

AEM 202

Agri-Business and Entrepreneurship Development

(3 Credits)

Block I

Entrepreneurship

Unit – 1	:	Entrepreneurship Development and Agri-Business Plan	3-22
Unit – 2	:	Cash Management	23-40



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Unit 1

Entrepreneurship Development and Agri-Business Plan

Structure

- 1.0 Objectives
- 1.1 Introduction
- 1.2 Entrepreneurship
- 1.3 Why a business plan
- 1.4 The business plan
- 1.5 Types of business firms
- 1.6 Updating your business plan: a checklist
- 1.7 Types of plans
- 1.8 Writing the Agri-business plan
- 1.9 Let us sum up
- 1.10 Key words
- 1.11 Further reading
- 1.12 Check your progress

1.0 Objectives

On completing this unit you will be able to understand

- The concept of entrepreneur and entrepreneurship
- The need and importance of a Business Plan
- The building blocks of a Business Plan
- The intricacies in preparing an effective Agri-business Plans

1.1 Introduction

Future outcomes are a function of today's decisions. Although there is a high degree of randomness and uncertainty associated with the future, you can increase the probability of a successful outcome by planning ahead. This is true in nearly every aspect of our lives, both personal and professional.

For those who operate their own businesses, planning becomes increasingly important because the personal and professional aspects become more difficult to untangle. In agricultural businesses, planning may be even more vital because of the inherent uncertainty associated with agricultural production. Some important sources of uncertainty include production risk, price risk, financial (or interest rate) risk, and changes in government programs.

In this module we will discuss the importance of entrepreneurship development in agricultural sector and business planning for agricultural firms—from input suppliers to producers to processors—and describe the steps required to prepare a thorough business plan. The general process of business planning is the same for each type of firm. However, each may have differing individual aspects that affect its plan's content.

1.2 Entrepreneurship

After economic liberalization, entrepreneurial activity is playing a major role in socio-economic development of the country in India. In developing countries like India for raising the living standard of the vast majority of the backward regions, planning and implementation for development of entrepreneurial programmes are essential because of their over-dependence on agriculture for employment. Thus entrepreneurship development in rural industries appears to be the best possible alternative to find employment avenues for the rural population. The issue of educated unemployment in rural India and increase in farm income needs much concentration by the extension functionaries working in the field of agriculture and allied sectors. Extension functionaries should encourage unemployed rural youth to attempt towards entrepreneurship development. A serious attempt was made in India towards massive creation of self-employment opportunities through entrepreneurship development programmes. Recent trends in agri-business sector and emerging ICT has substantially improved Indian agriculture system. In the modern era agriculture is not only restricted to farm but it has expanded to the global market system. And hence, the farmer now is not only restricted to farm and domestic market, but also has opportunity to reach global markets as an agri-business entrepreneur.

Definition and concept of entrepreneurship

Entrepreneurship means to create some thing new, organizing and coordinating and bearing risk with economic uncertainty. Entrepreneurial activities are substantially different depending on the

type of organization that is being started. It is the name given to the factor of production which performs the function of “Enterprise”. Out of the five factors of production i.e. land, labour, capital, organization and enterprise, organization does the work of coordination between different factors and makes the production possible by taking upon itself the risk or more appropriately the uncertainty of production. That is why the entrepreneur is termed as “Uncertainty Bearer” and his function as that of Uncertainty bearing.

Haggen defines entrepreneurship as “the function of seeing investment and production opportunity, organizing and enterprise to undertake a new production process, raising capital, hiring labour, arranging the supply of raw materials and selecting top managers for day-to-day operation of the enterprise.”

The major factor for entrepreneurship is the achievement motivation. A society constituting individuals with a high level of need for achievement would come up as entrepreneurs. Entrepreneurship involves task accomplishment that embodies a reasonable challenge to the individuals, competence. Entrepreneurs have to work hard at tasks that involve a real challenge which imply only a moderate risk. Entrepreneur have many of the same traits as leaders.

Entrepreneur

According to McClelland entrepreneur is “some one who exercises some control over the means of production and produces more than what he can consume in order to sell it for profit. He executes the functions of coordination, organization and supervision. Entrepreneur is basically an innovator who introduces new combinations.

An entrepreneur is one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying opportunities and assembling the necessary resources to capitalize on them. He conceives an industrial enterprise for the purpose, displays considerable initiative, grit and determination in bringing his project into fruition. During the process entrepreneur exhibits some of the following characteristics

Desire for responsibility: entrepreneur feel a deep sense of personal responsibility for the outcome of ventures he start. He prefer to be in control of his resources and use those resources to achieve self-determined goals.

Preference for moderate risk: Entrepreneurs are not mere risk takers but are instead calculating risk takers. Their goals may appear to be high even impossible. But they see the situation from a different perspective and believe that their goals are realistic and attainable. They usually select only those areas for opportunity where those areas reflect their knowledge, backgrounds, and experiences, which increase their probability of success.

Confidence to succeed: Entrepreneurs typically will take the challenges with confidence in their ability to succeed. They tend to be optimistic about their chances for success, and their optimism is based in reality.

Desire for immediate feedback: Entrepreneurs enjoy the challenge of running a business avoiding risks, and they like to know how they are running their business through constant feedback from the customers.

High level of energy: Entrepreneurs are more energetic than the average person. That energy may be a critical factor given the incredible effort required to launch a start-up company. Long hours and hard work are the rule rather than the exception.

Future orientation: Entrepreneurs have a well defined sense of searching for opportunities. They look ahead and are less concerned with what was done yesterday than with what might be done tomorrow. Entrepreneurs see potential where most people see only problems or nothing at all. In contrast to traditional managers who are concerned with managing available resources, entrepreneurs are more interested in spotting and capitalizing on opportunities.

Skill at organizing: Building a company “from scratch” is much difficult task. Entrepreneurs know how to put the right people together to accomplish a task.

Value of achievement over money: It is a common misconception that entrepreneur starts his business to make money. But it is difficult to say what is the force behind an entrepreneurs motivaton. Some times money may be only a secondary force.

An Entrepreneur puts his innovative ideas into effect in the process of economic development. The important factor of entrepreneurship is the ability to create new and useful ideas that solve the problems and challenges people face every day. Entrepreneurs achieve success by creating value in the marketplace by utilizing the resources in an innovative way to sustain the product competitively in the market. Which inturn satisfies the customer’s needs. Creative thinking is a core business skill which every entrepreneur needs to acquire. Entrepreneurship is the result of a disciplined, systematic process of applying creativity and innovation to needs and opportunities in the market place. Entrepreneurship is a commitment to expand and grow the major determinants of industrial development which leads to economic growth of the country. It has been identified as an essential factor for economic development of the country.

The basic objective of an entrepreneurship development should be to develop the man and competencies required to initiate, manage, and expand the entrepreneurial activity. Hence it is very much important to pay attention towards conceptualization, planning, implementation and management

of a business idea. It involves applying focused strategies to mould new ideas to create a product or services that satisfies customers needs or solves their problems. Thus, business plan is a pre-requisite which helps an entrepreneur to execute his creative ideas into course of action.

About the Business Plan

One of the most important documents for any business is their business plan. It is a common practice for consultants, lenders, potential business partners, and other business-associated individuals to request a business plan to make a more informed decision concerning their relationship with a business.

However, business plans have many more direct benefits for the business owner. The planning process forces owners to systematically consider all facets of the business. In so doing, they become more knowledgeable of the business, the industry, and the market environment in which their business operates. The process also helps to define business goals and to assess the impact that uncertainty may have on future business outcomes. Perhaps most importantly, the written plan provides a well-defined direction for the business. Therefore, it can be used to keep all employees moving toward the common goals established within it.

Completing a business plan can be a time-consuming activity, but well worth the effort. Because businesses operate in an ever-changing environment, the plan should be revisited periodically to be sure that the business is headed in the proper direction or to formally alter the firm's course if circumstances dictate that this is necessary. Again, the systematic review of the business plan forces the owner, and potentially others, to look at the business as a whole and make better-informed decisions.

In a business plan there are several issues that should be addressed, corresponding to the four functional areas of management: marketing, production, finance, and human resources.

1.3 Why a Business Plan?

Not everyone who starts and runs a business begins with a business plan, but it certainly helps to have one. If you are seeking funds from a venture capitalist, you will certainly need a comprehensive business plan that is well thought out and contains sound business reasoning.

The best way to show bankers, venture capitalists, and angel investors that you are worthy of financial support is to show them a great business plan. Make sure that your plan is clear, focused and realistic. Then show them that you have the tools, talent and team to make it happen. Your business plan is like your calling card, it will get you in the door where you'll have to convince investors and loan officers that you can put your plan into action.

Once you have raised the money to start or expand your business, your plan will serve as a road map for your business. It is not a static document that you write once and put away. You will refer it often, making sure you stay focused and on track, and meet milestones. It will change and develop as your business evolves.

Reasons for writing a business plan include

- Support a loan application
- Raise equity funding
- Define and fix objectives and programs to achieve those objectives
- Create regular business review and course correction
- Define a new business
- Define agreements between partners
- Set a value on a business for sale or legal purposes
- Evaluate a new product line, promotion, or expansion

What makes a successful business plan?

- A well thought out idea
- Clear and concise writing
- A clear and logical structure
- Illustrates management's ability to make the business a success
- Shows profitability

1.4 The Business Plan

A Business Plan is a written description of your business's future. That's all there is to it—a document that describes what you plan to do and how you plan to do it. If you jot down a paragraph on the back of an envelope describing your business strategy, you've written a plan, or at least the germ of a plan.

Business plans can help perform a number of tasks for those who write and read them. They're used by investment-seeking entrepreneurs to convey their vision to potential investors. They may also be used by firms that are trying to attract key employees, prospects for new business, deal with suppliers or simply to understand how to manage their companies better.

So what's included in a business plan, and how do you put one together? Simply stated, a business plan conveys your business goals, the strategies you'll use to meet them, potential problems that may confront your business and ways to solve them, the organizational structure of your business (including titles and responsibilities), and finally, the amount of capital required to finance your venture and keep it going until it breaks even.

If put together properly a good business plan follows generally accepted guidelines for both form and content. There are three primary parts to a business plan:

- The first is the business concept, where you discuss the industry, your business structure, your particular product or service, and how you plan to make your business a success.
- The second is the marketplace section, in which you describe and analyze potential customers: who and where they are, what makes them buy and so on. Here, you also describe the competition and how you'll position yourself to beat it.
- Finally, the financial section contains your income and cash flow statement, balance sheet and other financial ratios, such as break-even analyses. This part may require help from your accountant and a good spreadsheet software program.

Breaking these three major sections down even further, a business plan consists of SEVEN key components:

1. Executive summary
2. Business description
3. Market strategies
4. Competitive analysis
5. Design and development plan
6. Operations and management plan
7. Financial factors

In addition to these sections, a business plan should also have a cover, title page and table of contents.

Length of the business plan

Depending on what you're using it for, a useful business plan can be any length, from a few pages to, in the case of an especially detailed plan describing a complex enterprise, more than 100 pages. A typical business plan runs 15 to 20 pages, but there's room for wide variation from that norm.

Much will depend on the nature of your business. If you have a simple concept, you may be able to express it in very few words. On the other hand, if you're proposing a new kind of business or even a new industry, it may require quite a bit of explanation to get the message across.

The purpose of your plan also determines its length. If you want to use your plan to seek millions in seed capital to start a risky venture, you may have to do a lot of explaining and convincing. If you're just going to use your plan or internal purposes to manage an ongoing business, a much more abbreviated version should be fine.

1.5 Types of Business Firms

- **Startups.** The classic business plan writer is an entrepreneur seeking funds to help start a new venture. Many great companies had their starts on paper, in the form of a plan that was used to convince investors to put up the capital necessary to get them under way.

Most books on business planning seem to be aimed at these startup business owners. There's one good reason for that: As the least experienced of the potential plan writers, they're probably most appreciative of the guidance. However, it's a mistake to think that only cash-starved startups need business plans. Business owners find plans useful at all stages of their companies' existence, whether they're seeking financing or trying to figure out how to invest a surplus.

- **Established firms seeking help.** Not all business plans are written by starry-eyed entrepreneurs. Many are written by and for companies that are long past the startup stage. Before beginning the arduous and costly task of taking over Corus, TATA Sons used a business plan complete with sales forecasts to convince their stake holders which included share holders, financiers and customers. It helped make the new venture a winner long before the big day arrived.

These middle-stage enterprises may draft plans to help them find funding for growth just as the startups do, although the amounts they seek may be larger and the investors more willing. They may feel the need for a written plan to help manage an already rapidly growing business. Or a plan may be seen as a valuable tool to be used to convey the mission and prospects of the business to customers, suppliers.

1.6 Updating your Business Plan: a checklist

Here are seven reasons to think about updating your business plan. If even just one applies to you, it's time for an update.

1. A new financial period is about to begin. You may update your plan annually, quarterly or even monthly if your industry is a fast changing one.

2. You need financing, or additional financing. Lenders and other financiers need an updated plan to help them make financing decisions.
3. There's been a significant market change. Shifting client tastes, consolidation trends among customers and altered regulatory climates can trigger a need for plan updates.
4. Your firm develops or is about to develop a new product, technology, service or skill. If your business has changed a lot since you wrote your plan the first time around, it's time for an update.
5. You have had a change in management, new managers should get fresh information about your business and your goals.
6. Your company has crossed a threshold, such as moving out of your home office, crossing the Rs 1 million sales mark or increasing the manpower.
7. Your old plan doesn't seem to reflect reality any more. Maybe you did a poor job last time; maybe things have just changed faster than you expected. But if your plan seems irrelevant, redo it.

Business plans tend to have a lot of elements in common, like cash flow projections and marketing plans. And many of them share certain objectives as well, such as raising money or persuading a partner to join the firm. But business plans are not all the same any more than all businesses are.

Depending on your business and what you intend to use your plan for, you may need a very different type of business plan from another entrepreneur. Plans differ widely in their length, their appearance, the detail of their contents, and the varying emphasis they place on different aspects of the business.

The reason that plan selection is so important is that it has a powerful effect on the overall impact of your plan. You want your plan to present you and your business in the best, most accurate light. That's true no matter what you intend to use your plan for, whether it's destined for presentation at a venture capital conference, or will never leave your own office or be seen outside internal strategy sessions.

1.7 Types of Plans

Business plans can be divided roughly into FOUR separate types.

- **Miniplan.** A miniplan may consist of one to 10 pages and should include at least cursory attention to such key matters as business concept, financing needs, marketing plan and financial statements, especially cash flow, income projection and balance sheet. It's a great way to quickly test a business concept or measure the interest of a potential partner or minor investor. It can also serve as a valuable prelude to a full-length plan later on.

Miniplan is not intended to substitute for a full-length plan. Do not send a miniplan to an investor who's looking for a comprehensive one.

- **The Working Plan.** A working plan is a tool to be used to operate your business. It has to be long on detail but may be short on presentation. As with a miniplan, you can probably afford a somewhat higher degree of candor and informality when preparing a working plan.

A plan intended strictly for internal use may also omit some elements that would be important in one aimed at someone outside the firm. You probably don't need to include an appendix with resumes of key executives, for example. Nor would a working plan especially benefit from, say, product photos.

Internal consistency of facts and figures is just as crucial with a working plan as with one aimed at outsiders. You don't have to be as careful, however, about such things as typos in the text, perfectly conforming to business style, being consistent with date formats and so on.

- **Presentation Plan.** If you take a working plan, with its low stress on cosmetics and impression, and twist the knob to boost the amount of attention paid to its looks, you'll wind up with a presentation plan. This plan is suitable for showing to bankers, investors and others outside the company.

Essentials

- Almost all the information in a presentation plan is going to be the same as that of a working plan, although it may be styled somewhat differently. For instance, one should use standard business vocabulary, omitting the informal jargon, slang and shorthand that's so useful in the workplace and is appropriate in a working plan. Remember, these readers won't be familiar with your operation. Unlike the working plan, this plan isn't being used as a reminder but as an introduction.
- Among investors' requirements for due diligence is information on all competitive threats and risks. Even if you mention some of only peripheral significance, you need to address these concerns by providing the information.
- The big difference between presentation and working plans is in the details of appearance and polish. A working plan may be run off on the office printer and stapled together at one corner. A presentation plan should be printed by a high-quality printer, probably using color. It must be bound expertly into a booklet that is durable and easy to read. It should include graphics such as charts, graphs, tables and illustrations.

- It's essential that a presentation plan be accurate and internally consistent. A mistake here could be construed as a misrepresentation by an unsympathetic outsider.

1.8 Writing the Agri-business Plan

Farm / Business Name

(Try to insert the colour photograph of your firm at this part of the plan)

(FARM / Business Name)

Month / Year

Owners

Address

Phone

Business Plan Copy Number 1

This document is confidential. It is not for re-distribution.

Prepared by _____

Table of Contents

Executive Summary	1
Mission / Goals	3
Mission Statement	3-1
Short Term Goals	3-2
Long Term Goals	3-3
Farm Overview	4

The Property

Improvements

Current Operations

Business Product / Services

(The product) _____

Uses



Provisions for _____

Herd Plan

Business Organization

The Market

_____ Sales

Marketing Plan

Promotion Advertising

Trade shows

Customer Profile

Strategic Alliances

Competition

Risk/Opportunity

Risks

Opportunities

The Owners

Conclusion

Financials

Capital Requirements

Cash Flow and Break Even Analysis

Cash Flow Projections Spreadsheet

Income Statement

Net Worth Statement

Exhibits

Articles of Organization

Operating Agreement

Sample Purchase Contract

————— Brochure

Executive Summary

Mission

The mission of ————— is —————.

Farm

Owners ——— purchased ——— in ———. The ——— acre property is located in ———.

Business Product / Service

Our farm intends to —————.

The Market

We intend to sell ————— to —————.

Marketing Plan

The objective of all our promotions is to —————. Once our ————— are established, we will —————.

Competition

————— will be competitive in the ————— sector and the —————, due in part to —————. Although others in the market provide similar services, we will be able to differentiate ourselves through —————.

Risk/Opportunity

The risk associated with —————. The greatest risk we will face in our business is establishing ourselves in the market. We are confident we can overcome these risks through the establishment of —————.

The opportunities before us are significant; we are looking for a sustainable use for our small farm that actually provides a good investment return and —————. ————— are very well suited for our acreage, location and preference for. We have the opportunity to establish ourselves in the marketplace with .

The Owners

————— is owned and operated by —————.



_____has a degree? in _____ from _____, and is employed by? _____.

_____ has a degree in _____ from _____ and is employed as _____.

Capital Requirements

We seek _____ of financing, which will enable us to _____.

Financial Snapshot

There is combined household income of approximately _____annually, and an estimated combined net worth of _____

Projected Gross Farm Income

2005	2001 (year 2)	2002 (year 3)
xxxx	xxxx	xxxx

Balance Sheet Summary

_____:	Assets:	Rs. xxxxx
	Liabilities:	Rs. <u>xxxxx</u>
	Net Worth:	Rs. xxxxx
_____:	Assets:	Rs. xxxxx
	Liabilities:	Rs. <u>xxxxx</u>
	Net Worth:	Rs. xxxxx
Combined Total		Rs. xxxxx

Exit

We expect to be able to repay this loan in _____ months, with income generated by a combination of _____.

Mission / Goals

Mission Statement

The mission of _____ is. In pursuit of our mission, it is our intention to _____.

We aspire to _____. We can achieve this by.

Short Term Goals

After thorough research in to the _____

The initial business focus will be on _____. During the first two to three years, we will strive to _____. During this time, we will also be _____. To complement this objective, _____.

Long Term Goals

It is the intent of the owners of _____ to _____.

To achieve our goals _____ needs seed capital to begin establishing _____.

Farm Over-View

The Property

Describe your farm our property.

Improvements

The current livestock capacity is _____, with interior hay storage capacity of _____ . The existing facilities, with routine care and maintenance, will _____.

Current Operations

Describe any farm operation you are currently involved in.

Business Product / Services

(The Product or Service)

Explain what you will be raising or selling.

Uses

Explain its uses.

Provisions for _____

Feed: _____

Pasture: The pasture requirements for _____ are _____.

Shelter:

Fencing / Predator Security:

Health care:

Manure management:

Insurance: Describe plans for insuring your livestock if any...._____ Provide names of potential



companies—— ie: There are several established nationwide insurance companies in the business of insuring ——including:

- ——
- —— (see exhibits for brochure)

Labor: ——will carry out —— farm labor and care of the animals. The exception being professional veterinary care.

Herd Plan

——plan to purchase ——in ——, with births expected in ——. This will be our founding herd of ——, with —— additional births expected in ——. After the 2001 births, the herd size will have grown to ——. At which point, the ——original females and now the females born in —— will be bred. We expect we can realize —— pregnancies at this time, which will bring the herd to ——. The males produced by the previous year’s birth will be ——.

	2000 end	2001	2002	2003	2004	2005
Females						
Total herd						
Off spring available to sell						

Assumed Birth Rate: 80%

Chance of Female Birth: 50%

Business Organization

—— is organized under —— as a —— . As declared in article —— of the Articles of Organization, management of the —— is vested in the ——, —— and —— . The —— have also established an operating agreement to augment the articles of organization. See Exhibits.

—— professional accounting software will be used to administer the accounts of the business. —— — – CPA, will provide additional professional accounting services on an as needed basis.

The Market

Sales

Explain who buys your product and why. Show the bank that you have done your research. — According to all indications and current market research, — prices are —. Future supplies in the US will —:

The — Registry

To further the value of US bloodstock, the — industry has established — registry. Newborns — are registered by —. Their value is maintained through this verifiable pedigree.

Marketing Plan

The objective of all our promotions will be —.

Promotion

Our promotion plan will initially be focused on —.

Advertising

Initially we plan to —, with the longer term goal of —.

Trade shows

We plan to become involved in —.

Customer Profile

Explain who your customers are and why they buy the product.

Strategic Alliances

— is a member of (i.e., livestock organizations, show associations, etc.) — which has numerous exclusive membership rights and privileges, including —. We also belong to —. In addition, we intend to join —

We have also developed strategic alliances with (mentors for example) —.

Competition

Why should people buy from you? — Although others in the market provide similar — and services, we will be able to differentiate ourselves through —.



Risk/Opportunity

Risks

Explore the risks now, and explain how you are prepared for them. No one expects you to be able to foresee everything, but researching this section can prepare you for bumps in the road, and help you avoid mistakes in the future.

Opportunities

Let them have it – Here is where you sell your dream!

The Owners

Explain your background(s) and experiences.

Conclusion

This is your last chance to impress upon them, but be brief. Summarize why you want to do this.

Capital Requirements

We seek _____ of financing to fund _____. A positive cash flow is projected in approximately _____.

This funding will be used to _____. Here is a breakdown of how the funds will be spent;

- _____ Rs.—
- _____ Rs.—
- _____ Rs.—
- _____ Rs.—
- _____ Rs.—

We can provide an exit for this loan within _____ by _____.

Cash Flow and Break Even Analysis

We have assumed that our expenses for the first two years can be provided for through _____. We project that we will reach a positive cash flow by _____. Sales are expected to be _____ until the projected herd size of _____ is achieved.

1.9 Let us Sum Up

We have discussed the meaning, importance and concept of entrepreneur, entrepreneurship and scope of entrepreneurship in promotion of agribusiness and creating employment in the agricultural sector. We have also learnt that, business plan is a prerequisite for putting innovative ideas of an entrepreneur into action.

As noted above, the preparation of an agribusiness plan is not something to take lightly. The long-term future of your business may well depend on its ability to attract the interest of lenders and/or investors. Such a comprehensive plan involves both dedication and competency. Management should be deeply involved in every aspect of its preparation. Each segment of the business plan fulfills an important role and cannot be overlooked. If your agribusiness firm has not already prepared such a comprehensive plan, it is very likely that it will have to do so in the near future. I hope this discussion will provide you with some help in determining the contents of such a plan.

1.10 Key Words

Balance Sheet: Condensed statement that shows the financial position of an entity on a specified date (usually the last day of an accounting period). Among other items of information, it states (1) what assets the entity owns, (2) how it paid for them, (3) what it owes (its liabilities), and (4) what is the amount left after satisfying the liabilities. Balance sheet data is based on a fundamental accounting equation (assets = liabilities + owners' equity), and is classified under sub-headings such as current assets, fixed assets, current liabilities, Long-term Liabilities. With income statement and cash flow statement, it comprises the set of documents indispensable in running a business. To be considered valid, a balance sheet must give a 'true and fair view' of the entity's state of affairs, and must follow the provisions of GAAP in its preparation. Called also statement of condition, statement of financial condition, or statement of financial position.

Break Even Analysis: Study of the mathematical relationship between costs and sales revenue, under a given set of assumptions regarding the firm's fixed costs and variable costs. In this financial analysis, the objective is to determine (in manufacturing) number of products that must be sold at a given price to cover the costs, or (in project financing) number of months or years required by the forecasted total net cash flow to equal estimated total project cost. An integral part of financial planning, it is performed either by using a breakeven-formula or by drawing a breakeven graph. Also called cost-volume-profit analysis.

Business Plan: Set of documents prepared by a firm's management to summarize its operational and financial objectives for the near future (usually one to three years) and to show how they will be achieved

Competitive Analysis: Assessment of the difference between a firm's performance and that of its competitors, and detection and examination of the factors that cause the difference.

Equity Funding: Investment in the common stock (ordinary shares) of a firm.

Marketing Strategy: Written plan (usually a part of the overall corporate plan) which combines product development, promotion, distribution, and pricing approach, identifies the firm's marketing goals, and explains how they will be achieved within a stated timeframe. Marketing strategy determines the choice of target market segment, positioning, marketing mix, and allocation of resources.

Profitability : Ability of a firm to generate net income on a consistent basis. It is often measured by price to earnings ratio.

Startups: Early stage in the life cycle of an enterprise where the entrepreneur moves from the idea stage to securing financing, laying down the basis structure of the business, and initiating operations or trading.

Trade Shows: Large, stage-set trade event organized often by an industry's trade association on an annual basis. Most trade shows aim to facilitate direct contact between the manufacturers and distribution channel members (wholesalers, retailers, value added resellers) but some are aimed at the end user. See also trade fair

1.11 Further Readings

Ed Paulson, 2000 *Starting Your Own Business*, Alpha Books

Mark Henricks by Mark Henricks, *Business Plans Made Easy*

Paley Norton, *Successful Business Planning*, Land Mark Books

The Small Business Encyclopedia (<http://www.entrepreneur.com/encyclopedia/index.html>)

1.12 Check Your Progress

- 1 Discuss the need for a Business Plan
- 2 What are the essentials of a Business Plan?
- 3 Briefly explain different Varieties of Business Plans.
- 4 Write a Business Plan to establish a dairy or a poultry farm or a rice mill.

Unit 2

Cash Management

Structure

- 2.0 Objectives
- 2.1 Introduction
- 2.2 Problems of cash management
- 2.3 Cash planning
- 2.4 Cash budget
- 2.5 Let us sum up
- 2.6 Key words
- 2.7 Further readings
- 2.8 Check your progress

2.0 Objectives

On completing this unit you will be able to understand

- The role and importance of cash management
- The cash planning process
- Various tools for cash control
- Functions or importance of cash budget

2.1 Introduction

Cash is one of the current assets of the business. It is needed at all times to keep the business going. A business concern should always keep sufficient cash for meeting its obligations. Any shortage of cash will hamper the operations of a concern and any excess of it will be unproductive. Cash is the most unproductive of all the assets. While fixed assets like machinery, plant etc., and current assets such as inventory will help the business in increasing its earning capacity, cash in hand will not add anything to the concern. It is in this context that cash management has assumed much importance.

Nature of cash: For some persons, cash means only money in the form of currency (cash in hand). Some include near cash assets in it. They take marketable securities too as part of cash. These are the securities which can easily be converted into cash.

Cash itself does not produce goods or services. It is used as medium to acquire other assets. It is the other assets, which are used in manufacturing goods or providing services. The idle cash can be deposited in bank to earn interest.

A business has to keep the required cash for meeting various needs. The assets acquired by cash again help the business in producing cash. The goods manufactured or services produced are sold to acquire cash. A firm will have to maintain a critical level of cash. There remains a gap between cash inflows and cash outflows. A financial manager tries to synchronize the cash inflows and cash outflows.

What is cash management? Every undertaking is desirous of utilizing the available cash most effectively so as to accomplish the goals of the undertaking i.e., maximization of profits or wealth of the owners of capacity with the minimum of efforts. But management of cash is not as simple as it appears. In case, the undertaking does not keep sufficient cash in hand, it may not be in a position to meet the unexpected challenges that may bring down its credit in the market. On the other hand, if the undertaking maintains excessive cash revenue to meet the challenges the excessive cash will remain idle in the business, contributing nothing towards the wealth of the firm. If heavy amounts are blocked for unforeseen contingencies, the company will not be in a position to carry on its day-to-day working efficiently. It is where the real problem of cash management comes, i.e. how much cash should be set aside for unexpected challenges and how much for regular day-to-day working. Therefore, the aim of cash management is to maintain a sound cash position to keep the firm sufficiently liquid and to use the excessive cash, if any, in some profitable way.

It is really not an easy problem to solve. In fact, no hard and fast rules can be suggested for the problem. All that financial management can do in this regard, is to study the past records and take the necessary decision bearing in mind the present economic circumstances and the behavior and practice of the sister concern.

What is included in cash: When we talk of cash, we really do not mean only the hard cash but we include everything, which can be easily converted into cash within no time. In this sense, the balance lying in banks which is not linked with any other thing, and the marketable securities, which can easily be converted in cash, are also treated as part of cash.

2.2 Problems of Cash Management

Cash management has problems attached to it. We can examine these problems under the following four heads.

1. Controlling level of cash
2. Control inflow of cash
3. Controlling outflow of cash, and
4. Optimal investment of surplus cash.

Now we shall discuss each of the above problems one by one.

1. Controlling level of cash

Every undertaking desires to keep minimum balance of cash for its unforeseen obligations. What that minimum amount of cash should be is really a problem for financial management to solve. In deciding the level of cash the following considerations should be taken into account:

- i. Predictable discrepancies:** The basic tool for management to forecast the predictable discrepancies between cash inflow and outflow is cash budget. Cash budget reveals the timing and the size of net cash flow as well as the period during which surplus cash may be available for temporary investment. In small concerns, preparation of cash budget is a very minor job while in large companies, the job is assigned to the controller of finance and is a full time job. Cash budget may be short range cash budget and long range cash budget. Short range cash budget is usually of a duration of 6-12 months. It is generally regarded as a basic financial working tool to determine operating cash requirements, to anticipate the need for short term financing and to manage investments. The short term forecasts may be of great help in optimizing bank relationship by indicating the highest and lowest of the cash and the timing of its flow in and out of the company. It also helps in planning education of long term bets, guiding dividend policy, co-ordinating divisional financial needs, taking advantage of cash discourse planning forward purchasing etc. In addition, revision and review is a regular feature. Informal reviews are carried on between formal reviews. Some big companies have developed their own standard forms to maintain uniformity information.

- ii. **Unpredictable discrepancies:** In addition to the predictable discrepancies, there are certain unpredictable discrepancies like strike, lock out, recession, rise in the cost of material etc. It is desirable to reserve an adequate balance of cash to meet such contingencies. These events either may interrupt the inflow of cash or cause a sudden outflow of cash which the undertaking did not expect. The amount kept in reserve for such eventualities is in the nature of insurance. The amount should be very carefully earmarked because if no such eventuality arises, the company will lose its profits, which should have been earned, had the amount been earned, had the amount been invested in business.
- iii. **Sources of funds:** Cash level depends very much on the sources of funds from which a company can obtain funds at short notice. Creditability of the company counts much in this regard. The better the credit standing the smaller the amount of cash to be maintained by the company. The company is required to maintain less cash, if it has internal sources of funds to meet unpredictable expenses. It may sell its redundant machinery and equipment, assign its receivable or other assets convertible into cash.
- iv. **Relations with banks:** The level of cash balance is determined, to a great extent by relationship of a company with banks. Relationship with banks very much depends upon the creditability of the concern. If the company has cordial relations with banks, banks will come forward to assist the undertaking as and when it needs cash. Company will have to maintain less cash to meet its unexpected challenges. On the other hand, it depends much on their services which the company will like to have from banks i.e. cash credit arrangement, discounting and collecting the bills, control of balances. In this connection, points of major importance are financial condition of the bank, its location, the services it offers and the managerial ability of its chief officers.

2. Controlling Inflow of Cash

Adequate control of cash inflow is an important problem before every business executive with a view not only to prevent fraudulent diversion of cash receipts but also to collect cash speedily. Fraudulent diversion of cash can be checked easily by installing an internal check system by breaking the job of cash receipts into several stages, each handled by a different employee. But collections of cash speedily i.e. inflow of cash can be controlled by a) Adopting lock box system or b) Collecting funds through regional officers.

- a) **Lock-box system:** This system is quite popular in U.S.A. It is a technique for speedy collection of cash from debtors. Under this system, deposit accounts are opened with now or more banks, geographically so located that remittances from customers do not take more than one day in

transit. Customers mail their remittances to the lock-box in the post office that serves the company's regional bank. The bank collects cheques from the lock-box several times a day, clears them and deposits the amount in the account of the customers, bank emits the excess funds to the company in accordance with the arrangement after maintaining the minimum balances to cover the costs or may be drawn by the company treasurer at his discretion. This system speeds up collections of cheques. The company comes to know of dishonored cheques and weak credit situations sooner. It also reduces the chances of fraud in the collection process of cash as it controls the cash incoming better.

- b) Collections through regional branch officers:** It is another method for collecting cash speedily. Under this system the company's regional branch officers are authorized to collect the payments from the customers and deposit them in the local office of the banks. The local officers in turn transfer the amount to the company's head office bank, telegraphically or by telexes. Regional officers maintain an account of cost of remittances paid by them. The Head office either collects the amount or may instruct the regional officers to make the payments to suppliers. The system is good when business of the company is spread over throughout the country and the amounts to be collected are of small value.

3. Controlling Outflow of Cash

Controlling outflow of cash is as important as controlling inflow in the interest of the customers as well. Every company knows by experiences the peak timings of cash inflows and outflows. The problem is that of adjustments of timings between inflows and outflows which must be planned properly, in the absence of any proper planning there shall either be overflow of cash or unnecessary drain on un-liquid cash.

In order to control the outflow of cash, most of the companies follow the system of centralized cash payments. Under this system, all receipts are transferred from subsidiaries to the central office and central office in turn accepts and pays the creditor's bills direct to the parties. Bills for local expenses are, however, paid by the local office of the company.

There may be other methods of delaying payments without, losing its credit. Such methods, other than centralized cash payments, are a) avoidance of early payments, b) float, and accruals.

- a) Avoidance of early payments means not to pay the debt before the due date because it will have no special advantage for paying early except earning cash discounts which is very nominal.
- b) Float is another method. As we know, a cheque is not encashed immediately and takes some time in transit and processing. The Company takes advantage of this transit and

processing delays. Before encashment of cheque, the bank account of the company will show a greater credit balance that can be used by the company during intermittent period and the amount may be deposited into the bank later. Alternatively, the company can issue cheques when it actually, does not have sufficient balance in the bank account to discharge the liability and the necessary cash may be deposited later but before the presentation of cheques. It is called playing a float. It is a risky game and the firm should play it cautiously because the goodwill of the firm may be at stake in case the cheque is dishonored.

4. Optimal Investment of Surplus Cash

After controlling inflows and outflows of cash, the next problem is that of investment of surplus cash available with the company, for a short period. The finance executive will have to use its discretion as far as the decision for investment of surplus cash is concerned. Cash surplus can be temporary or permanent. Temporary cash surplus is composed of funds available for investment on short term basis as they are required to meet the regular obligations such as taxes, dividends etc.

2.3 Cash Planning

Planning and control of cash is the central point of all finance functions. It is one of the primary responsibilities of financial management to maintain an adequate supply of cash. Ample cash funds are the index of liquidity of financial resources and the profitability of the firm. Inadequacy of funds or non-availability of cash when it is needed may have serious setback to an undertaking, but this does not imply that there must be ample funds to remain unutilized in the business., In order to maintain the flow of cash, cash planning is necessary.

What is Cash Planning and Control?

Cash planning is nothing but simply to forecast the cash needs well in advance for a given period with a view to maintain adequate cash balance in hand, sufficient to meet the payments and obligations as and when they mature. Thus it includes forecasting of cash inflows and cash outflows.

Cash planning includes cash control as well. Cash planning is a technique to plan for and control the use of cash. It involves formation and sound cash management policies, procedures and practices. Sound cash planning does not only cover the amount of cash required for day-to-day operations but it must make allowance for abnormal situations also which are likely to occur in the business. Cash for normal operations is easy to predict but it is not so easy to forecast the requirements of cash for contingencies.

Cash control involves proper implementation of policies and procedures regarding inflow and

outflow of cash. It includes short-term investment plans when cash is surplus and borrowing programmes during the days of cash deficit.

Tools for Cash Control

Proper cash control is possible only when there is a person responsible for planning and controlling the cash. Business exigencies and government policies should also be taken into account while planning the control of cash. We can control the cash position with the following tools.

- a) Cash Budget report: Cash Budget is also a good tool for cash control. For this purpose, a cash budget report is prepared as a supplement to cash budget.
- b) Inflow and outflow of cash: In order to check the diminution in cash position, a cash flow statement is prepared. It helps controlling inflows and outflows of cash.
- c) Ratio analysis: Cash ratios are also important tools of cash control. Various cash ratios are used which explain the efficiency of cash management.

Tools of Cash Planning

- i) Net cash forecast: Forecast of net cash means forecast of cash inflows and cash outflows for a given period.
- ii) Cash Budget: Cash Budget is the second tool of cash planning. It is a systematic forecast of cash requirement i.e. forecast of cash inflows and outflows and thus shows the probable surplus or deficiency of cash flow, policies regarding other functions such sales, production, Marketing etc.
- iii) Forecasting an overall working capital position: Forecast of the overall working capital position is also an important tool of cash planning. Working capital analysis forecasts the value of current assets and current liabilities to know the cash position of the business.

2.4 Cash Budget

What is Cash Budget?

One of the major responsibilities of financial management is to maintain an adequate cash balance to ensure the business to make available sufficient cash to meet its needs as and when they arise.

- Cash budget is an analytical device to estimate the flow of cash in any business over a future period of time.

- It presents an estimate of cash inflows and outflows. It involves a projection of future cash receipts and cash disbursement of the firm over various intervals of time.
- It reveals to the financial manager the timing and amount of expected cash inflows and outflows over the period studied.

The following definitions of cash budget may be studied to understand it well:

1. "A cash budget is a forecast of future cash receipts and cash disbursements over various intervals of time." - James C. Von Home.
2. "Cash budget is an estimate of cash receipts and disbursement for a future period of time." - Guthman and Dougall.

Cash budget is generally prepared for a year with greater details for the current period, usually on a monthly basis. At the end of each month, the actual cash movements are compared with the budget estimates and deviations are noted and accounted for. Thus the cash budget is a device to estimate the future inflows and outflows of cash. The main object of cash budget is to guarantee the availability of cash at all times when it is needed and thus to prove the solvency of the firm. It also pinpoints the periods when there is likely to be excess or deficient cash.

Functions or Importance of Cash Budget

The importance of cash budget may be summarized as follows:

- Evaluation of performance: Cash budget acts as a standard for evaluating the financial performance by comparing the actual performance with the budget figures. If deviations are positive, the performance may be regarded as good.
- Sound dividend policy: Cash budget plans for cash dividend to shareholders, consistent with the liquid position of the firm. It helps in following a sound consistent dividend policy.
- Helpful in planning: Cash budget helps planning for most efficient use of cash. It points out cash surplus or deficiency at selected points of time and enables the management to arrange for the deficiency before time or to plan for investing the surplus money as profitably as possible without any threat to the liquidity.
- Controlling cash expenditure: Cash budget acts as a controlling device. The expenses of various departments in the firm are controlled so as not to exceed the budgeted limit.
- Testing the influence of proposed expansion programmes: Cash budget forecasts the inflows from a proposed expansion or investment programme and testifies its impact on cash position.

- Forecasting the future needs of funds: Cash budget forecasts the future needs of funds, its time and the amount well in advance.
It, thus, helps planning for raising the funds through the most profitable source at reasonable terms and costs.
- Maintenance of ample cash balance: Cash is the basis of liquidity of the enterprise. Cash budget helps in maintaining the liquidity. It suggests adequate cash balances for retiring the obligations and their?? to the liquidity.
- Basis of long-term planning and co-ordination: Cash budget helps in co-coordinating the various finance functions, such as sales, credit, investment, working capital etc.

2.5 Let us Sum Up

Cash is the most important assets of the business. Cash itself doesn't produce any goods or services. A business has to keep required cash o meet business needs. A financial manager synchronizes the cash inflows and outflows.

2.6 Key Words

Cash Management: Planning, Organising, Controlling the Cash inflows and Cash outflows in an organization/ business

Cash Planning: To forecast the cash needs well in advance for a given period of time

Cash Budget: A forecast of future cash receipts and disbursements over various intervals of time

2.7 Further Readings

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2.8 Check your Progress (Questions and Answers/Hints)

Assignment

Solved Problems:

1. From the following forecast of income and expenditure, prepare a cash budget for the months Jan to April, 2000.

Year	Month	Sales (Cr.)	Purchases (Cr.)	Wages (Rs.)	Manufac. (Rs.)	Admn. Exp.	Selling Exp. (Rs.)
1999	Nov.	30,000	15,000	3,000	1,150	1,060	500
	Dec.	35,000	20,000	3,200	1,225	1,040	550
2000	Jan.	25,000	15,000	2,500	990	1,100	600
	Feb.	30,000	20,000	3,000	1,050	1,150	620
	Mar.	35,000	22,000	2,400	1,100	1,220	570
	April	40,000	25,000	2,600	1,200	1,180	710

Additional information is as follows:

1. The customers are allowed a credit period of 2 months.
2. A dividend of Rs. 10,000 is payable in April.
3. Capital expenditure to be incurred: Plant purchased on 15th January for Rs.5,000 A Building has been purchased on 1st March and the payments are to be made in monthly instalments of Rs.2000 each.
4. The creditors are allowing a credit of 2months.
5. Wages are paid on the 1st of the next month.
6. Lag in payment of other expenses is 1 month.
7. Balance of cash in hand on 1st January, 2000 is Rs.15,000

Solution:

Cash Budget

For months from January to April, 2000

Details	Jan	Feb	Mar	April
	Rs.	Rs.	Rs.	Rs.

Receipts:

Opening balance of cash	15,000	18,985	28,795	30,975
Cash realized from Debtors	30,000	35,000	25,000	30,000
Cash available:	45,000	53,985	53,795	60,975

Payments:

Payments to customers				
(for purchases)	15,000	20,000	15,000	20,000
Wages	3,200	2,500	3,000	2,400
Manufacturing exp.	1,225	990	1,050	1,100
Administration exp.	1,040	1,100	1,150	1,220
Selling exp.	550	600	620	570
Payments of Dividend	-	-	-	10,000
Purchase of plant	5,000	-	-	-
Installments of Building loan	-	-	2,000	2,000
Total Payments	26,015	25,190	22,820	37,290
Closing balance	18,985	28,795	30,975	23,685

2. ABC CO. wishes to arrange overdraft facilities with its bankers during the period April to June, 2000 when it will be manufacturing mostly for stock. Prepare a cash budget for the above period from the following data, indicating the extent of the bank facilities the company will require at the end of each month:



	Sales	Purchases	wages
	Rs.	Rs.	Rs.
February	1,80,000	1,24,800	12,000
March	1,92,000	1,44,000	14,000
April	1,08,000	2,43,000	11,000
May	1,74,000	2,46,000	10,000
June	1,26,000	2,68,000	15,000

- i) 50 percent of credit sales are realized in the month following the sales and remaining 50 percent in the second month following. Creditors are paid in the month following the month of purchase.
- ii) Cash at Bank on 1-4-2000 (estimated) Rs.25,000.

Solution:

Cash Budget for Three months from April to June,2000

	April	May	June
	Rs.	Rs.	Rs.
Receipts:			
Opening Balance	25,000	53,000	(-)51,000
Sales	90,000	96,000	54,000
Amount received from sales	96,000	54,000	89,000
Total Receipts:	2,11,000	2,03,000	90,000
Payments:			
Purchases	1,44,000	2,43,000	2,46,000
Wages	14,000	11,000	10,000
Total payments	1,58,000	2,54,000	2,56,000
Closing Balance (A-B):	53,000	(-)51,000	(-)1,66,000

Note: Workers are paid on 1st of the following month.

3. A company expects to have Rs.37,500 cash in hand on 1st April 1998 and requires you to

prepare an estimate of cash position during the three months, April to June, 1998. The following information is supplied to you:

	Sales Rs.	Purchases Rs.	Wages Rs.	Factory Exp. Rs.	Office Exp. Rs	Selling Exp. Rs
February	75,000	45,000	9,000	7,500	6,000	4,500
March	84,000	48,000	9,750	8,250	6,000	4,500
April	90,000	52,500	10,500	9,000	6,000	5,250
May	1,20,000	60,000	13,500	11,250	6,000	6,570
June	1,35,000	60,000	14,250	14,000	7,000	7,000

Other Information

- i) Period of credit allowed by suppliers is 2 months.
- ii) 20% of sales is for cash and period of credit allowed to customers for credit sales is one month.
- iii) Delay in payment of all expenses 1 month.
- iv) Income tax of Rs.57,500 is due to be paid on June 15th, 1998.
- v) The company is to pay dividends to shareholders and bonus to workers of Rs.15,000 and Rs.22,500 respectively in the month of April.
- vi) Plan has been ordered to be received and paid in May. It will cost Rs. 1,20,000.

Solution:

Cash Budget (1998)

	April	May	June
	Rs.	Rs.	Rs.
Opening Balance(cash in hand)	37,500	11,700	(-)91,050
Receipts:			
Cash sales			
(20% of current months sales)	18,000	24,000	27,000
Debtors			
(80% of previous months sales)	67,200	72,000	96,000
Total	1,22,700	1,07,700	31,950
Payments:			
Creditors			
(2months previous purchases)	45,000	48,000	52,500
Wages			
(previous months wages)	9,750	10,500	13,500
Factory exp.			
(previous months)	8,250	9,000	11,250
Office exp. (previous months)	6,000	6,000	6,000
Selling exp. (previous months)	4,500	5,250	6,570
Dividend to shareholders	15,000	-	-
Bonus to workers	22,500	-	-
Purchase of plant	-	1,20,000	-
Income Tax	-	-	57,500
Total Payments:	1,11,000	1,98,500	1,47,320
Closing Balance (A-B) ;	11,700	(-)91,050	(-)1,15,370

The company will need overdraft facilities in May and June to the extent of Rs. 91,050 and Rs. 1,15,370 respectively.

4. From the following budget data, forecast the cash position at the end of April, May and June 2000.

Month	Sales Rs.	Purchase Rs.	Wages Rs.	Miscellaneous Rs.
February	1,20,000	84,000	10,000	7,000
May	1,30,000	1,00,000	12,000	8,000
April	80,000	1,04,000	8,000	6,000
May	1,16,000	1,06,000	10,000	12,000
June	88,000	80,000	8,000	6,000

Additional Information:

- i) Sales : 20% realized in the month of April, discount allowed 2%. Balance realized equally in two subsequent months.
- ii) Purchases: These are paid in the month following the month of supply.
- iii) Wages: 25% paid in arrears following month.
- iv) Miscellaneous expenses: Paid a month in arrears.
- v) Rent : Rs. 1,000 per month paid quarterly in advance due in April.
- vi) Income Tax : First installment of advance tax Rs.25,000 due on or before 15th June.
- vii) Income from investments: Rs.5,000 received quarterly, in April, July, etc.
- viii) Cash in hand: Rs. 5,000 on 1st April, 2000.

Solution:

Cash Budget

For the months from April to June 2000

	April	May	June
	Rs.	Rs.	Rs.
A. Receipts:			
Opening Balance	5,000	5,680	(-)7,084
Receipts form Debtors and sales(1)	1,15,680	1,06,736	95,648
Income from investments	5,000	-	-
Total:	1,25,680	1,12,416	88,564
B. Payments:			
Creditors	1,00,000	1,04,000	1,06,000
Wages (2)	9,000	9,500	8,500
Rent	3,000	-	-
Miscellaneous exp.	8,000	6,000	12,000
Income Tax	-	-	25,000
Total:	1,20,000	1,19,500	1,51,500
Closing Balance (A-B):	5,680	(-)7,084	(-)62,936

Working Notes:

1) Cal. Of amount received form debtors and sales.

April

Cash sales (20% on 80,000)	16,000
Less: 2% discount	320
	15,680
Add: 40% of Rs. 1,30,000(sales of March)	52,000
Add: 40% of Rs. 1,20,000(sales of Feb)	48,000
	1,15,680

May		
Cash sales (20% of Rs.1,16,000)	23,000	
Less: 2% discount	464	
		22,736
Add: 40% of Rs.80,000 (sales of April)	32,000	
Add: 40% of Rs.1,30,000 (sales of Mar)	52,000	
		1,06,736
June		
Cash sales 20% of 88,000	17,600	
Less: 2% discount	352	
		17,248
Add: 40% of Rs.1,16,000(sales of May)	46,400	
Add: 40% of Rs.80,000 (sales of April)	32,000	
		95,648

2) Calculation of payment for wages:

April		
25% of Rs.12,000 wages for March	3,000	
75% of Rs.8,000 wages for April	6,000	
		9,000
May		
25% of Rs. 8,000 wages for April	2,000	
75% of Rs.10,000 wages for May	7,500	
		9,500
June		
25% of Rs.10,000 wages for May	2,500	
75% of Rs. 8,000 wages for June	6,000	
		8,500

5. A Company expects to have Rs.25,000 in bank on 1st May 2000 and requires you to prepare an estimate of cash position during the three months - May, June and July, 2000.

The following information is supplied:

	Sales Rs.	Purchases Rs.	Wages Rs.	Office Exp. Rs.	Factory Exp. Rs	Selling Exp. Rs
March	50,000	30,000	6,000	4,000	5,000	3,000
April	56,000	32,000	6,500	4,000	5,500	3,000
May	60,000	35,500	7,000	4,000	6,000	3,500
June	80,000	40,000	9,000	4,000	7,500	4,500
July	90,000	40,000	9,500	4,000	8,000	4,500

Other information:

- 20% of sales are in cash, remaining amount is collected in the month following that of sales.
- Suppliers supply goods at two months credit.
- Wages and all other expenses are paid in the month following the one in which they are incurred.
- The company pays dividends to shareholders, and bonus to workers of Rs,10,000 and Rs. 15,000 respectively in the month of May.
- Plant has been ordered and is expected to be received in June. It will cost Rs.80,000 to be paid in June.
- Income Tax Rs. 25,000 is payable in July.

Ans: Balance May Rs.7,800, June: Rs.60,700 in July: Rs.63,700.

- What is understood by cash management? Broadly discuss problems associated with it?
- What is meant by cash planning and control? Explain the main tools of cash planning and control?
- Discuss the importance of cash budget as a tool of financial management. OR
What is cash budget? What is the difference between cash budget and working capital budget?
What are the main functions of cash budget?
- Describe the methods used for preparing cash budget.

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Block I : Entrepreneurship

Unit – 1 Entrepreneurship Development and Agri-Business Plan

Unit – 2 Cash Management

BlockII : Agri Business

Unit – 1 Marketing Management in Agri Business

Unit – 2 Rural Marketing

Unit – 3 Procurement

Unit – 4 Supply Chain Management (SCM)

Block III : Commodity and Future Marketing

Unit – 1 Commodity Markets

Unit – 2 Introduction to Commodity Exchanges

Unit – 3 Futures Exchange and Risk Management

Unit – 4 Ware house Receipts and Collateral Management

Block IV : Business Laws and Ethics

Unit – 1 Business Laws and Ethics

Unit – 2 Indian Contract Act, 1872

Unit – 3 Sale of Goods Act, 1930

Unit – 4 Indian Partnership Act, 1932

Unit – 5 Companies Act, 1956

Unit – 6 Negotiable Instrument Act, 1881

Unit – 7 The Essential Commodities Act, 1955

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