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MGT602 Final term 2010 subjective SLOVE BY MEHIVISH TABASUM

2010 Question

MGT602 final term subjective

Q1:-Loan application is called mini business plan, comment on this statement?(3)

ANS PG85

The loan application format is generally a "mini" business plan.

- a. This provides the loan officer with information on the creditworthiness of the individual and the ability of the venture to repay the loan.
- b. Presenting a positive business image and following procedure are important in obtaining the funds.

Q2:- How can entrepreneur motivate and lead the team?(3)

ANS PG96

MOTIVATING AND LEADING THE TEAM

- The entrepreneur will usually be a role model for any other employees.
- It is important that the founder assume the role of leader to the management team and employees.
- Communication with managers and employees is one of the most important leadership qualities.

Q3:-In which circumstances entrepreneur go to SBA for loan?(5)

ANS PG 85

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

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

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

1. A maximum loan period of 15 years on existing buildings and 20 years on new construction can be obtained.
2. For inventory, equipment, or working capital, a maximum of 10 years is available, although five years is the usual.
3. Once the application has been filled out, it usually is processed within 15 days.
4. There are additional reporting requirements beyond those for a conventional bank loan.
5. Since there is no difference in interest rates charged between conventional bank loans and SBA-guaranteed loans, a commercial bank loan is usually better.
6. A good banking relationship is very valuable as the venture grows.

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

1. The vast majority of small businesses are eligible for financial assistance from the SBA.
1. As defined by the Small Business Act, a small business is independently owned and operated and not dominant in its field of operation.
2. The size limits of a small business vary from industry to industry.
3. The proceeds of the loans can be used for almost any business purpose.
4. The interest rates are negotiated between the entrepreneur and the bank, but there are subject to SBA maximums.

Q4:-In which ways the law is flexible for S type corporation?(5)

ANS PG 72

The **S Corporation** combines the tax advantages of the partnership and the corporation.

1. It is designed so that the venture income is declared as personal income on a pro rata basis.
 2. Shareholders benefit from all of the income and the deductions of the business.
- Prior to passage of the 1996 Small Business Protection Act, rules governing the S corporation were considered too rigid. The new law provides more flexibility with regard to:
- a. Number of shareholders.
 - b. Who can be allowed to own shares?
 - c. The role of trusts as stockholders.
 - d. The ability of S corporations to own more than 90 percent of stock of another corporation.
 - e. Distribution of profits.
 - f. Issuance of different classes of stock.
 - g. Rules affecting the tax basis of incurred losses.

Q5:-How can entrepreneur manage the cost and profit, under consideration of Interim income statement?3marks

ANS PG 99

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

MANAGING COSTS AND PROFITS

- Costs are budgeted based on percentages of net sales.
- Comparison of actual and budgeted expenses can be misleading for ventures with multiple products or services.
- Allocating expenses over product lines be done as effectively as possible to avoid arbitrary allocation of costs.

- To look back on the first year of operation and make comparisons month-to-month

Q6:-How should the entrepreneur take the interview from employees. (3)

ANS [PG96](#)

The interview

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

Q7:-Which type of loans the bank will issue if entrepreneur has creditworthy customers. (3)

ANS [PG83](#)

Accounts receivable loans.

- Accounts receivable provide a good basis for a loan, especially if the [customer base is creditworthy.](#)
- A bank may finance up to 80% of the value of the accounts receivable.
- A factoring arrangement can be developed whereby the factor (bank) actually buys the accounts and collects the money.
- If any of the receivables are not collectible, the factor sustains the loss, not the business.
- The cost of factoring is higher than the cost of securing a loan against the accounts receivable.

Q8:-It is said that advertising agencies are meant for the promotional tools. Why do you think that it is a correct statement? (5)

ANS [PG102](#)

Yes advertising agencies are meant for the promotional tools

- Advertising agencies can provide many promotional services.
- It is an independent business organization composed of creative and business people
- The agency can provide assistance in marketing research.
- It is important to determine whether the agency can fulfill all of the needs of the new venture.
- A checklist of items that the entrepreneur may consider in evaluating an agency is useful.
- The agency should support the marketing program and assist the entrepreneur in getting the product effectively launched

http://books.google.com.pk/books?id=ny3vq8ImQ6wC&pg=PA9&lpg=PA9&dq=advertising+agencies+provide+the+promotional+tools+or+not&source=bl&ots=2hfg5r5WL2&sig=Wuf4x9kknVAjaNKVPMoPRfJh9CQ&hl=en&ei=fAIVTfSxE8ir8OOq3e2DBw&sa=X&oi=book_result&ct=result&resnum=1&sqi=2&ved=0CBcQ6AEwAA#v=onepage&q=advertising%20agencies%20provide%20the%20promotional%20tools%20or%20not&f=false

http://books.google.com.pk/books?id=ny3vq8ImQ6wC&pg=PA9&lpg=PA9&dq=advertising+agencies+are+meant+for+the+promotional+tools+or+not&source=bl&ots=2hfg5r5SR4&sig=faPpVYAPGnUgNYwYKIJMuu2Zeyo&hl=en&ei=KwEVTZ3CJMiu8QPIycCEBw&sa=X&oi=book_result&ct=result&resnum=2&sqi=2&ved=0CB8Q6AEwAQ#v=onepage&q=advertising%20agencies%20are%20meant%20the%20promotional%20tools&f=false

Q9:-Give a list of financial institutes that provides finance for developing of business and industry in Pakistan (3 marks)

ANS PG93

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

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

A few commercial banks such as Allied Bank Limited and First Women Bank Limited have also started schemes to provide loans to low-income clients who are generally not able to access the formal source of financing.

Q10:-When SSIC was established. Define its objectives and functions? 5 marks

ANS PG91

Sindh Small Industries Corporation (SSIC)

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

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

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

Q11:-How much managerial control entrepreneur has in various major forms of business ventures (5 marks)

ANS PG

Q12:- How the costs and profits may be managed by entrepreneur? Keeping in view the importance of interm income statement (5 marks).

ANS PG 99

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MANAGING COSTS AND PROFITS

- Costs are budgeted based on percentages of net sales.
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- Allocating expenses over product lines be done as effectively as possible to avoid arbitrary allocation of costs.
- To look back on the first year of operation and make comparisons month-to-month

Q13:-What is the educational and skill level of entrepreneurs in Pakistan?3marks

ANS PG 108

Educational Level

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

Skills Level

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

Q14:-What are the flexibilities that the law provides to S corporations?5marks

ANS PG72

S Corporation combines the tax advantages of the partnership and the corporation.

In 1996 Small Business Protection Act, rules governing the S corporation were considered too rigid. The new law provides more flexibility with regard to:

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

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

Q15:-Why it is recommended that entrepreneurs should write cheques weekly? Why should the canceled cheques be kept and maintained by the entrepreneurs?5marks

ANS PG95

Records of expenses are easily maintained through the checking account. It is good business practice for the entrepreneur to use checks as payment for all expenses in order to maintain records for tax purposes. Canceled checks provide proof of payment. In the early stage, it may be desirable to make all payments on time to establish credibility with suppliers. The entrepreneur should maintain information about employee either in a software program or in a card file. It may be necessary to maintain records on all assets owned by the business.

Q16:-Briefly explain the procedure to avail Small Business Innovation Research (SBIR) grant.5 marks

ANS PG88

- The agencies publish solicitation describing the areas of research they will fund.
- Submission of the application by a company.
- Each agency screens the proposals it receives, and those passing are appraised by experts.
- Awards are granted to those projects that have the best potential for commercialization.
- Any patent rights, research data, and software generated are owned by the company, not the government.

The SBIR grant program is one alternative for a technically based entrepreneurial company that is independently owned and operated and employs 500 or fewer individuals.

Q17:-What does inventory turnover mean? How is it measured?3marks

ANS [PG100](#)

Inventory turnover measures the efficiency of the venture in managing and selling its inventory. A high turnover is a positive sign, signifying the venture is able to sell its inventory quickly.

$$\text{Inventory turnover} = \frac{\text{cost of goods sold}}{\text{inventory}}$$

Q18:-Discuss the functions of Small Industries Development Board (SIDB) NWFP.5marks

ANS [PG92](#)

Small Industries Development Board (SIDB) NWFP

The SIDP was established in 1972. It is playing a promotional role to support and assist the development of small and cottage industry in the province. The SIDB is an autonomous body, focusing on manpower training, model projects and industrial infrastructure. It has 14 regional offices in the different cities of NWFP.

Training Centers

SIDB has established carpet centers in five cities of NWFP and has trained 1327 number of trainees. The SIDB has established “Patti” training centers, textile training and “gabba” training centers which has trained 151 trainees.

Development Programs and Model Projects

SIDB has also launched various women development programs, which has trained 2062 women trainees in a number of fields of work. The SIDB is also involved in establishing other various kinds of model projects for wood working, leather goods, wool spinning, ceramic device etc. The total number of trainees trained is about 8000.

Industrial Estates

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

Financial Assistance

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

Q19:-How can an entrepreneur enhance the motivation in the employees, list down any five motivational factors?5marks

Following are five of some factors:

1. Sincere empathy

Be genuine and understanding toward the people who were let go and for the added responsibilities for those who remain. Ask individuals how they feel about the events that occurred. The key here is to allow them to vent their thoughts and emotions. This is the appropriate forum in which to do it, not behind your back, spreading rumors and ill will.

2. Be genial:

Sincerely thank everyone for trying to understand the difficult steps you have taken and for their attention, concern and willingness to put forth additional effort to get through these difficult times.

3. Leadership available:

Explain that you and other management-level people will be available to discuss job questions, uncertainties and performance, gearing your comments to how to overcome obstacles in the way of success.

4. Positive action:

Discuss how the difficult short-term steps will positively affect the future. With the changes you have made, you look forward to brighter, more secure prospects. When business improves, hopefully you will be able to rehire some of the terminated employees. Again, encourage them to share their feelings and try to empathize with them

5. Recognition:

Look for ways to increase employee motivation by recognizing excellence in the workplace. Ring a bell every time an individual or team hits the production target. Put up posters with the photographs of team members who have had the most days without accidents. Give out awards for attendance records. Just do something. It is so inexpensive, yet highly effective in your efforts of employee motivation.

2009 Question

Q20:-What are the different reasons that lead to the failure of some business plans?5marks

ANS [PG60 and Lesson No24PPslides](#)

SOME BUSINESS PLANS FAIL

A poorly prepared business plan can be blamed on:

Goals are unreasonable

Goals are not measurable

Lack of commitment by the entrepreneur

Lack of experience of entrepreneur

Ignoring the customer need

Entrepreneur has no sense of potential threats to the business

Q21:-What is Small Business Administration Loans? In what circumstances they are used by entrepreneurs?5marks

ANS [PG85](#)

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

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

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

http://en.wikipedia.org/wiki/Small_Business_Administration

<http://usgovinfo.about.com/od/smallbusiness/a/sbaloans.htm>

Q22:-Suppose you are working in ABC Company as Marketing Manager. Your company wants to launch a new venture in the Service based business. What steps your marketing plan will include?5marks

ANS [PG 65,66](#)

STEPS IN PREPARING THE MARKETING PLAN

- 1-Defining the Business Situation
- 2-Defining Target Market/Opportunities and Threats
- 3-Considering Strengths and Weaknesses
- 4-Establishing Goals and Objectives
- 5-Defining Marketing Strategy and Action Programs
- 6-Coordination of the Planning Process
- 7-Designing Responsibility for Implementation
- 8-Budgeting the Marketing Strategy
- 9-Implementation of the Marketing Plan
- 10-Monitoring Progress of Marketing Actions

Q27:-Suppose you are working in a manufacturing organization. What constitutes your budget plan?5marks

Q28:-Enlist few disadvantages of acquisitions?5marks

ANS [PG104](#)

Advantages of Acquisition

- Established business
- The acquired firm has an established image and track record.
- The entrepreneur would only need to continue the existing strategy to be successful.
- Location is already established.
- Existing employees
- Established marketing structure

- An important factor that affects the value of a firm is its existing marketing channel and sales structure.
- The total cost of acquiring a business could be lower than trying to buy a franchise.
- More opportunity to be creative-More time can be spent assessing opportunities to expand or strengthen the business.

Q32:-Why a business plan is valuable to the entrepreneur, potential investor or even new personnel?5marks

ANS [PG54](#)

A **business plan** is a written document prepared by the entrepreneur that describes all the relevant external and internal elements involved in starting a new venture. It addresses both short- and long-term decision making. The business plan is like a road map for the business' development.

The business plan is valuable to the entrepreneur and investors because:

1. It helps determine the viability of the venture in a designated market.
2. It gives guidance in organizing planning activities.
3. It serves as an important tool in obtaining financing. Potential investors are very particular about what should be included in the plan. The process of developing a business plan also provides a self-assessment of the entrepreneur. This self-evaluation requires the entrepreneur to think through obstacles that might prevent the venture's success. It also allows the entrepreneur to plan ways to avoid such obstacles.

2008 Questions

Q36:-What is the purpose of a marketing plan? What should be the perspective of time in a marketing plan?5marks

ANS [PG61 and Lesson 25PPslides](#)

The marketing plan establishes how the entrepreneur will effectively compete and operate in the marketplace. The marketing plan section should focus on strategies for the first three years of the venture. For the first year, goals and strategies should be projected monthly. For years two and three, market results should be projected based on longer-term goals. Preparing an annual marketing plan becomes the basis for planning other aspects of the business.

Purpose and timing of the Marketing Plan

- Marketing Plan should be an annual activity

- It should focus on the strategies for the first three years of the business
- The first year contains comprehensive goals and strategies
- The second and third year contains the market projections

Q44:-What kind of parties are considered as "accredited investors"?5marks

ANS PG89

"Accredited investors" include:

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

Q47:-Differentiate the operating budget from capital budget?5marks

ANS PG75

OPERATING AND CAPITAL BUDGETS

A. before developing the pro forma income statement, the entrepreneur should prepare operating and capital budgets.

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

**Remember Me In Your's Prayers.
Best Of Luck.**