

# **Solutions Manual**

**to**

***Writing Your Plan for Small Business Success***  
**Sixth Edition**

**By**

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## CHAPTER 1 - UNDERSTANDING BUSINESS PLANNING

### Exercise Solutions

- 1.1** A business plan is a written expression of an owner's intentions for the development of their business in the medium to long term.
- 1.2** Three (3) reasons why a business plan should be prepared are:
- to set a future growth direction for the business and provide comprehensive standards against which to measure business performance
  - to determine the viability of any proposed small business
  - to influence lenders to advance funds.
- 1.3** The real benefit of business planning is that it gets you to think about all aspects of your operation and how they will be developed in the future. A business plan helps you understand your operation better. Other specific benefits are listed in the textbook.
- 1.4** A *goal* is a desired outcome. An *objective* is a set target for achieving a goal. Students are to provide their own examples of each.
- 1.5** The stated business goal is unacceptable because it is:
- not measurable
  - not in writing
  - possibly not attainable.
- 1.6** Students are to state their own business goal. Any goal selected must be measurable, clear and precise, in writing and attainable.
- 1.7** Students are to select operating functions for their own business from:
- marketing
  - production
  - purchasing
  - personnel
  - financial.
- 1.8** Strategic planning involves defining objectives and formulating strategies (proposed actions) to achieve them.
- 1.9** The correct order to consider operating functions when business planning is: marketing → production → purchasing → personnel → financial.
- 1.10** The first plan prepared in the plan building process should be the marketing plan. This is because marketing determines the nature of business activities.
- 1.11** The financial plan should always be the last component plan prepared in the business plan building process. This is because financial forecasts are the financial expressions of the intended operating activities and resource requirements set out in the marketing, production, purchasing and personnel plans.

- 1.12** Types of small business that generally do well in recessions include:
- retailers of low-priced necessities like second-hand furniture, whitegoods and clothing
  - repairers e.g. household item repairers
  - fast-food and takeaway food businesses.
- 1.13** Students are to identify the present stage of the business cycle by referring to Figure 1.3 of the textbook. Similarly, expected cycle phases for the next three years are to be determined by referring to Figure 1.3.
- 1.14** The aim of operational planning should depend on existing and expected phases of the business cycle. These aims should generally be as follows:

| cycle phase      | general aim            |
|------------------|------------------------|
| • recession      | to survive             |
| • upward trend   | to grow and expand     |
| • boom           | to consolidate growth  |
| • downward trend | to restrict activities |

- 1.15** Students are to do the self-evaluation shown in Exercise 1.15 of the textbook. Students are to suggest any reasonable action to improve personal attributes they have rated as below average.

### Quick Quiz Answers – Chapter 1

- 1. A 2. D 3. B 4. C 5. C 6. C 7. B 8. B 9. C 10. A 11. A 12. B**  
**13. B 14. B 15. C**

## CHAPTER 2 - THE BUSINESS PROFILE

### Exercise Solutions

- 2.1** Students are to describe their existing (or proposed) business activity. Any description should be in terms of the generic products or services sold and the nature of the selling activity, e.g., a leather goods retailer.
- 2.2** Students are to choose an ownership structure under which to operate their small business. Students should refer to Table 2.3 in the textbook for guidance.
- 2.3** Students are to design an effective business name under which to trade. Any name should be brief, descriptive of the business activity, catchy, easy to remember and should project the desired image.
- 2.4** Business names are registered nationally with the Australian Securities and Investments Commission (ASIC).
- 2.5** Students are to select an entry method to commence their small business and give reasons for their selection. Reasons for the selection can be found by referring to Table 2.5 in the textbook.
- 2.6** Students are to provide a suitable date for commencing their small business. They should refer to the best times to start for each entry method.
- 2.7** Students are required to list relevant legal requirements for operating their small business. This will include any licences, permits, approvals and compulsory registrations required. The list should show the following headings:

| <u>Legal Requirement</u> | <u>Relevant Authority</u> | <u>Cost (\$)</u> |
|--------------------------|---------------------------|------------------|
|--------------------------|---------------------------|------------------|

Students should refer to the Table 2.8 checklist in the textbook for guidance. Students are expected to make their own enquiries to find out all relevant details.

- 2.8** Gary's business: the sales objectives for years 1 and 3 are not measurable; the sales objectives are not improving over time.  
Liz's business: the sales objectives are not improving over time.  
John's business: the sales objective in year 1 is not sufficiently challenging.  
Mary's business: the sales objective in year 3 is not attainable.
- 2.9** Students are required to interview an existing small business owner to prepare a business profile for the person's business. Students should use the business profile format shown in Table 2.1 of the textbook.
- 2.10** Students are required to prepare a business profile for their own proposed small business. The business profile format should be the same as the one shown in Table 2.1 of the textbook. The business profile example shown at the end of Chapter 2 of the textbook provides further guidance for students.

## **Quick Quiz Answers – Chapter 2**

**1. B   2. A   3. C   4. A   5. A   6. C   7. D   8. D   9. C   10. B**

## CHAPTER 3 - THE MARKETING PLAN

### Exercise Solutions

- 3.1** The purpose of reviewing an existing operation for business planning is to establish a starting point for developing your business plan. The review determines what resources are available and identifies operating strengths and weaknesses.
- 3.2** An operational review involves reviewing all aspects of the physical operation as well as reviewing the financial performance of the operation.
- 3.3** A SWOT analysis is an analysis of the total operating environment for the business. This involves an analysis of business Strengths, Weaknesses Opportunities and Threats.
- 3.4** Three criteria used to judge the worth of any environmental information collected are:
- relevance
  - currency
  - accuracy.
- 3.5** *Primary research* is gathering information directly from the source, e.g. personal surveys, direct observation. *Secondary research* is collecting and analysing information already published, e.g. desktop research of published statistical information.
- 3.6** Select any three (3) research techniques used to collect information from:
- personal surveys – asking people questions to find out their attitudes
  - direct observation – observing, talking and listening to people
  - desktop research – collecting and analysing published information
  - database analysis – analysing recorded past buying behaviour.
- 3.7** Based on the personal survey results shown in Table 3.1 of the textbook, the business should offer the following:
- the provision of video hire
  - hire rates for videos between \$3 to \$5 each
  - a business location within 5 km of the surveyed area
  - a wide range of videos with an emphasis on current releases
  - a wide selection of videos in the drama and comedy categories.
- 3.8** The kinds of statistics obtainable from the ABS for any chosen area include:
- population statistics e.g. population numbers and projections
  - industry statistics e.g. competitor and supplier numbers and characteristics
  - household expenditure statistics e. g. expenditure patterns and components
  - housing statistics e.g. housing types.
- 3.9** Select any five (5) sources of statistical information from:
- |   |                         |                            |
|---|-------------------------|----------------------------|
| • the ABS   | • government agencies   | • news media               |
| • private research organisations<br>e. g. RP Data | • local councils        | • libraries                |
| • industry associations                           | • banks                 | • educational institutions |
|   | • business publications | • telephone directories    |

- 3.10** Students must visit five (5) internet sites listed within the chapter and indicate what relevant information each site contains for business planning.
- 3.11** Students are to identify six (6) environmental trends occurring which provide either *opportunities* or *challenges* for their businesses.  
Environmental factors to consider for finding environmental trends are:
- economic factors
  - demographic factors
  - sociocultural factors
  - technological factors
  - regulatory factors
  - natural factors.
- 3.12** Students are to prepare a profile of industry conditions for any selected product or service to sell. The industry conditions profile must address the questions shown in Exercise 3.12.
- 3.13** ‘*Product diversification*’ offers convenience (i.e. one-stop shopping) for customers and caters for a wider range of tastes. ‘*Product specialisation*’ is more suitable for attracting specialised segments of the total market with special needs (i.e. niche markets).
- 3.14** Students are to prepare a product/service mix table for the products or services they intend to sell. Refer to Table 3.3 in the textbook for guidance.
- 3.15** Students are to describe any unique or superior features of the products or services they intend to sell.
- 3.16** Identifying competitors’ strengths and weaknesses helps you put together competitive strategies when designing your business offer. Knowing competitors’ weaknesses also enables you to establish competitive advantages to attract customers away from the competition.
- 3.17** Students are to identify two competitors in their proposed industry and list the strengths and weaknesses of each one.
- 3.18** Market segmentation involves categorising potential customers into distinct groups (or segments). Each group (or segment) has its own common characteristics.
- 3.19** Target customers should be the focus of the marketing strategies of the business because most industries have a diverse range of customers, and it is not possible to design a business offer that appeals to every different customer group.
- 3.20** Students are to identify one likely customer group to target for each of the businesses listed and provide a detailed profile of the target customer group identified.
- 3.21** Students are to develop a complete profile of their target customers by providing responses to the questions asked.
- 3.22** ‘*Service products*’ refers to services offered for sale to customers, e.g. computer consulting. ‘*Product services*’ involves providing customer service before sales and after sales.

- 3.23** Four strategy options for a business to achieve sales growth are:
- i. market penetration – selling more to existing customers
  - ii. product development – improving product quality
  - iii. market extension – selling to a wider market area
  - iv. diversification – offering a wider product range to an existing market area.
- 3.24** Provide five (5) examples of pre-sales or after-sales customer service from the examples shown in the textbook.
- 3.25** Online customer service can benefit a business by providing business information and facilitating orders at any time without necessarily having to commit staff to servicing.
- 3.26** The factors that determine service quality are shown in Table 3.4 of the textbook.
- 3.27** Select four (4) reasons for offering discounts to customers from:
- trade discounts to resellers
  - quantity discounts to bulk buyers
  - loyalty discounts to repeat buyers
  - promotional discounts associated with promotional campaigns
  - cash discounts for prompt payment of accounts
  - discounts for survey participation.
- 3.28** The purpose of distribution strategies is to get products (or services) to customers.
- 3.29** Students are to choose a business location and provide reasons for their choice. The factors to consider when choosing a suitable location include convenience, exposure, accessibility and permitted legal use.
- 3.30** Students are to indicate what the weekly opening times of their business will be.
- 3.31** ‘Business image’ refers to the visual characteristics or appearance of your business.
- 3.32** The purpose of promotions should be to inform customers of what your business has to offer.
- 3.33** (a) The factors to consider for finding an effective way to advertise your business include:
- the cost of the advertising
  - the market coverage of the advertising
  - the durability of the advertising.
- (b) Choose any five (5) effective ways to advertise a business from Table 3.5 in the textbook.
- 3.34** ‘Networking’ is a useful way to freely promote a business because it involves establishing networks of useful contacts with other people. These contacts could then recommend your business to potential customers.

**3.35** The ways the internet can be used to market your business include:

- advertising online
- obtaining market information (e.g. statistics) online
- conducting online surveys
- direct selling online
- providing customer service online
- emailing business messages online.

**3.36** A small operation can offer advantages over larger rivals by focusing on offering ‘convenience’ and ‘better quality products and services’, including ‘superior customer service’.

**3.37** Students are to analyse a selected McDonald’s fast-food outlet and give their opinion of why the business is successful.

Success factors identified should include the following.

- product certainty
- low prices
- fast service
- convenient drive-through service
- friendly and courteous service
- extended opening hours
- convenient locations (that are exposed and accessible)
- plenty of parking
- a well-known name
- image of cleanliness
- acceptance of various payment forms
- active involvement in community projects.

(Note, students should emphasise the ‘convenience factors’ above as the key to McDonald’s success).

**3.38** Competitive advantages of the ‘24-hour self-serve petrol station with supermarket’ over the ‘small corner shop’ include:

- a one-stop shopping location for a wide range of products and services
- extended opening hours
- highly exposed and accessible locations.

(Again, students should recognise that ‘convenience factors’ are the key to competitive dominance).

**3.39** (a) Students can refer to the list of competitive advantages in the chapter to find ways to effectively compete in the situation. ‘Better customer service’ should be included.

(b) Students can refer to the list of competitive advantages in the chapter to find ways to effectively compete in the situation. ‘Better customer service’ should be included.

(c) Students can refer to the list of competitive advantages in the chapter to find ways to effectively compete in the situation. ‘Better customer service’ should be included.

- 3.40** Students should identify the following techniques for evaluating the marketing strategies of their business:
- sales performance analysis
  - customer feedback (eg satisfaction surveys, meetings)
  - entire marketing program reviews.

Students should also indicate how frequently they would use each evaluation technique identified.

- 3.41** Students are required to prepare a marketing plan for their own business or someone else's business. The marketing plan format should be the same as the one shown in Table 3.2 of the textbook. The marketing plan example shown at the end of Chapter 3 provides further guidance for students.

### **Quick Quiz Answers – Chapter 3**

- 1. C 2. B 3. C 4. B 5. A 6. C 7. C 8. D 9. D 10. A 11. D 12. A 13. B**  
**14. C 15. C 16. B 17. D 18. C 19. B 20. C**

## CHAPTER 4 - THE PRODUCTION PLAN

### Exercise Solutions

**4.1** Students are to make a list of factory plant and equipment required to establish production capacity in their small business.

**4.2** Students are to prepare a floor plan of their proposed production layout. Any layout plan must:

- use space effectively
- minimise process times and workflows
- present a safe work environment.

(An example of a production layout plan for a bakery is shown in Chapter 4 of the textbook).

**4.3** The output targets shown are unacceptable for the following reasons:

- planned output in months 4, 5, 6, 7, 8 and 9 is too low given the forecast sales for the same months
- planned output in months 1, 11 and 12 is too high given the forecast sales for the same months
- planned output in months 2, 3, 4, 5 and 6 is below the point of uneconomic idle capacity
- planned output in month 11 is above the maximum production capacity of the operation.

**4.4** The preferred production method to use to achieve the sales targets shown in Exercise 4.3 is the job production method. The job production method is preferable because sales forecasts fluctuate widely.

**4.5** Students should generally prefer to use the job production method for their small manufacturing business. With job production, output quantities depend on orders received. This should prevent stock build-ups of unused raw materials and unsold finished goods.

**4.6** The quality of manufactured products can be ensured by adopting production quality controls. Production quality controls are listed in Chapter 4 of the textbook under 'C.4 Production Quality Controls'.

**4.7** Students need to check with the Australian Competition and Consumer Commission (ACCC) or their state/territory Consumer Protection Authority for any relevant legal requirements for their manufactured products. Legal requirements could apply to products, packaging or labelling. Students should visit the websites of the relevant authorities for information. Websites are listed in the textbook.

**4.8** Students are required to prepare a production plan for their own business. The production plan format should be the same as the one shown in Table 4.1 of the textbook. The production plan example shown at the end of chapter 4 of the textbook provides further guidance for students.

### **Quick Quiz Answers – Chapter 4**

**1. B   2. C   3. B   4. A   5. C   6. C**

## CHAPTER 5 - THE PURCHASING PLAN

### Exercise Solutions

**5.1** Gross profit margin calculations are as follows:

- Stock X  
 $\$24 - \$12 = \$12$  gross profit  
 $\$12/\$24 \times 100 = 50\%$  gross profit margin
  
- Stock Y  
 $\$10 - \$3 = \$7$  gross profit  
 $\$7/\$10 \times 100 = 70\%$  gross profit margin
  
- Stock Z  
 $\$20 - \$8 = \$12$  gross profit  
 $\$12/\$20 \times 100 = 60\%$  gross profit margin

**5.2** Purchase price calculations are as follows:

- Stock A  
 $\$20 \times 40\% = \$8$  gross profit  
 $\$20 - \$8 = \$12$  purchase price to pay
  
- Stock B  
 $\$12 \times 40\% = \$4.80$  gross profit  
 $\$12 - \$4.80 = \$7.20$  purchase price to pay
  
- Stock C  
 $\$5 \times 40\% = \$2$  gross profit  
 $\$5 - \$2 = \$3$  purchase price to pay
  
- Stock D  
 $\$28 \times 40\% = \$11.20$  gross profit  
 $\$28 - \$11.20 = \$16.80$  purchase price to pay
  
- Stock E  
 $\$60 \times 40\% = \$24$  gross profit  
 $\$60 - \$24 = \$36$  purchase price to pay

**5.3 (a)** Students must identify the specific types of stock supplies required for their operation.

**(b)** Students must indicate how frequently they expect to order each type of stock supply identified, e.g. daily, weekly, monthly, quarterly or some other arrangement.

**5.4** Students are to identify the names and addresses of two proposed stock suppliers for each type of stock required for their business.

**5.5** Students are to prepare a profile for each supplier identified in Exercise 5.4. The profile must cover the points listed in Exercise 5.5.

- 5.6** Students are to summarise the trading terms available from each supplier identified in Exercise 5.4. The trading terms must cover the points listed in Exercise 5.6.
- 5.7** ‘JIT’ purchasing is ‘just-in-time’ purchasing. Materials are acquired when required for use.
- 5.8** Written purchase orders are central to any sound purchasing procedure because they provide written evidence of what was ordered for checking deliveries and billings by suppliers.
- 5.9** The methods to use to regularly get the best supply terms are listed in Chapter 5 of the textbook under ‘Purchasing Controls’.
- 5.10** Students are required to prepare a purchasing plan for their own business. The purchasing plan format should be the same as the one shown in Table 5.1 of the textbook. The purchasing plan example shown at the end of Chapter 5 of the textbook provides further guidance for students.

### **Quick Quiz Answers – Chapter 5**

**1. D   2. B   3. B   4. B   5. B   6. A   7. D   8. C   9. A   10. B**

## CHAPTER 6 - THE PERSONNEL PLAN

### Exercise Solutions

#### 6.1 Self-employed contractors

##### *Advantages:*

- may be cheaper overall than employees (no wage on-costs or leave entitlements)
- more flexibility to hire and fire
- avoids the application of employee protection laws like awards and unfair dismissal legislation.

##### *Disadvantages:*

- higher hourly rates
- may require specific job training
- contractors may be less loyal and committed to the business.

#### Full-time employees

##### *Advantages:*

- loyalty and commitment to the business
- management control over how employees perform their work tasks
- flexible work options are possible e.g. full-time, part-time, casual.

##### *Disadvantages:*

- wage on-costs are incurred (e.g. superannuation)
- more administration required (comprehensive wage records required)
- employee protection laws apply.

**6.2** ‘Wage on-costs’ are extra employee costs based on employees’ wages paid. These costs include superannuation and workers’ compensation insurance.

**6.3** Awards contain prescribed minimum pay rates and employment conditions for specified job classifications. Awards are made by a federal or state industrial relations tribunal and are legally enforceable. Small business owners must know about awards because employee pay rates and employment conditions must meet at least award minimums.

**6.4** An organisation structure describes how human resources are to be used in the business operation.

**6.5** An organisation chart shows the hierarchy of job roles in the operation as well as the number and type of job roles required. See Figure 6.1 in the textbook for an example of an organisation chart.

**6.6** Students must prepare an organisation chart for their own proposed operation. Students should refer to Figure 6.1 in the textbook for an example of an organisation chart.

**6.7** Students are to develop a detailed job profile for each job role identified in their organisation chart prepared in Exercise 6.6.

A detailed job profile for each job role must include:

- a job description (see the example in Figure 6.2 of the textbook)
- a job specification (see the example in Figure 6.3 of the textbook)
- a remuneration package (see the example in Figure 6.4 of the textbook).

- 6.8** Select any three (3) ways to recruit personnel from:
- newspaper and online advertising
  - referrals through the Commonwealth government job placement network
  - advertising via online job recruitment sites
  - referrals from private employment agencies
  - advertising at educational institutions
  - advertising outside the workplace (e.g. using signs).
- 6.9** The purpose of a probation period is to trial a new employee before deciding whether to offer a permanent job to the person.
- 6.10** Select any five (5) possible strategies to motivate and satisfy workers from those listed under 'Rewards and Incentives' in the textbook.
- 6.11** Select any three (3) reasons why training and development of employees should be undertaken from:
- trained employees work more effectively and efficiently
  - training has a positive motivational effect on employees
  - training improves employee loyalty
  - multiskilling makes employees more flexible for different job roles
  - trained employees can assume more responsibility and make more valuable contributions to management.
- 6.12** *Authoritarian leadership* is where operational decisions are centrally made by one person who is task-driven. *Democratic leadership* occurs where decisions and tasks are delegated to other personnel; employees are encouraged to get involved in decision making.
- 6.13** Students are to select either an *authoritarian* or *democratic* type leadership style from the range listed in Figure 6.6 of the textbook for their own circumstances. Brief reasons for the choice are also to be provided. Relevant factors to consider include personalities involved and urgency of the business situation.
- 6.14** A workplace safety audit should be carried out to identify any hazards in the workplace so they can be eliminated or controlled.
- 6.15** Students are to identify professional advisers for their business. Students are to nominate a qualified accountant (and registered tax agent), a solicitor and an insurance agent/broker. Brief reasons are to be given for choosing each adviser. Reasons given should include reliability, accessibility, convenient location, expertise, offering value for money, likeability and having good communication skills.
- 6.16** Students are to identify any relevant industry, business or professional association for their business. The address of the association is to be also obtained (a website address is acceptable).
- 6.17** The two main methods used to evaluate labour performance in an operation are:
- overall labour productivity measures
  - individual job performance evaluation.

**6.18** Labour Productivity Measures:

|                                     | <i>Current year</i> | <i>Previous year</i> |
|-------------------------------------|---------------------|----------------------|
| Sales (\$): Labour costs (\$)       | \$3.62 : \$1        | \$4.06 : \$1         |
| or                                  |                     |                      |
| Labour costs as percentage of sales | 27.6%               | 24.6%                |

Under both these measures, overall labour performance is declining. The number of sales generated per dollar of labour cost is decreasing i.e. from \$4.06 to \$3.62 per dollar of labour cost. Also, labour costs as a percentage of sales is increasing i.e. from 24.6% to 27.6%.

**6.19** Select any five (5) aspects of work performance from:

- work quality
- job efficiency
- safety consciousness
- punctuality
- absenteeism
- personal presentation
- attitudes
- initiative taken
- responsibility shown
- any other reasonable job aspect.

(These job aspects to evaluate are listed in Figure 6.7 of the textbook).

**6.20** The best general management approach for minimising staff dishonesty in the workplace is to be alert and diligent.

**6.21** Select any three (3) ways to prevent the theft of cash in a business from:

- direct and close supervision
- restricting the issue of keys
- providing generous remuneration
- carefully screening job applicants
- regular stock-counts
- restricting the handling of cash
- restricting signatories on cheques and purchase orders
- adopting proper internal controls for record-keeping (e.g. pre-numbered source documents, bank recommendations)
- installing surveillance cameras
- any other reasonable way.

**6.22** Students are required to prepare a personal plan for their own business operation. The personnel plan format should be the same as the one shown in Table 6.1 of the textbook. The personnel plan example shown at the end of Chapter 6 of the textbook provides further guidance for students.

**Quick Quiz Answers – Chapter 6**

**1. A 2. D 3. B 4. D 5. A 6. B 7. B 8. A 9. D 10. C**

## CHAPTER 7 - THE FINANCIAL PLAN

### Exercise Solutions

**7.1** The minimum amount of annual net profit acceptable is calculated as follows:

- remuneration for time and effort \$28,000  
(based on current competitive wages paid for a manager)
  - return on owner's funds invested if desired rate of return is  
8% + 15% = 23%  
then,  
\$40,000 x 23% \$9,200
- Normal Profit (minimum acceptable profit) \$37,200 pa

**7.2 (a)** 'Fixed costs' are running costs which are constant and as such they do not change when sales levels fluctuate, e.g. depreciation, rent.

**(b)** 'Variable costs' are running costs which change proportionally when sales volumes change, e.g. stock purchases.

**(c)** The 'break-even point' is the level of sales at which neither a profit nor a loss is made.

**(d)** 'Contribution margin' is the excess of sales income over the variable costs of the business for the period. The contribution margin measures how much sales *contribute* towards meeting fixed costs and desired profit.

**7.3 (a)** The sales break-even point calculation is as follows:

$$\begin{aligned} \text{Contribution margin (\%)} &= \frac{\$214,000 - \$64,000}{\$214,000} \times 100 \\ &= 70\% \end{aligned}$$

therefore,

$$\text{Break-even point (\$)} = \frac{\$132,000}{.70} = \$188,571$$

**(b)** The sales required for desired profit of \$42,000 is calculated as follows:

$$\text{Required sales (\$)} = \frac{\$132,000 + \$42,000}{.70} = \$248,571$$

**7.4** Students are to prepare a current statement of their own personal net worth. The statement format should be the same as the one shown in Figure 7.1 of the textbook.

**7.5** Students are to prepare a current statement of their own monthly personal expenditure. The statement format should be the same as the one shown in Figure 7.1 of the textbook.

**7.6** Students are to estimate the establishment costs to begin their own business. Students should use the appropriate list of establishment costs (based on entry method), shown in Figure 7.2 of the textbook.

**7.7** Students are to determine the amount to borrow to establish their operation. The borrowing amount can be calculated as follows:

|  |         |
|--|---------|
| Total establishment costs estimated          | \$_____ |
| <u>less</u> Total available personal capital | \$_____ |
| Estimated amount to be borrowed              | \$_____ |

(Students are to provide their own estimates).

**7.8** Students are to evaluate the acceptability of the borrowing amount they calculated for Exercise 7.7. The general rule is that the borrowed amount should not exceed 60% of the total estimated establishment costs.

**7.9** Trading banks generally provide the cheapest and widest range of financing options to small businesses.

**7.10** Students are to provide a specific profile for the loan they will seek for the borrowing amount identified in Exercise 7.7. All specific details asked for in Exercise 7.10 must be given.

**7.11** The specifics of the loan required for the vehicle costing \$25,000 should be as follows:

- type and amount of loan – finance lease, business term loan or commercial hire purchase for \$25,000
- period of loan – 4 years
- loan source – trading banks (preferably)
- loan use – purchase of vehicle
- loan requirement date – 1 July.

**7.12** The completed statement is:

‘A financial year starts on the *1 July* and ends on the *30 June*.’

**7.13** Students are to prepare a forecast capital expenditure statement for the first three years of their own business operation. A forecast capital expenditure statement shows the intended outlays for long-term assets (e.g. plant and equipment) used in the operation. The format to use for a forecast capital expenditure statement is shown in Figure 7.6 of the textbook.

**7.14** (a) The table of calculated financial ratios is to be completed as follows:

|                             | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> | <u>Industry Average</u> | <u>General Standard</u> |
|-----------------------------|---------------|---------------|---------------|-------------------------|-------------------------|
| • Gross profit margin       | 34%           | 34%           | 30%           | 32%                     | -                       |
| • Operating expense ratio   | 22%           | 24%           | 15%           | 20%                     | -                       |
| • Net profit margin         | 12%           | 10%           | 15%           | 12%                     | -                       |
| • Short-term solvency ratio | \$1.50: \$1   | \$1.33: \$1   | \$1.21: \$1   | \$1.60: \$1             | \$2: \$1                |
| • Debt ratio                | 64%           | 73%           | 82%           | 66%                     | 60%                     |

**7.14 (b)** Interpretation of each financial ratio for acceptability:

- Gross profit margin  
The gross profit margin is decreasing from year 2 to year 3 and is worse than the industry average in year 3. This ratio is currently unacceptable.
- Operating expense ratio  
The operating expense ratio is increasing from year 1 to year 2 before it significantly decreases in year 3. The ratio in year 3 is better than the industry average. The ratio is currently acceptable.
- Net profit margin  
The new profit margin is decreasing from year 1 to year 2 before it significantly increases in year 3. The ratio in year 3 is better than the industry average. The ratio is currently acceptable.
- Short-term solvency ratio  
The short-term solvency ratio is decreasing each year and is worse than both the industry average and general standard for each year. The ratio is unacceptable in each year.
- Debt ratio  
The debt ratio is increasing each year and is worse in years 2 and 3 than both the industry average and general standard for each year. This ratio is currently unacceptable.

**(c)** Planning action for each unacceptable ratio identified:

- Gross profit margin  
Revise purchasing strategies to obtain cheaper stock supplies  
Increase sales prices
- Short-term solvency ratio  
Increase short-term assets (e.g. cash, stock, debtors)  
Decrease short-term liabilities (e.g. bank overdraft, creditors)
- Debt ratio  
Reduce the debt level of the business.

**7.15** The purpose of business insurance is to minimise exposure to daily risks which cause financial losses.

**7.16** Two types of compulsory insurance under law are:

- workers' compensation insurance
- compulsory third-party insurance (for motor vehicles).

**7.17** Students are to select specific types of business insurance for their own business from Table 7.5 in the textbook. Note that workers' compensation insurance is compulsory for employers and compulsory third-party insurance is necessary for business vehicles. Building fire insurance should be arranged by building owners and public risk insurance is recommended for all business owners.

**7.18** The three key financial results that need to be controlled are 'profit', 'cash flow' and 'financial position'.

**7.19** Financial controls are the methods or techniques used to monitor and evaluate the financial results of the operation. Reports of profit results and variance analysis of these results with corresponding targets are examples of financial controls.

**7.20** Variance calculations are as follows:

|                                | Year 1<br><u>Actual</u> | Year 1<br><u>Forecast</u> | Variance<br>(+ or -) |
|--------------------------------|-------------------------|---------------------------|----------------------|
| Sales                          | \$62,800                | \$64,600                  | - \$1,800            |
| <b>less</b> Cost of Sales      | \$37,680                | \$38,660                  | + \$980              |
| Gross profit                   | \$25,120                | \$25,940                  | - \$820              |
| <b>less</b> Operating expenses | \$17,980                | \$18,120                  | + \$140              |
| Net profit before tax          | \$7,140                 | \$7,820                   | - \$680              |

**7.21** Students are required to prepare a three-year financial plan for their own business. The financial plan format should be the same as the one shown in Table 7.1 of the textbook. The financial plan example shown at the end of Chapter 7 in the textbook provides further guidance for students. Note that students cannot prepare a financial plan until they have prepared all plans for the other functions of their business operation.

### Quick Quiz Answers – Chapter 7

1. B   2. D   3. C   4. A   5. B   6. C   7. B   8. B   9. C   10. A   11. B   12. B   13. A  
 14. C   15. D   16. D   17. C   18. C   19. B   20. A

## CHAPTER 8 - THE COMPLETED BUSINESS PLAN

### Exercise Solutions

- 8.1** A structured format should be used in the presentation of a business plan. A structured format allows for comprehensive coverage and logical sequencing of all the relevant aspects of the business to consider.
- 8.2** The criteria used to evaluate a business plan are listed in the textbook. The criteria are summarised as follows:
- information quality criteria – the information contained in the plan must be relevant, accurate and current
  - presentation quality criteria – the plan presentation must be clear and understandable, the presentation format must be structured and comprehensive, and the plan sections must be consistent and coordinated
  - viability quality criteria – stated business objectives must be acceptable, business growth must be anticipated and the analysis in the plan must be sound.
- 8.3** The sequence of actions required to implement a business plan are:
- i) set up the operating structure
  - ii) procure resources for the operation
  - iii) undertake operating strategies.
- 8.4** The sequence of actions to undertake to set up an operating structure to commence a business plan should be consistent with the actions listed in Table 8.2 of the textbook. Setting up actions should be sequenced correctly.
- 8.5** Students are to list the types of resources they require to implement their own business plan. Resources to consider include:
- natural resources
  - physical material resources (e.g. job materials, trading stock)
  - human resources
  - long-term asset resources (e.g. plant and equipment)
  - management resources (e.g. specialist knowledge, technical know-how)
  - financial resources.
- 8.6** The factors to consider for determining a particular resource requirement are:
- the type of resource
  - the quantity of the resource
  - the quality of resource
  - the timing of resource.
- 8.7** The relevant factors to consider for selecting a suitable source of a resource are:
- identifying relevant sources of the resource
  - determining the availability of supplies from each source
  - ascertaining the cost of resources from each source.

- 8.8** A business control refers to an action taken to evaluate the results of the business performance. Business controls for each operating function are shown in Table 8.4 of the textbook.
- 8.9** The purpose of an operational review schedule is to show when business controls will be used to evaluate results for each function of the operation.
- 8.10** The purpose of a contingency plan is to outline what actions to take to deal with unsatisfactory business performance.

### **Quick Quiz Answers – Chapter 8**

**1. A 2. C 3. B 4. D 5. E 6. D 7. A 8. D 9. C 10. B**