales/managerial experience you have gained in previous work. But if you have been unhappy or have felt unfulfilled in your previous work, you might want to "strike out" in a new direction; a new '**venture**'.

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Perhaps a hobby has gained you proficiency in some field - for example, cooking or dressmaking or gardening or woodworking - which can be the beginnings of a business. You might have formed the basis of a customer or client-list, and have gained an idea of the potential "market". If you have also gained money - '**income**' - from your spare-time activities, that, too, can help greatly, as you will **definitely need** some money with which to start or take over a business. (We discuss this matter fully later in this Module.)

But bear in mind that it is a big "leap" from making a little extra money (by "moonlighting", as it is called) from spare-time activity to making a LIVING from it. Selling a few "hobby items" to relatives and friends might **not** be a true indication of their appeal to the general "buying public", or to the "economic viability" of the venture.

Perhaps you have an original business idea. You might have designed or invented a new product which fills a "gap" in the market, which nobody else has noticed. You will need to be sure there will be a '**demand**'; that is, people will buy - and **pay** for - the product. Or you might have an idea for a new or improved service, which people or other businesses will find useful or beneficial - and will **pay** for.

You might want to enter an established type of business or trade, perhaps by buying or taking over an existing business, or by buying a franchise, or buying into a partnership. We discuss all these matters in Module 2, but at this stage we need to give you a **warning**. If the type or '**line**' of business or trade is **new** to you - **be wary**. You might find it very difficult to master it at the same time as learning how to run a business. You will be competing with others who are already experienced, and who might be experts, in that particular line of business or trade. It is safer to gain some experience by working in a similar business or trade first, and by undertaking training, like this Program.

It is usually best to **avoid** starting or taking over a business which is dependent on the skills of **another** person (or more than one) rather than on **your own skills**. You could face serious difficulties if a person on whom you **depend** were to "let you down", or fail to perform to your expectations, or leaves to work elsewhere.

Another matter you need to realise early on is that, as a business owner, you will probably have to work **far harder** - and perhaps for longer hours (maybe even over weekends) - than you might have to work or have had to work as an employee for somebody else. As a business owner, it might be more difficult for you to have "time off" or to take paid holidays. To become a successful business person you need commitment, as well as the willingness to work **hard and long**.

The 'Business Plan'

Plans are "routes to objectives". Plans need to be made in **advance** to show the best ways in which objectives will be achieved in the future. Plans are important in all aspects of business - as you will learn during this Program - but plans are particularly important **before** starting a business.

In essence, a '**Business Plan**' sets down in writing what a business should or will be, what it is intended to do and to achieve, and how it will go about achieving its objectives or "goals". Because plans have to be made in advance, they often have to be based on '**forecasts**'. A forecast is an assessment of **future** events and factors, and how they might affect the business.

Because there are so many kinds and sizes of businesses, engaged in so many different types of activities, there is no set format for a Business Plan. However, we can give you general guidelines of what needs to be included in most instances:-

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- * What the **activities of the business will be**:
 - * Is it going to make or produce products - if so what?
 - * Is it going to buy and sell products - if so what?
 - * Is it going to provide a service - if so what?

In other words, the “nature” or substance of the business has to be made clear.

- * What **activities the business will be involved in to achieve its objectives**; what actions will have to be taken, and in what manner those activities will be carried out or performed. For example, if the business is going to be involved in trading, the plan will have to show how and from whom goods will be bought, to whom and by what method of selling the goods will be resold.
- * **Who will run the business**, and/or work in it. The owner of the business might work alone, or have family-members to assist, or have to employ one or more employees, or work with a “partner” (which we discuss in Module 2.) The experience, training, knowledge and skills of the owners/partners should be listed.
- * **From where the business will operate**, its premises: from a shop or store, office, workshop or factory - even, perhaps, to begin with from home.
- * **What ‘market’** there is for the products the business is going to make, produce, buy and sell or provide. By this we mean, who its customers or clients will be, and how many there are likely to be who are willing and able (who can afford) to pay for its products.
- * **What competitors** there are; that is, other businesses making or producing or buying and selling or providing the same or similar products, especially in the same area, or “locality” or “vicinity”.
- * A **‘funds forecast’** dealing with financial matters. These include how much money is needed to start the business; to buy machinery and equipment; to buy stocks of goods or materials or components; to rent or buy premises; to pay expenses, to attract customers, and to keep the business “running” until it earns income from its activities. Also, how much, if any, money is already available, how much will have to be “raised” from other sources, and what those sources are likely to be. We deal with these very important topics in the next Section, under the heading **‘Capital’**.
- * A **‘profits forecast’**, that is, an indication of how much profit the business can realistically be expected to **gain**, year by year for, say, three years ahead. The owner(s) of the business will have to “estimate” (to calculate roughly, but as accurately as possible) the amounts of income they expect the business to receive and the amounts of expenditure to be paid out, year by year.

You will expect to be “paid” - to receive an “income” - for all the hard work you will have to “put into”, or “invest” in, the business. In some cases a person might run a business on a “part-time” basis; he or she might work in the normal way to earn a wage or salary, and run the business outside working hours, perhaps to earn a little extra, or to gain experience. Most people, however, expect to **‘earn a living’** - their main source of income - from their businesses, so their businesses need to be **profitable**.

There are many other matters which might need to be included in a business plan, and we mention some of them in later Modules. If you think carefully about the main ones, which we have explained above, you will realise why setting down a business plan in advance is so valuable. Without it, important matters might be overlooked, leading to problems and difficulties in the future. Without a plan, actions might be taken and decisions might be taken in a haphazard or badly thought-out way,

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which can easily result in disaster.

If your Business Plan is fair, honest and reasonable, stating the “plain” facts, without any adverse factors being “hidden”, and with no exaggeration, you can gain a good idea of whether or not your proposed business is a “viable proposition”. By this we mean whether or not it stands a good chance of being successful, and profitable. When you are full of enthusiasm for the new business venture, you might be tempted to exaggerate the “plus” factors, and to overlook or ignore “minus” factors, or the “downside”. Try to avoid doing that, because an inaccurate Business Plan can be harmful - and even worse than not having a plan at all!

Other people whose help you might need (a bank manager or an official of a government agency, for example) will be able to ‘**study**’ your Business Plan, and see whether the proposed business has the potential for success. Such people will be experienced in dealing with “new” businesses, and will spot any weaknesses, and anything in your Business Plan which does not “ring true”. That could count against you, when really their support, guidance and advice could be very valuable to you; so make sure your Plan gives a “true picture”.

Dangers of NOT producing a Business Plan

Never be tempted to neglect the preparation of a Business Plan; it is **not** a waste of time - it is a valuable guide and business “tool”. This practical example will make this very clear to you.

In some countries, for a variety of reasons, at one time most businesses were run mainly by just one section of the whole community. However, as circumstances changed, there were better opportunities for more citizens to start, own and run businesses. It is a sad fact that many people started or took over existing businesses without having any business training or experience, and often without sufficient capital (money). Many of these “new” business people faced unexpected difficulties and hardships; many businesses did badly and had to be closed or sold.

Due to a lack of business knowledge and experience too many people started or took over businesses of the same or similar type, often selling similar - or even the same - products. Very often their businesses were located in the same streets or general areas. This happened in particular with businesses which needed only modest capital and little, if any, knowledge about the products to be sold. Shops or stores selling ready-to-wear garments are a particular example. In some towns very many such businesses were started and/or taken over, often very close to one another, and often with a number in the same short street - all trying to sell virtually identical clothes.

The “new” business people did not realise that an increase in the number of “outlets” (shops or stores) selling the same or similar products does NOT mean that there will automatically be an increase in the numbers of customers who want, need or can afford to buy those products. In fact the opposite is often the case; in a particular area there is usually only a **limited** number of potential customers for specific types of products.

The numerous clothing shops very soon found themselves in fierce **competition** with one another, each trying to secure the limited numbers of customers for themselves. To try to do that, they were forced to “cut” (reduce) their prices - often to uneconomic levels - to try to “attract customers”. In the end, of course, those owners of shops who had limited capital - and no reserves, or sources from which to obtain additional capital - or which because of the lack of experience or training ran their businesses badly, had to sell (if they could find any buyers) their businesses. Or they had to simply close their businesses down, often losing all their savings.

To make matters worse, other people did not “learn” from the misfortunes. Some of the unprofitable shops were bought or taken over, and the new owners all too often also failed to make them

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successful. And so they, too, lost both their businesses and their capital.

From this tragic - but true - example we can learn why it is so important for a Business Plan to be prepared to set out - in advance - the following:-

- ★ The amount of money needed to start the business, how much money is available, and whether a “reserve” of money can be “put aside” in case of unforeseen happenings (for example, delays in deliveries, adverse weather).
- ★ The “market potential” in a particular area, that is, the number of likely customers in it for the products which it is intended to produce and/or sell.
- ★ The existing competition in the area concerned, and what competition might have to be faced in the foreseeable future. Competition will reduce the market potential or, at the very least, reduce the profits of a business.
- ★ The knowledge, experience, skills and abilities possessed or available to guide the business to success.

In the remainder of this Module and in Modules 2 and 3, we look at each of those important factors in greater detail.

Capital

Every person who wishes to start or take over a business needs a certain amount of **money** and/or things which are **worth money** - which together we call the ‘**capital**’ of the business. In effect, the capital of a business is the money or money’s worth which is invested in it by its owner or owners to ‘**fund**’ its activities and operations.

How much capital - in value - will be needed by a particular business, will depend on the type and size of that business, and the activities in which it is or it is intended to be involved. For example, a business which is to manufacture products in a factory will need a larger value of capital than will a small kiosk selling sweets and/or snacks and soft drinks.

The ‘**funds forecast**’ of your Business Plan will set out your “capital requirements” - the amount of capital which will be needed by your business. Note in particular that it is not always necessary for the total amount of capital to be required all at once. Some of the total amount of capital - which is often called the ‘**initial capital**’ - will be needed to meet expenses which have to be incurred even before the business is started, and before it begins earning sufficient income from its activities. But another part of the total capital might not be needed until after the business has been started, and perhaps has running for some time. This is considered further in Practical Example 3.

The most common reasons why money is needed for new businesses are:

- * **To pay for machinery and equipment.** Some such items will need to be bought or purchased by most, if not all, new businesses. For example, a bakery will need ovens; a farm will need milking equipment or a tractor; a shop will need counters, display and storage units, a cash register; an office will need desks and chairs, a photocopier, possibly a computer. All such machines, items of equipment and furniture are bought to enable a business to “operate” - to perform its work - smoothly and efficiently. For this reason they are often called ‘**working assets**’ - the word ‘**asset**’ refers to anything which a business **owns** (including money) - its **possessions**. Working assets are bought to be “retained” (kept) and used for some years.

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- * **To pay for materials or stocks of goods.** If a business is to make something, it will need materials and/or components from which to make it; for example, the bakery would need flour, yeast and sugar. A trading or distribution business will need to buy goods, which it will then resell to its customers. An office-type business will need paper and envelopes. Once a business has paid for (or agreed to pay for) such items, it legally **owns** them, so they are also **assets**; they are often called '**circulating assets**', and you will learn why in Manual Two.)
- * **To 'meet' or pay its expenses.** Any business will have '**expenses**' or '**outgoings**' to be paid. The variety of different expenses can be wide, but common ones include rent for the use of premises; telephone, electricity and water charges; postage; advertising; salaries or wages of employees. As we have already mentioned, often some of these expenses have to be paid even **before** a business starts operating and "earning" income.

Practical Example 1

Let us put all these factors together, and consider a "practical" situation. Mary Herold has worked for other people for years as a dressmaker/seamstress, earning a wage. She has become an expert needlewoman. She has noticed that more and more people buy "off the peg" garments from clothing shops/stores, rather than having clothes specially "made to measure" (which is much more expensive.) However, clothes are manufactured in only the most popular and rather limited "sizes" (waists, leg lengths, chest/bust sizes, sleeve lengths, and so on.) She has noticed that many people buy "ready to wear" clothes, but find that the garments do not always fit exactly; perhaps the waist is too tight or too loose, or the legs are too long or too short. People need their garments to be **altered** to fit them better.

So Mary has an "idea". She decides to start a business offering a service to alter clothes (to fit their owners better) and also to repair damage to clothes, such as rips or tears or broken zips.

Mary cannot work from her home, so she must find suitable '**premises**' (or "accommodation") in a building from which to run her business. She will have to pay **rent** to the owner of the premises for the right to use them. She will need to buy a sewing machine (maybe more than one) and a "pressing" or ironing machine. She will have to "furnish" the premises; she might need to decorate them: to paint the walls and ceiling, to lay suitable flooring, to build a "changing room", to instal mirrors, and so on. She will need at least one table and chair, and perhaps a counter at which to attend to customers.

She will need an electricity supply to operate her machines and for lighting (perhaps also for heating or cooling). She will need water, she will need a telephone.

She will need to buy many different materials, such as different colours of cotton thread, buttons, pins and needles, and zips. She will need to buy "tools", such as pairs of scissors and measuring tapes.

Mary will only gain customers if (1) they know about the services her business offers, and (2) they know how to find where the business is "located" - where it is. She can give that information by "word of mouth" to some people, such as friends and relatives. But she needs to "reach" more people, and she does that by paying to **advertise**, perhaps in her local newspaper or local radio, or in leaflets (flyers) or posters printed and distributed to possible customers. She will need a sign with the name of the business somewhere on the outside of the building, so customers can find her premises (see Module 5).

You can see that Mary needs to spend a lot of money, even **before** her business "opens its doors" and starts providing services to its customers, for which they will pay. And at this stage she does not

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know for certain that she will gain customers, or sufficient customers to pay “back” all the money she has already spent and needs to spend in the future; for example, she will have to pay the agreed amount of rent every single month, without fail.

Then, too, if she feels she will not be able herself to do all the work necessary to “satisfy” her customers, and also run the business, she might have to employ - and pay wages or salaries to - one or more other people. An additional salary or wage is not only a heavy expense for the business, but also involves considerable additional “paperwork” in making and accounting for deductions for income tax, social security/national insurance contributions, etc.

Sources of Capital

The money Mary needs with which needs to buy assets and to pay early expenses is called the **‘initial capital’** of her business. How does she obtain or “raise” the money she needs in order to start her business? There are a number of different “sources” which might be available to her (depending upon the country or area of the country in which she lives.) Here is information about some of them.

Savings

People who have been in employment, earning a wage or salary, might sometimes have earned more than they needed to spend at once. They might have been able to “put aside” or to save some of their earnings. Their **‘savings’**, as they are called, might be “deposited” for safekeeping in a bank or a building society, or a similar “financial institution”. As more money is deposited from time to time, the total value of the savings “grows”.

Some people “inherit” money from deceased parents or other relatives. Some might receive “redundancy pay” if their jobs are lost. Some might receive “pensions” from previous employment. All such people might deposit amounts of money which are in “excess” of their immediate needs with banks, etc.

Banks and building societies usually pay a bonus, which is called **‘interest’**, to customers who deposit money with them. The amount of the interest which is “earned” is added to the amount of savings, thus increasing it.

Of course, savings might be used for other things, but often a person is able to save enough money over a period of time to use as the capital for his or her business, or at least as part of the total amount of capital needed.

No doubt you have already tried to “save” towards the cost of your business; but if not, it might not be too late to start!

Loans

Money which is borrowed from other people or businesses with the intention that it will be “paid back” or “repaid” at a later date, is called a **‘loan’**. The money is said to be “lent” or “loaned”. The person or business who lends the money is called the **‘lender’**. The person or business to whom or to which the money is loaned is called the **‘borrower’**.

Sometimes a person wishing to start a business might be able to obtain a loan from a relative or from a friend, or perhaps a number of loans from different relatives and friends. If you are in this situation, it is important that money is **not** accepted unless you have the definite intention to repay it in due course. Bad feelings can result if money borrowed is not repaid as and when promised.

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Alternatively, a bank (or building society) might be approached for a loan. If you have already been a customer of the bank, and better still a “saver” with that bank, your approach might be looked on more favourably by the manager of the “local” branch of the bank. A bank is a business and, like any other business, its main objective is to make profits for its owners. It cannot risk losing money by loaning or lending money to just anybody for just any reason. If it is to loan money for a business venture, a sound “business proposition” must be made.

First of all the bank manager (or a subordinate) will want to have details of your proposed business; in fact a copy of the Business Plan (which we have already considered.) If you can offer for inspection a fair and honest, well considered Business Plan, then you will get off on the “right footing”. The bank official will no doubt want to study and discuss the Plan with you, and might be able to give you sound “financial advice”, based on his or her experience with many other business “start ups”.

Obviously the bank official will need to know how much - the ‘**sum**’ - you want to borrow, and for how long. It might surprise you to know that a bank manager might even want to be sure that the sum you are asking to borrow is not too low! That is because some “new” business people are too modest in their calculations. They might not take “into account” all the many and varied types of expenses which will have to be met. They might not have made provision for times when business is “slack”, or when it is interrupted by unforeseen events; by a strike by transport workers, or severe weather conditions, to give you just two examples. These are times when a ‘**reserve**’ is needed. So it might be wise to ask to borrow slightly more, rather than less.

The bank will set out in a document the “conditions” under which a loan might be offered. In addition to the sum of money which might be loaned, the document will cover other matters of great importance to the borrower.

Term of the Loan

The bank might agree to lend the sum of money over a period of one year, or two or three years, or longer. The period is called the ‘**term**’. A “short-term” (say one year or two years) loan might seem attractive, but a new business person must be confident the new business will earn enough soon enough, because the loan will have to be **repaid** during that short period.

Repayment

Perhaps a certain amount of the sum borrowed might have to be repaid every month or every “quarter” (three months) or every half-year (six months) or every year. For example, say the sum of \$15,000 is loaned to you by a bank; you - the borrower - might have to repay the sum of \$1,250 each month for 12 months, or \$625 each month for 24 months. Sometimes, the whole sum borrowed might have to be repaid at one time after a stated period. You **MUST** allow for the repayment of any loan in your calculations and Business Plan.

Security or Collateral

To reduce the risk of losing money, a bank will usually require the borrower to make a “pledge” that in the event of all or part of the sum loaned not being repaid as agreed, the bank may seize instead some property (possession) of the borrower; that is called ‘**security**’ or ‘**collateral**’. Rarely will a bank loan be made without suitable security or collateral.

The security or collateral for a loan which can be offered will, of course, depend on the individual, and how much - how large in value - is the sum of the loan asked for. It might be a person’s house, or a piece of land owned, or a motor vehicle, and so on. If you are a new business person starting a business with a bank loan, you must realise that there is a **risk**, should the business not succeed.

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Instead of asking for security, or in addition to security, the bank might require another person of standing to '**guarantee**' the loan. This means that in the event of the business not succeeding that person - the '**guarantor**' - can also be pursued by the bank to pay all or part of the loan not repaid by the borrower.

Interest

A bank (like any other business) charges its customers for the services it provides to them. If it agrees to lend money, then it will **charge** for doing so - that charge is called '**interest**'. The bank charges a certain '**rate**' of interest, which is usually presented as a percentage, such as 5 per cent or 8 per cent of the sum loaned. The term "per cent" means "of a hundred", and is often shown by the % sign; for example 5% or 8%. These mean "five one-hundredths" and "eight one-hundredths".

The rate of interest is sometimes stated as being "*per annum*" - which might be abbreviated to "*pa*" - meaning "for each year".

So, for instance, if you were to borrow the sum of \$15,000 from a bank at the rate of 5% "per annum" (per year) interest of \$750 - 5 one-hundredths of \$15,000 - would have to be paid to the bank **each year**. At 8%, the sum of \$1,200 in interest would have to be paid to the bank **each year**.

If the sum borrowed is large, then the amount of interest payable can be high. The interest payable will be an **expense** of the business, and so will reduce profits made. Interest might be payable monthly or quarterly or "annually" ("yearly"). For example, if the annual amount of interest is \$750, you might have to pay US\$62.50 "per" (each) month, or US\$187.50 per quarter.

Sometimes the rate of interest is "fixed" during the term of the loan; sometimes it is "variable", which means that it might rise, or might fall. If the rate falls, less interest is payable; if it rises, higher interest is payable. In some countries different banks, building societies and other "financial institutions" may offer loans (as well as overdraft facilities - see next Section) at different - competitive - rates of interest, so it might be worth "shopping around" to find the best "deal".

Do NOT forget that the interest has to be paid **in addition** to the agreed repayments of the loan.

Loan Agreement

If you want to borrow money you must consider **carefully** the "conditions" on which the bank will lend to you. It might be possible for you to obtain advice from an accountant or a business advisor **before** agreeing to accept the bank's offer. Sometimes there might even be the chance to "negotiate" - to "bargain", as it were - to get better conditions, for instance a lower interest rate, or a longer period of loan. Also, if there are competing banks in your country (and that is not always the case in all countries) it might be wise to approach more than one bank, and to compare what each offers.

The final conditions - set out in a document - under which a loan is offered by a bank have to be signed by both a representative of the bank and by the borrower (and the signatures usually have to be "witnessed" by other people.) Once the document has been properly signed by both "parties" (bank and borrower) it becomes a legally '**binding agreement**'. If either party fails to carry out the agreed obligations, for example, if the borrower fails to pay interest or to repay the loan, the other party can take legal action to recover the money.

So do think carefully before you resort to a bank loan.

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Bank Overdraft

This is another facility which a bank might offer, but usually only to an existing customer who has had a good “record” in operating his or her account with that bank. It is NOT a “loan”, as we have described above.

What it means is that the bank allows the customer to ‘**withdraw**’ (take out) **more** money from the bank than that customer has deposited with the bank, that is, to ‘**over draw**’. For example, say you have a “balance” of \$1,200 in your account with a bank. The bank might, perhaps, permit you to withdraw (usually by means of documents called cheques or checks, which we discuss in Manual Two) up to a maximum of \$5,000 in addition to the \$1,200 at any one time. So you could issue a cheque or a number of cheques for a total of up to \$6,200.

The bank charges interest on the amount ‘**overdrawn**’, usually on a daily basis, although the interest might only be charged to the account every month or quarter. For instance, the first cheque you issue might be for only \$1,400, so the amount overdrawn (on which interest will be charged) is only \$200. The next cheque issued might be for \$920, and so the amount overdrawn (on which interest will be charged) will increase to \$1,120. And so on.

An **advantage** of an overdraft is that as and when money is deposited with (or paid into) the bank, the amount of the overdraft (on which interest will be charged) decreases.

But there are also significant **disadvantages**, which you **must** consider:-

- ◆ The rate of interest charged on an overdraft is often **higher** than for a loan. As and when interest is charged (or “credited”) to the “overdrawn” account, it **increases** the total amount overdrawn - on which further interest will be charged.
- ◆ Whereas a loan is for an agreed “term”, an overdraft is NOT. The bank can insist on the repayment of - or “call in” - the amount overdrawn at any time, without warning. That could be very serious for you and your business if you had no alternative (other) source of funds from which to repay the bank.

The agreement of the bank must be obtained before a bank account is overdrawn. The bank will state the conditions (which will have to be accepted and signed) under which the overdraft may be “operated”. They will cover the maximum amount which may ever be overdrawn and the rate of interest (which will vary or “fluctuate”). The bank might also, especially if the overdraft might be large, insist on having security or collateral, and/or a guarantor.

You might find a short-term overdraft facility beneficial if interest rates are low, and if you have a regular source of income (e.g. salary or a pension) to help keep down the amount overdrawn. But it is not usually wise to rely on an overdraft in the long-term. And remember: an overdraft is NOT a loan.

‘Business Development’ Organizations

In many countries organizations are set up (by central and/or local government, by overseas assistance agencies or by private foundations) to encourage the start-up and development of businesses, especially “small” businesses. These go by a variety of different names in different countries, such as “business development agency”, “enterprise initiative”, and “regional development bureau”. You are strongly urged to find out if there is such an organization - and, if so, its name and address - in your country, or the area or region of it in which you intend to start your business.

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Such organizations are usually able to give sound business advice, based on a knowledge of “local” conditions, regulations, and so on. Some of these organizations issue publications containing local business information which is very useful for intending business people. Advice might also be given on what types of business **not** to try to start locally - to avoid the situation which we described earlier, in which too many similar businesses were “chasing” a limited number of customers.

Many of these business “development” organizations (including those which are semi-government or quasi-government run) are able to provide forms of “financial assistance” to aspiring business people. Some might be able to provide ‘**interest-free loans**’ or ‘**low-interest loans**’ or ‘**grants**’ towards all or part of the capital needed to establish a new business, or for the purchase of specific assets. Of course, a sound Business Plan is usually required before any form of assistance will be considered.

Even if “direct” financial assistance is not available for your business venture, the backing of such an organization will usually lend support to an approach you might make to a bank for a loan. Or you might be advised about which other organization(s) might be able to assist you financially.

Contribution to Capital other than ‘Money’

Sometimes, instead of actual money - “cash” - alone, an intending business person might have something which is **worth money**, or which has what is called ‘**monetary value**’ or ‘**monetary worth**’.

For example, a person might own a plot of land on which vegetables for sale can be grown. Another person might have a structure in his or her house or nearby, which can be used as a workshop, or as a store for products, or as an office. In other cases people might own equipment or tools which can be used by the new business. Such facilities are “worth money”, because they save actual money having to be spent (for example, on renting premises, or on buying equipment or tools, and so on.)

So the amount of actual money needed to start a particular business might be lower than otherwise. If you own an asset or assets (in addition to money) which could be useful to a new business, this might be a matter worth considering (if you have not already done that.) And especially if you have not yet decided what type of business to start, or from where to operate your business.

Combinations of Sources of Capital

In practice, many people find it necessary to raise the initial capital and/or the total capital they need from a combination of different sources. For example, you might have some savings “put aside”, and/or you might be able to secure a grant from a business development agency, but even then might need to “top up” with a loan from a bank or elsewhere.

Limiting Costs

Once you have decided - based on the funds forecast in your Business Plan - the amount of initial capital you will need to start (or buy) your business, you should next consider the sources of “funds” which are or might be available to you. Then, depending on how much you will need to get the business started and operational (plus a “reserve”, as explained) you should undertake research to **compare costs**; for example, interest charged on a bank loan is often lower than on an overdraft and, furthermore, some banks or other financial organizations might charge lower rates of interest than others charge. Having done your “research”, try to raise the amount of capital you need at the least practicable cost, in order to **limit** the “drain” on your resources which payments of interest and loan repayments will cause.

SELF-ASSESSMENT TEST ONE

If you already know what business you intend to start, or if you are already running your own business, you may answer the first two Questions in relation to that specific business. If neither is the case, you may answer those Questions in a “general” way.

Recommended Answers to the Questions - against which you may compare your answers - are in the Appendix after the end of Module 6. The maximum mark which may be awarded for each Question appears in brackets at the end of the Question. Do **NOT** send your answers to these Questions to the College for examination.

No.1. What is a “business plan”, and why is it so important that you should prepare one before starting a business?

(maximum 40 marks)

No.2. (a) What is the “capital” of a business? Describe the main types of expenses which might have to be paid before a business is started.

(maximum 20 marks)

(b) With regard to a bank loan, explain what you understand by the “term”, the “rate of interest”, and “security” or “collateral”.

(maximum 20 marks)

No.3. Place a tick in the box against the **one correct** statement in each set.

(a) *In business, the term “goods” refers to:*

- 1 payment which is received in exchange for efficient work performed.
- 2 the highest quality of items which a business hopes to sell.
- 3 physical items which a business offers for sale to customers.
- 4 money spent wisely on expenses such as rent, salaries and services.

(b) *It is safest to start the type of business which:*

- 1 does not need any skill or previous experience.
- 2 depends on the skill of people other than its owner(s).
- 3 needs much capital because it will be more valuable.
- 4 you have the skills and experience to run successfully.

(c) *A bank overdraft:*

- 1 allows a bank’s customer to draw out more money than that customer has deposited with the bank.
- 2 is simply another name for a bank loan.
- 3 is cheaper in interest than a bank loan.
- 4 has to be repaid in regular sums over a period of time, called its “term”.

(d) *The main types of business activities:*

- 1 are selling, buying and distributing.
- 2 are manufacturing, trading/distribution and service-providing.
- 3 are small, medium, large and very large.
- 4 goods and services.

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- (e) *Assets are:*
- 1 the capital of a business.
 - 2 what a business owns; its possessions.
 - 3 animals reared by farmers to be used as beasts of burden.
 - 4 what a business pays out; its expenses.

(2 marks for a statement correctly ticked - maximum 10 marks)

No.4. Place a tick in the box against the **one correct** statement in each set.

(a) *A profit is made by a business when:*

- 1 the total of its income is greater than the total of its expenditure.
- 2 its owner has raised all the capital needed to start it.
- 3 the total of its expenditure is greater than the total of its income.
- 4 a bank agrees to make a low-interest loan to it.

(b) *Plans are necessary in business:*

- 1 so its owner can find his or her way to work each day.
- 2 to transport goods to its customers all over the country.
- 3 to pay for machinery and equipment it needs to operate smoothly.
- 4 to guide it to the achievement of its objectives.

(c) *Competition for a business:*

- 1 increases the number of customers for the products it sells.
- 2 decreases the number of customers for the products it sells.
- 3 increases the prices which it must charge for the products it sells.
- 4 makes no difference to the number of customers for its products.

(d) *Bank "interest":*

- 1 means that a customer has money deposited with a bank.
- 2 means that the bank is keen to help a business succeed.
- 3 is received on money deposited, but paid on money borrowed.
- 4 means that a bank is anxious to secure you as a customer.

(e) *The initial capital of a business:*

- 1 is the place or location from which its operations are first conducted.
- 2 is always raised from a bank loan and/or a bank overdraft.
- 3 is required to meet expenses which have to be incurred before it starts earning sufficient income from its activities.
- 4 is not required until after it has commenced operations.

(2 marks for a statement correctly ticked - maximum 10 marks)

RECOMMENDED ANSWERS TO SELF-ASSESSMENT TEST ONE

Ours is a “generalised” answers to Questions 1 and 2 of the Self-Assessment Tests.

* If you answered those Questions in a “general” way:

Compare your Work with our Recommended Answers, as explained in our “Study & Training Guide”.

* If you answered any or all of the Questions with reference to a specific business (which you run or intend to run):

Use our Recommended Answers to check that you have not overlooked any important matter(s) which could adversely affect that business.

No.1. Basically, a Business Plan is a “guide” to the achievement of business objectives. The intention of a Business Plan is to set out in advance, on paper, what a particular business should or will be, what it is intended to do and to achieve, and how it will go about achieving its objectives.

The business plan should set out clearly and honestly what the activities of the business will be in order to achieve its objectives; particulars, such as the skills, knowledge and experience, of the people who will run the business and/or work in it; from where the business will operate; what “market” there is for the products it will make, produce, buy and sell or provide; what competition there is; how much money is needed to start the business, to equip it and get it ready to operate, and how the needed money will be “raised”; and an indication of how much profit the business is expected to gain, year by year, for some years ahead.

A business plan is important to be sure that all relevant matters have been carefully considered before a new venture is “launched”. Without a proper Business Plan, matters might be overlooked or not thought enough about. For example, expenses which might have to be paid before the business is started might be under-calculated. A well thought-out business plan gives confidence not only to a new business person, but also to people who might be approached for “financial assistance”, such as a bank manager.

No.2. (a) Put simply, the capital of a business is the money or money’s worth invested in it by its owners. Before any business is started some money will be needed to “fund” it. How small or large the amount needed will be, will depend on the type of business, the size it will be to begin with, and the activities in which it will be involved. The capital needed by, say, a small service-providing business will be quite modest. A small workshop or factory will need more because more will have to be spent on equipping it and getting it ready to operate.

The main types of expenses which might have to be paid before a business is started are: machinery, furniture and equipment; stocks of materials or goods for resale; payments for rent of premises, legal or professional fees, electricity and telephone; advertising; wages or salaries if employees are needed.

(b) The “term” is the period over which a bank agrees to make a loan to a customer. It is counted from the date money is “made available” by the bank, until the date on which the loan (or the final instalment of it) has to be repaid.

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The “rate of interest” is the percentage of a loan which has to be paid in addition to repayment(s) of the loan itself. It is paid to the bank for the right to use the money loaned.

A bank usually requires some form of “security” or “collateral” before it will loan money. That might be some possession(s) of value belonging to the borrower, which can be seized and sold to repay any part of the loan not repaid by the borrower.

No.3. The right statement from each of the sets selected and ticked:

- (a) 3 (b) 4 (c) 1 (d) 2 (e) 2

No.4. The right statement from each of the sets selected and ticked:

- (a) 1 (b) 4 (c) 2 (d) 3 (e) 3

WHAT YOU WILL LEARN IN MODULES 2 TO 12 OF THE CIC TRAINING PROGRAM ON BUSINESS START-UP & DEVELOPMENT

Module 2 - Ownership of Businesses

- The “profit motive”
- practical example of how profit arises
- the “factors of production”
- losses in business
- Types of business ownership
- the sole-owner business:
 - range of activities
 - advantages of a sole-owner business
 - disadvantages of a sole-owner business
 - the meaning of unlimited personal liability
 - registration
- business partnership firms:
 - reasons why partnerships may be formed
 - importance of having a partnership agreement
 - raising capital:
 - working and “sleeping” partners
 - division of profits
 - unlimited personal liability for losses
 - advantages of a business partnership
 - disadvantages of a business partnership
 - registration
 - changing a sole-owner business into a partnership:
 - practical example
- Limited liability companies:
 - capital
 - shares and shareholders
 - advantages of limited liability
 - company formation and incorporation
 - advantages in incorporation for sole-owner businesses and partnership firms
 - shares held by proxy
 - the importance of keeping control
 - hidden dangers in losing control:
 - practical example
- Franchises and concessions:
 - possible advantages
- Licences

Module 3 - Location of Businesses

- Types of businesses:
 - industrial:
 - extractive, processing/refining, manufacturing, construction
 - trading and distributive:
 - wholesaling and retailing

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- service-providing
- multi-activity businesses
- Consumers:
 - end-users of products
- Corporate buyers:
 - buying on behalf of organizations
- Natures of products:
 - necessities: staple products
 - luxuries: add to the quality of life
 - essential and nonessential
- The “choice” factor
- The “market” for products
- Affects of competition
- Classes of customers
- Where to locate a business:
 - working “from home”
 - businesses which depend on “passing trade”:
 - where they are best located
 - businesses which can be located
 - in quieter areas
 - on town outskirts:
 - business parks, trading or industrial estates
 - narrowing down the choice of area
 - practical examples
- High priced products versus low priced products
- Catering for customers’ expectations
- Special facilities or needs of businesses
- Availability and cost of premises:
 - the “compromise”
- Investigation and research

Module 4 - Buying or Taking Over an Existing Business

- Reasons why “going concerns” might be bought
- Some business terms:
 - assets, liabilities, debtors, creditors, credit, stock or inventory, accounts
- Why the business is “for sale”
- Its accounts
- Getting the “real” facts
- The “asking price” of the business:
 - the make-up of its value:
 - values of assets and liabilities
 - stock valuation
 - depreciated values of working assets
 - the full extent or value of liabilities
 - special attributes which help it do better than other businesses
- goodwill:
 - how it arises; how its value may be assessed
- How the price is to be paid:
 - options which may be possible
 - negotiation
- Assistance offered by the vendor(s):
 - options which may be possible

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Avoiding competition from former owner(s)
The sale agreement:
 what it should cover
 having it prepared and/or checked by your lawyer
Buying into a partnership:
 buying out an existing partner
 buying into an extended partnership
The premises:
 if they are included in the purchase price
 if they are rented or leased
The Lease:
 the danger of renting without a lease
 matters to look at in the lease:
 area, rent, dates, renewal, change of tenant,
 rent reviews or revisions, other payments in
 addition to rent
Shareholding and share transfers
The Board of directors
 how the board is elected
 duties and responsibilities of the board:
 the “watchdog” of shareholder’s interests
 executive and non-executive directors
 company officials:
 managing director
 chairman
 company secretary
 directors fees
Dividends:
 distribution
 profit held “in reserve”
 practical example
Statutory obligations of the board:
 the annual return

Module 5 - Furnishing and Equipping the Premises

Factors which dictate needs of businesses
Layout of the premises:
 planning the layout
 multi-room and open plan layouts
Regulations
Electrical fittings:
 plug sockets and lighting
Telephones:
 installation and connection
Computers:
 siting, electrics, network cabling
Walls and ceilings:
 painting, colours
Floor coverings:
 carpeting or other materials
Heating and/or cooling
Furniture:
 counters
Machinery & equipment

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Ways of paying over a period:

- hiring, renting or leasing
- hire purchase (HP)

Working assets:

- depreciation - wear and tear

Doors and windows:

- security

The outside:

- signs - licences to erect

Window displays:

- attracting favourable attention
- designing and creating:

- planning
- building

- keeping attraction

- displays for services

Internal displays:

- safety considerations
- security against "shoplifting"

Insurance:

- what is involved:

- risks faced
- indemnity

- risks against which businesses may insure

- insurance needed

- why some risks are not insured against

- loss of profits insurance

practical example

Module 6 - Ordering and Storing Stock Items

Wholesale businesses:

- what they do and what they seek in products

Retail businesses:

- what they do and what they seek in products

Groups of wholesalers and retailers

Buying:

- orders and ordering
- finding suppliers
- catalogues and price lists
- quotations and estimates

Choosing suppliers:

- factors to consider in addition to price
- trade discount
- quantity discount
- credit terms

Size and frequency of orders

Planning: practical example

Order forms:

- why they are used, and what information they contain

Receipt of deliveries:

- action to be taken

Storage of stock items:

- why stores are needed: practical example

Costs associated with stores

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- Location of stores
- Stores doorways and other openings
- Stores floors
- Heat and/or cooling requirements
- Stores layout:
 - factors to be considered
- Stores equipment:
 - for the storage of items: shelving and cabinets
 - for moving items: manual and powered equipment, pallets
- Stock (inventory) control:
 - prevention of theft
 - prevention of pilfering
 - protection of items in the store:
 - major causes of damage and deterioration
 - fire precautions
 - stock records:
 - reasons for keeping, accuracy
 - stock levels:
 - factors to consider
 - types of stock levels
 - stocktaking and spot checks

Module 7 - Principles of Selling

- The meaning of "persuasion"
- Salesmanship in business:
 - importance of effective selling
 - competition
- Benefits of products
- Ingredients of a sale
- Methods of selling:
 - personal selling
 - self-selection
 - mail-order and direct marketing
 - unsolicited telephone selling
 - the Internet and websites
- The selling transaction:
 - the five "steps"
- Product knowledge
- Demonstration of products:
 - when it is necessary
 - handling or operating products
 - the stages in a demonstration
- Advertising:
 - primary aims
 - product advertising:
 - reasons why it may be carried out
 - advertising media:
 - choosing the best media
 - types of advertising:
 - indirect and direct
- Sales promotion:
 - how it differs from advertising
 - special offers
 - point of sale

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- competitions and games
- trading or discount stamps
- Direct mail
- Holding "sales" to reduce stocks
- Public relations (PR):
 - how it differs from advertising
 - discretion in product selection
 - marketing communications
 - public relations in practice
 - marketing public relations

Module 8 - The Human Resource

- Why people are a "resource" of a business
- The business person as a "people manager"
- How businesses expand: practical example
 - the need for "delegation"
 - delegating in the right way:
 - matters to observe, attitudes to avoid
- Organisation structures of businesses:
 - organisation charts
- Managing people:
 - Recruitment:
 - internal
 - external
 - job analysis
 - job descriptions
 - employee specifications
 - seeking suitable applicants for vacancies:
 - advertising
 - Selection
 - employee interviews:
 - aims
 - preparation
 - conduct
 - selection tests
 - the successful candidate:
 - terms & conditions of employment
 - trial or probationary period
 - unsuccessful candidates
 - Induction:
 - information needed by a newcomer
 - introduction to:
 - the team or work group
 - the work area and environment
 - Training:
 - on-the-job training
- Responsibilities of the employer:
 - safety
 - rates of pay:
 - time rates
 - piece rates
 - commission
 - employee benefits:
 - paid holiday or leave

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sickness benefit
pension
deductions from pay for PAYE, etc

Module 9 - Financial Matters

The need for control over finances

Forecasting:

- what is involved
- its relationship with planning
- guidance for the future
- anticipating sales

Budgets and budgeting:

- definitions
- the purposes of budgeting:
 - how much money will be needed, and when
 - comparison with income

Overheads:

- fixed and semi-fixed expenses

Working capital:

- circulation of values of current assets & liabilities
- the composition of working capital:
 - the need for "balance"

Limiting factors

Financial accounting:

- the need for complete and accurate accounting
- practical example of:
 - a receipts and payments statement
 - a revenue and expenditure statement
- including all the facts and figures

Profit and loss:

- the difference between them
- why the profit or loss made must be known
- final accounts:

- the profit & loss account:

- what it contains
 - net profit or loss

- the balance sheet

- what it contains
 - what it shows

- the trading account:

- why it might be prepared:
 - what it contains
 - what it shows

Credit and credit control:

- how allowing credit helps:
 - businesses
 - customers

- monthly accounts

- fixed period of credit

- dangers of allowing credit

- credit limits:

- how they work in practice
 - controlling credit limits
- checks on creditworthiness

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Module 10 - Business Documents and Bank Accounts

Issuing and receiving documents

Descriptions and illustrations of:

- invoices
- credit notes
- statements of account
- receipts
- delivery notes

Designing documents

Bank accounts:

why they are used by businesses

common types of accounts:

- current accounts
- savings accounts
- deposit accounts:
 - fixed term or call accounts
- interest paid
- penalties for early withdrawal

Cheques:

- written instructions to the bank
- the features of cheques
- information they contain
- parties to a cheque: drawer, bank, payee
- counterfoils:
 - their purposes
 - what they record

Other methods of paying through banks:

- bank transfers/giros
- bank drafts/money orders

Methods by which customers may pay:

- cash
- cheques:
 - cheque cards
 - checking the information
- credit cards:
 - manual and electronic methods
- travellers cheques
- foreign currency:
 - rates of exchange

Banking:

- the pay-in or deposit slip:
 - information it contains
 - the counterfoil or copy

Checking & passing bills for payment:

- the meaning of "bills"
- why bills must be checked carefully to ensure:
 - items charged for were received
 - the prices charged are correct
 - discounts have been deducted
 - calculations are correct
 - they have not already been paid
 - values of payments and credit notes have been deducted

Issuing/drawing cheques:

- the need for accuracy: date, amount, payee

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cheque security:
steps to be taken to reduce fraud
crossing
open cheques

Cash cheques:
withdrawing cash from the bank

Module 11 - Recording Transactions

The need for complete and up to date records

Principles of bookkeeping & accounting:

books and accounting packages

entries

abbreviations

the ledger:

what it records

ledger accounts:

the receiving and giving aspects

entries in a specimen account examined

balancing

subsidiary books and what they record:

cash book

purchases book

sales book

returns books

the journal

the trial balance

computerised bookkeeping:

the advantages over manual bookkeeping

a computerised account examined

sales account:

recording cash sales and credit sales

The trial balance and final accounts:

sundry debtors and creditors

Stocktaking:

why it is carried out

what it involves

the stock list

discrepancies:

possible reasons

Stock valuation

Work in progress:

valuation

Producing the final accounts

Adjustments:

giving a true and complete picture

prepayments, payments in advance

accruals

depreciation

effects of adjustments:

examples

Drawings:

what they are

how they are shown in the accounts

when to take them

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Rate of stock turnover

Petty cash:

- what is involved

- the basic method

- the imprest method

- the float

- petty cash book with analysis columns

- petty cash vouchers

Module 12 - Principles of Economics

Demand - wants and needs

Wealth, prices and the ability to purchase products

Consumer budgets

The worth of products

Demand and markets

Price and units demanded

Demand curves:

- what they show

- interpreting and analysing

Suppliers and markets:

- suppliers costs

- profit and loss

How costs and prices affect supply

Supply curves:

- what they show

Prices, suppliers and consumers

Equilibrium prices:

- graphical representation

- why it needs to be known

Theory of demand and supply

Export and Import

Diversifying

Expansion

Reasons why businesses export

International trade:

- on what it is based

- visible trade

- invisible trade

- balance of payments:

 - effects of a deficit

 - government action:

 - import controls

 - exchange controls

 - rates of exchange

 - customs duties

Selecting export markets:

- research into:

 - local demand

 - social and economic standards

 - transport costs

 - the final price

Import:



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types of businesses involved in importing:

- buying agents
- export houses
- overseas agents

import considerations:

- licence or permit
- foreign exchange
- customs delays

Benefits to businesses from exporting

Suggestions for further studies