SECTOR: BUSINESS SERVICES

SUB-SECTOR: BUSINESS SERVICES

RTQF LEVEL 4

BUSCR401 CAPITAL REQUIREMENT ANALYSIS

TABBLE OF CONTENT

3.1 Accurate linkage of resources according to planned activities

3.2 Proper follow up of allocations of resources according to organization policy

3.3 Proper use of identified resources

LEARNING UNIT1 DETERMINE TOTAL BUSINESS COSTS

Learning Outcome 1.1: Determine cost of investment business in terms of preoperating costs

Operating (Operational) **costs** are the **expenses** which are related to the **operation** of a business, or to the **operation** of a device, component, piece of equipment or facility. They are the **cost** of resources used by an organization just to maintain its existence.

ELEMENTS OF OPERATING COSTS

- **Rent**
- **Phone and utilities**
- **Equipment's**
- **Fixtures** a piece of equipment or furniture which is fixed in position in a building or vehicle.
- **Inventory**a complete list of items such as property, goods in stock, or the contents of a building.
- **Leasehold improvement** the holding of property by lease.

lease is a contract by which one party conveys land, property, services, etc. to another for a specified time, usually in return for a periodic payment.

- **Licenses and tax deposit**

- **Marketing budget**

- **payroll**a list of a company's employees and the amount of money they are to be paid.

- **insurance**

- **Location**

Learning Outcome 1.2: Determine cost of investment business in terms of assets costs

TYPES OF COSTS

Below are some of the types of costs used in cost accounting:

Direct Costs

Direct costs are related to producing a good or service. A direct cost includes materials, labor, expense, or distribution cost associated with producing a product. It can be easily traced to a product, department or project. For example, Ford Motor Company (F) manufactures cars and trucks. A plant worker spends eight hours building a car. The direct costs associated with the car are the wages paid to the worker and the parts used to build the car.

Indirect Costs

Indirect costs, on the other hand, are expenses unrelated to producing a good or service. An indirect cost cannot be easily traced to a product, department, activity or project. For example, with Ford Motor Company (F), the direct costs associated with each vehicle include tires and steel. However, the electricity used to power the plant is considered an indirect cost because the electricity is used for all the products made in the plant. No one product can be traced back to the electric bill. For more on direct and indirect costs, read How are direct costs allocated differently from indirect costs?

Fixed Costs

Fixed costs do not vary with the number of goods or services a company produces. For example, suppose a company leases a machine for production for two years. The company has to pay

$2,000 per month to cover the cost of the lease. The lease payment is considered a fixed cost as it remains unchanged.

Variable Costs

Variable costs fluctuate as the level of production output changes, contrary to a fixed cost. This type of cost varies depending on the number of products a company produces. A variable cost increases as the production volume increases, and it falls as the production volume decreases. For example, a toy manufacturer must package its toys before shipping products out to stores. This is considered a type of variable cost because, as the manufacturer produces more toys, its packaging costs increase. However, if the toy manufacturer's production level is decreasing, the variable cost associated with the packaging decreases. For more on how fixed and variable costs affect the profit of a company, please read How do fixed costs and variable costs affect gross profit?

Operating Costs

Operating costs are expenses associated with day-to-day business activities, but are not traced back to one product. Operating costs can be variable or fixed. Examples of operating costs or more commonly called operating expenses include rent and utilities for a manufacturing plant. Operating costs are day-to-day expenses, but are not classified as costs of producing the pr-oducts. Investors can calculate a company's operating expense ratio, which shows how efficient a company is in using their costs to generate sales.

Opportunity Cost

Opportunity cost is the benefit given up when one decision is made over another. In other words, an opportunity cost represents an alternative given up when a decision is made. This cost is, therefore, most relevant for two mutually exclusive events. In investing, it's the difference in return between a chosen investment and one that is passed up. For companies, opportunity costs do not show up in the financial statements but are useful in planning by management. For example, if a company decides to buy a new piece of manufacturing equipment rather than lease it. The opportunity cost would be the difference between the cost of the cash outlay for the equipment and the improved productivity versus how much money could have been saved had the money been used to pay down debt.

Sunk Costs

Sunk costs are historical costs that have already been incurred and will not make any difference in the current decisions by management. Sunk costs are those costs that a company has committed to and are unavoidable or unrecoverable costs. Sunk costs (past costs) are excluded from future business decisions because the costs will be the same regardless of the outcome of a decision.

Controllable Costs

Controllable costs are expenses managers has control over and have the power to increase or decrease. For example, deciding on how supplies are ordered or the payroll for a manufacturing company would be controllable, but not necessarily avoidable.

TYPES OF INVESTMENT COSTS OF BUSINESS

Investment: is the action or process of investing money for profit.

The word "investment" has become muddled with overuse. Referring to a stock or a bond as an investment is still in regular use, but now people make "investments" in their education, their cars and even their flat screen TVs.

In this article, we will look at the three basic types of investment as well as some of the things that are definitely not investments – no matter what the commercial says.

Investment, as the dictionary defines it, is something that is purchased with money that is expected to produce income or profit. Investments can be broken into three basic groups: ownership, lending and cash equivalents.

1. **Ownership Investments**

Ownership investments are what comes to mind for most people when the word "investment" is batted around. They are the most volatile and profitable class of investment. The following are examples of ownership investments:

Stocks: A stock is literally a certificate that says you own a portion of a company. More broadly speaking, all traded securities, from futures to currency swaps, are ownership investments, even though all you may own is a contract. When you buy one of these investments, you have a right to a portion of a company's value or a right to carry out a certain action (as in a futures contract).

Your expectation of profit is realized (or not) by how the market values the asset you own the rights to. If you own shares in Apple (AAPL

) and the company posts a record profit, other investors are going to want Apple shares too. Their demand for shares drives up the price, increasing your profit if you choose to sell the shares.

Business: The money put into starting and running a business is an investment. Entrepreneurship is one of the hardest investments to make because it requires more than just money. Consequently, it is also an ownership investment with extremely large potential returns. By creating a product or service and selling it to people who want it, entrepreneurs can make huge personal fortunes. Bill Gates, founder of Microsoft and one of the world's richest men, is a prime example.

Real Estate: are property consisting of land or building. Houses, apartments or other dwellings that you buy to rent out or repair and resell are investments. However, the house you live in is a different matter because it is filling a basic need. It fills a need for shelter and, although it may appreciate over time, shouldn't be purchased with an expectation of profit. The mortgage meltdown of 2008 and the underwater mortgages it produced are a good illustration of the dangers in considering your primary residence an investment.

Precious objects and collectibles: Precious objects are items that are generally small in size but highly valuable in monetary terms. The two most widely held precious metals that appeal to almost all kinds of investors are gold and silver. Historically, they have been good hedges against inflation. A **collectible** is an item that is worth far more than it was originally sold for because of its rarity and/or popular demand. Common categories of **collectibles** include antiques, toys, coins, comic books and stamps. Gold, Da Vinci paintings and a signed LeBron James jersey can all be considered an ownership investment - provided that these are objects that are bought with the intention of reselling them for a profit. Precious metals and collectibles are not necessarily a good investment for a number of reasons, but they can be classified as an investment nonetheless. Like a house, they have a risk of physical depreciation (damage) and require upkeep and storage costs that cut into eventual profits.

worth is the amount of money that something can be sold **for**:

2. Lending Investments

Lending investments allow you to be the bank. They tend to be lower risk than ownership investments and return less as a result. A bond issued by a company will pay a set amount over a certain period, while during the same period the stock of a company can double or triple in value, paying far more than a bond - or it can lose heavily and go bankrupt, in which case bondholders usually still get their money and the stockholder often gets nothing.

Your savings account: Even if you have nothing but a regular savings account, you can call yourself an investor. You are essentially lending money to the bank, which it will dole out in the form of loans. The return is currently quite low, but the risk is also next to nil because of the Federal Deposit Insurance Corporation (FDIC).

Bonds: A written and signed promise to pay a certain sum of money on a certain date, or on fulfillment of a specified condition. All documented contracts and loan agreements are bonds.

3. Cash Equivalents

These are investments that are "as good as cash," which means they're easy to convert back into cash.

Money market is the trade in short-term loans between banks and other financial institutions.

Money market funds: With money market funds, the return is very small, 1% to 2%, and the risks are also small. Although money market funds have "broken the buck" in recent memory, it is rare enough to be considered a black swan event. Money market funds are also more liquid than other investments, meaning you can write checks out of money market accounts just as you would with a checking account. (For more on black swan events, see *Black Swan Events and Investing*.)

What About Investing in Your Education?

Education: Your education is often called an investment and many times, it does help you earn a higher income. A case could be made for you "selling" your education like a small business service in return for income like an ownership investment.

The reason it's not technically an investment is a practical one. For the sake of clarity, we need to avoid the absurdity of having everything be classified as an investment. We'd be "investing" every time we bought an item that could potentially make us more productive, such as investing in a stress ball to squeeze or a cup of coffee to wake you up. It is the attempt to stretch the meaning of investment to purchases, rather than education, which has obscured the meaning.

These Items Are Not Investments

Consumer purchases: Beds, cars, mobile phones, TVs – and anything that naturally depreciates with use and time – are not investments. As an example, you don't invest in a good night's sleep by buying a foam pillow. Unless you're very famous, and even then, it's a stretch, since you can't reasonably expect someone to pay more for your pillow than the initial purchase cost. Don't take it personally, but there's very little demand in the second-hand pillow market.

The Bottom Line

There are three types of investments: ownership, lending and cash equivalents.

There is no fourth category of consumer purchases. Admittedly, it's a clever piece of advertising that removes some of the guilt from impulse purchasing; you're not spending money frivolously

– you're investing! The decisive test is whether there is a potential to turn a profit. The important word is "potential" because not every legitimate investment makes money.

Making money through investing requires researching and evaluating different investments, not simply knowing what is and is not an investment. That said, being able to see the difference between an investment and a purchase is an essential first step.

Asset costs classification

- **Embedded mechanical electrical** : An **embedded** system is a computer system with a dedicated function within a larger **mechanical** or **electrical** system, often with real-time computing constraints. It is **embedded** as part of a complete device often including hardware and **mechanical** parts. **Embedded** systems control many devices in common use today.
- **Building**

Learning Outcome 1.3: Determine cost of investment business in terms of working capital costs

Working capitalis money available to a company for day-to-day operations.

Example of working capital

Liabilities	₹	*Assets*	₹
Capital	1,00,000	Plant & Machinery	75,000
Profit	20,000	Land & Building	50,000
Long-term Borrowings	60,000	Furniture	25,000
Sundry Creditors	21,500	Stock	20,000
Bills payables	8,500	Sundry Debtors	25,000
		Bills Receivables	10,500
		Semi-Finished Goods	4,500
	2,10,000		**2,10,000**

The formula for working capital is:

Current Assets **-** Current Liabilities

TERMS AND CONDITIONS OF OPERATING COST

- **Certainty** the quality of being reliably true
- **Preventing legal**
- **Enforce customer service**
- **Good customer care**
- **Avoid mismatch expectation**
- **Mismatch is** a failure to correspond or match; a discrepancy.

LEARNING UNIT2 IDENTIFY SOURCE OF CAPITAL

Learning Outcome 2.1: List sources of funds in line with type of business

Funding is the act of providing financial resources, usually in the form of money, or other values such as effort or time, to finance a need, program, and project, usually by an organization or company. ... **Sources of funding** include credit, venture capital, donations, grants, savings, subsidies, and taxes.

IDENTIFICATION OF SOURCES OF FUNDS

- Contracts
- Cooperative agreements
- Grants

CRITERIA USED IN LISTING SOURCES OF FUNDS

- Smart leases : lease is a contract by which one party conveys land, property, services, etc. to another for a specified time, usually in return for a periodic payment.
- Bank loans
- Local and state economic developing organizations
- Customers
- Vendors
- is not in criteria used in listing sources of funds
- Small business innovations
- Tax increment financing
- Internal revenue

Learning Outcome 2.2: Selection of favorable sources of funds according to the business types

Seven Types of Funding Sources for your Startup

TYPES OF SOURCE OF FUNDS

- Personal Savings:
- Family and Friends:
- Crowdfunding: .
- Angel Investors: .An **angel investor** (also known as a business **angel**, informal **investor**, **angel** funder, private **investor**, or seed **investor**) is an affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity..
- Venture Capital: .**Venture capital** is financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential. Venture..
- Bank Loans: .
- Small Business Administration (SBA) Loans

SOURCES BUSINESS FUNDS

- **Bootstrapping**Bootstrap is a situation in which an entrepreneur starts a company with little capital. An individual is said to be bootstrapping when he or she attempts to found and build a company from personal finances or from the operating revenues of the new company.
- **Friends and family**
- **Loans and line of credit**
- **Incubators isan organization that helps people to start new companies, especially ones involved with advanced technology:**
- **Venture capital:** Venture capital is financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential. Venture capital generally comes from well-off investors, investment banks and any other financial institutions. However, it does not always take just a monetary form; it can be provided in the form of technical or managerial expertise.

 Bartering A **barter** (or bartering) is an exchange between two parties using goods and services for payment instead of currency.

 Forms of partnershipan association of two or more people as partners

 Commit to major customer

TYPES OF BUSINESS

- **Buy a franchise :**An authorization granted by a government or company to an individual or group enabling them to carry out specified commercial activities, for example acting as an agent for a company's products.
- **Distributorship or dealership Distributorships** and **Dealerships**. Distributors and dealers are participants in a supply channel, the **distributor** usually a wholesaler who sells to dealers and dealers usually retailers who sell directly to the public. ... Relationships among manufacturers, distributors, and dealers are typically contractual in nature.
- **Network marketing**

Learning Outcome 2.3: Decision on funds according to recommendable source of funds

STEPS OF DECISION MAKING

Decision making is the **process** of **making** choices by identifying a **decision**, gathering information, and assessing alternative resolutions. Using a **step**-by-**step decision-making process** can help you make more deliberate, thoughtful **decisions** by organizing relevant information and defining alternatives.

Steps of the Decision Making Process

The following are the seven key steps of the decision making process.

- **Identify the decision.** The first step in making the right decision is recognizing the problem or opportunity and deciding to address it. Determine why this decision will make a difference to your customers or fellow employees.
- **Gather information.** Next, it's time to gather information so that you can make a decision based on facts and data. This requires making a value judgment, determining what information is relevant to the decision at hand, along with how you can get it. Ask yourself what you need to know in order to make the right decision, then actively seek out anyone who needs to be involved.

  Identify alternatives. Once you have a clear understanding of the issue, it's time to identify the various solutions at your disposal. It's likely that you have many different options when it comes to making your decision, so it is important to come up with a range of options. This helps you determine which course of action is the best way to achieve your objective.
- **Weigh the evidence.** In this step, you'll need to "**<u>evaluate for feasibility, acceptability and desirability</u>**" to know which alternative is best, according to management experts Phil Higson and Anthony Sturgis's. Managers need to be able to weigh pros and cons, then select the option that has the highest chances of success. It may be helpful to seek out a trusted second opinion to gain a new perspective on the issue at hand.

- **Choose among alternatives.** When it's time to make your decision, be sure that you understand the risks involved with your chosen route. You may also choose a combination of alternatives now that you fully grasp all relevant information and potential risks.
- **Take action.** Next, you'll need to create a plan for implementation. This involves identifying what resources are required and gaining support from employees and stakeholders. Getting others onboard with your decision is a key component of executing your plan effectively, so be prepared to address any questions or concerns that may arise.
- **Review your decision.** An often-overlooked but important step in the decision making process is evaluating your decision for effectiveness. Ask yourself what you did well and what can be improved next time.

Different sources of funds (Financing decisions)

- Using the company's own money
- Borrowing funds from outside

RISKS INVOLVED IN RAISING FUNDS

- **Fundraising or fund raising (also known as "development"**) is the process of gathering voluntary contributions of money or other resources, by requesting donations from individuals, businesses, charitable foundations, or governmental agencies (see also crowdfunding).
- **Cost of raising funds :Cost** of **Capital Definition**. A company's **cost** of **capital** is the company's **cost** of**funding**. ... **Cost** of debt refers to the company's **cost of raising funds** through debt **financing**. **Cost** of equity refers to the company's **cost of raising funds**through equity offerings.
- **Level of control**
- **Floatation cost :Flotation costs** are incurred by a publicly traded company when it issues new securities, and includes **expenses** such as underwriting **fees**, legal **fees** and registration **fees**.

Underwrite meaning

Is sign and accept liability under (an insurance policy), thus guaranteeing payment in case loss or damage occurs.

GOOD ACKNOWLEDGEMENT OF CONDITIONS FOR FINANCING BEFORE ACCESS THEM

Acknowledgement: acceptance of the truth or existence of something.

-Preparation of the enterprise operations foe financing

Foe : an enemy or opponent

- Access to funding sources

LEARNING UNIT3 MOBILISE AND ALLOCATE RESOURCES

Learning Outcome 3.1: Link resources according to planned activities

CRITERIA USED IN LINKING RESOURCES

- Building sustainable collection of free third party
- Checklist for evaluation
- Criteria for evaluating internet sources
- Critical evaluation of resources on internet
- -Evaluation of information found on internet

Learning Outcome 3.2: Follow up of allocation of resources according to organization policy

TYPES OF RESOURCES ALLOCATION

- **-**Allocation by merit

Merit good is a a commodity or service, such as education, that is regarded by society or government as deserving public finance.

- Allocation by social worth
- Allocation by need
- Allocation by equal or random assignment

CLASSIFICATION AND ALLOCATION OF RESOURCES

- commercial
- Non commercial

Learning Outcome 3.3: Use identified resources

The following are the four basic types of economics resources:

- **Land –** natural resources such as **iron ore**, **gold**, diamonds, **oil**, etc.
- **Labor – human resources** such as wage-earning workers.
  - **Capital**
  - **entrepreneurship**

INTRODUCTION OF RESOURCE EXECUTION

Execution: steps required to make an agreement or other document legally valid.

TERMS AND CONDITIONS TO IDENTIFY THE RESOURCES

- **Task title**
- **Resource** :a stock or supply of money, materials, staff, and other assets that can be drawn on by a person or organization in order to function effectively.
- **Effort**: is the mental energy used to solve a problem.

RESOURCE PLAN

Is detailed summary of all types of resources (equipment, finance, personnel, time, etc.) required to complete a specific task, such as product development?

- **Business case**
- **Terms of reference**is the scope and limitations of an activity or area of knowledge.

- **Project plan**A project plan is a formal document designed to guide the control and execution of a project. A project plan is the key to a successful project and is the most important document that needs to be created when starting any business project.
  scope is the opportunity or possibility to do or deal with something.