



# Micro Business

## المشروعات الصغيرة

Grade 12 | Business

نبنى  
اقتصادي  
المستقبل

• Semester 2

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قَسَمًا بِمَنْ رَفَعَ السَّمَاءَ	قَسَمًا بِمَنْ نَشَرَ الضِّيَاءَ
قَطَرٌ سَتَبَقَى حُرَّةً	تَسْمُو بِرُوحِ الْأَوْفِيَاءِ
سِيرُوا عَلَى نَهْجِ الْأَلَى	وَعَلَى ضِيَاءِ الْأَنْبِيَاءِ
قَطَرٌ بِقَلْبِي سِيرَةٌ	عِزٌّ وَأَمْجَادُ الْإِبَاءِ
قَطَرُ الرِّجَالِ الْأَوَّلِينَ	حُمَاتُنَا يَوْمَ النِّدَاءِ
وَحَمَائِمُ يَوْمِ السَّلَامِ	جَوَائِحُ يَوْمِ الْفِدَاءِ

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DOHA QATAR

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# Contents

<b>1</b>	<b>Entrepreneurs and Small Business.....</b>	<b>9</b>
<b>2</b>	<b>Ideas and Opportunities.....</b>	<b>45</b>
<b>3</b>	<b>Feasibility Analysis .....</b>	<b>73</b>
<b>4</b>	<b>Feasibility Study .....</b>	<b>81</b>
<b>5</b>	<b>Evaluate the acceptability of a project.....</b>	<b>90</b>

## About this Learner Resource

The purpose of this Learner Resource is to provide you with the underpinning knowledge required to assist you in completing assessment/s in Micro Business and feasibility studies.

This Learner Resource also contains activities for you to test your knowledge and examples of skills application.

Throughout this Learner Resource you will see icons that identify important information, provide opportunities to test your knowledge and practice skills as well as suggested times to begin a formal assessment. These icons are displayed as follows:



**Inform**

This icon is used to highlight important information, notes, research or training and assessment tips.



**Practice**

This icon is used to highlight an ideal time to test your knowledge or practise what you have learnt.

## How will I be assessed?

In order to achieve competency in Micro Business.

You will need to demonstrate the skills and knowledge required for the unit.

Your teacher will decide with you how and when you will be assessed.

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## About this unit:

Welcome to the Learner Resource for Micro Business. In this Learner Resource you will be learning about the performance outcomes, skills and knowledge required to developing business ideas and investigating market needs and factors affecting potential markets.

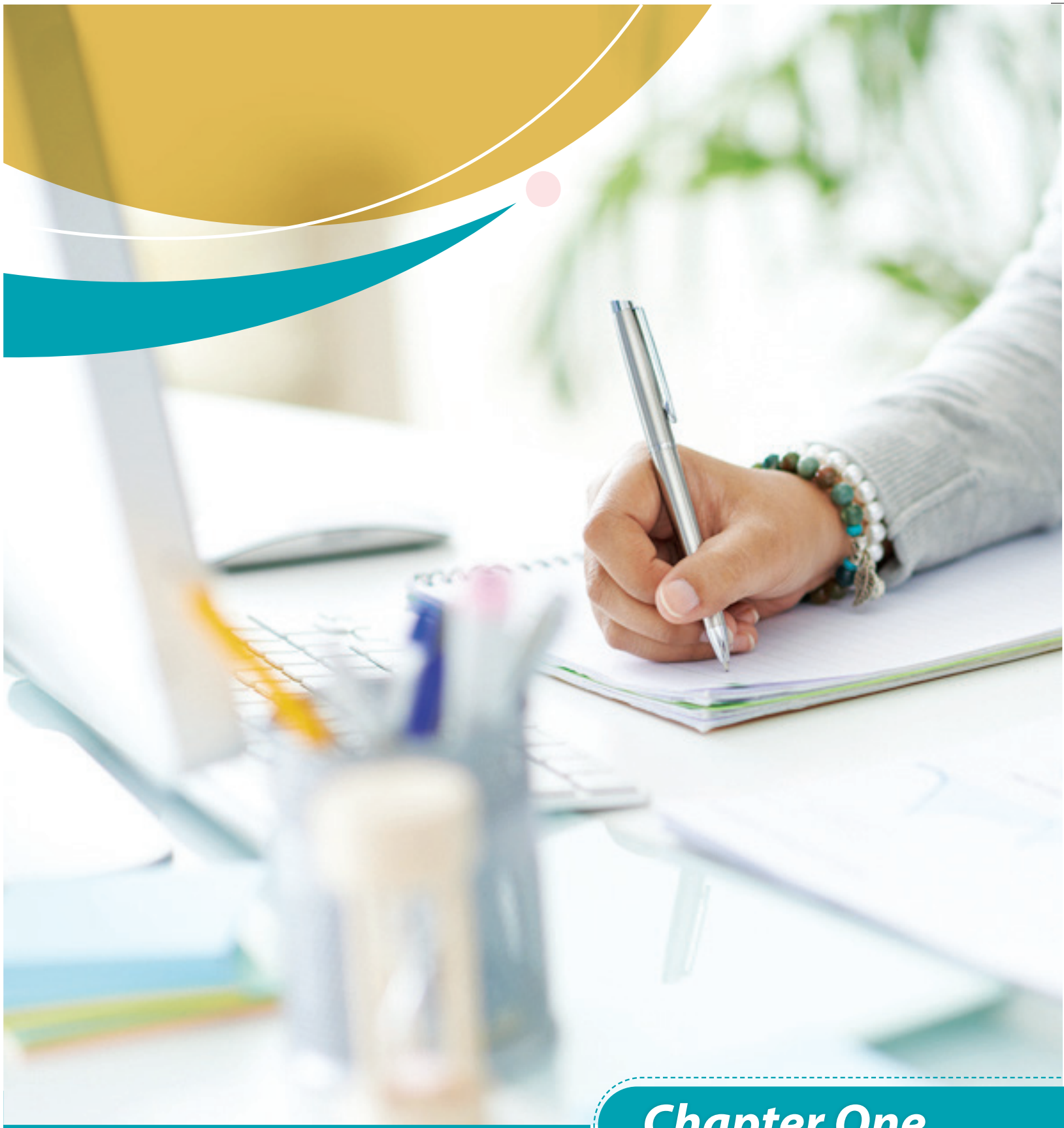
It is suggested that to meet all the requirements of micro business you will need to complete the following tasks:

- Read the information contained in this Learner Resource.
- Complete the activities.
- Complete all the required assessment/s for this unit.

### The topics in this Learner Resource are:

- Entrepreneurs and Small Business
- Ideas and Opportunities
- Financial Analysis
- Feasibility Study
- Methods of Performing Financial Analysis





## ***Chapter One***

# ***Entrepreneurs and Small Business***



## Introduction

You are about to commence a vocational course where you will be required to demonstrate your competency in developing business ideas and investigating market needs and factors affecting potential markets.

Small businesses are normally privately-owned corporations, partnerships or sole owners.

A Micro Business operates across all industry sectors e.g. corner stores, hairdressing, accountancy and legal, mechanical, electrical, plumbing etc

***Can you think of other reasons why people would start up their own business?***





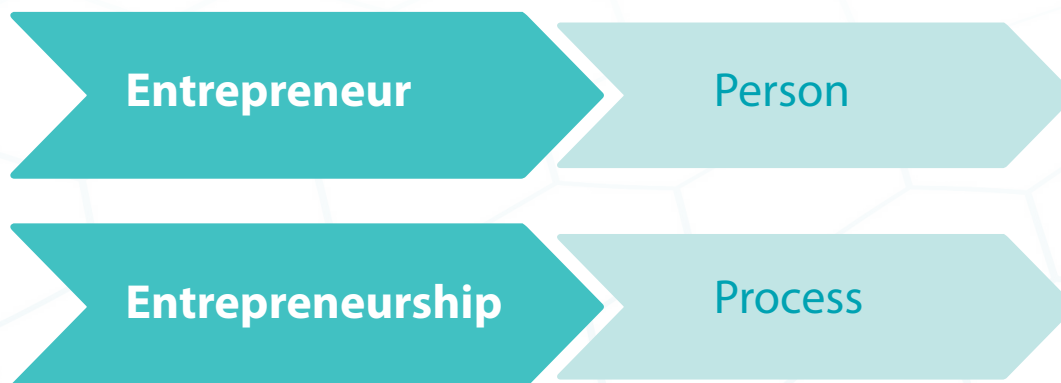
## Who is an entrepreneur?

**An Entrepreneur** is the person who organizes, manages and operates business with different goals and takes financial risks.

- An entrepreneur is “Moderate Risk Taker”.

## What is Entrepreneurship?

- **Entrepreneurship** is the process of turning an idea into Business.



## Reasons to become an entrepreneur.

- Desire to be his or her own boss (This is reason number 1 to become an entrepreneur).
- Desire to do their own ideas.
- Desire for more flexibility in work.
- Find a solution to a market need.
- Desire to make a lot of money (Financial rewards).







## Practice

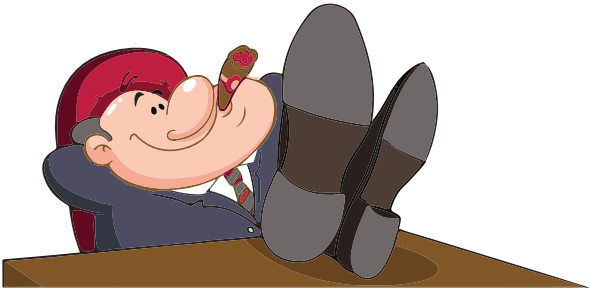



### Practice activity 1

#### 1 Compare between Entrepreneur and Entrepreneurship

Entrepreneur	Entrepreneurship



**2** Using the following pictures list the reasons to become an entrepreneur

Images	Reasons
	
	
	
	
<p>"People want flexibility in their work just like they have in their personal lives."</p>	



## Practice

### Practice activity 2

Choose the **BEST** answer for each of the following.

**1** *Entrepreneurs are only motivated by:*

- A** *Financial rewards.*
- B** *Pursue their own ideas.*
- C** *Be their own boss.*
- D** *All of the above*

**2** *Entrepreneurs are usually*

- A** *High-risk takers.*
- B** *Moderate risk takers.*
- C** *Low risk takers.*
- D** *None of the above.*

**3** *An Entrepreneur should be*

- A** *Creative.*
- B** *Energetic.*
- C** *Moderate risk taker.*
- D** *All of the above.*

**4 An entrepreneur is a person who:**

- A** Organizes business
- B** Manages business.
- C** Operates business with different goals and takes financial risks.
- D** All Of the above.

**Common Myths About Entrepreneurs**

## Myths about Entrepreneurship

- ✦ Myth 1. Entrepreneurs are born, not made
- ✦ Myth 2. Entrepreneurs are gamblers
- ✦ Myth 3. Entrepreneurs are motivated primarily by money
- ✦ Myth 4. Entrepreneurs should be young & energetic
- ✦ Myth 5. Entrepreneurs love the spotlight



### **Myth 1: Entrepreneur born and not made**

*No one is “born” to be an entrepreneur; everyone has the potential to become one.*

### **Myth 2: Entrepreneur are Gamblers (takes high risk)**

*The truth is that an entrepreneur is a moderate risk taker.*

### **Myth 3: Entrepreneurs are motivated primarily by money**

*Money isn't reason number 1 for entrepreneurs to start a new business.*

### **Myth 4: Entrepreneurs should be young and energetic.**

*Even, aged people can also start business ventures. But it is important to be energetic.*

### **Myth 5: Entrepreneurs love spotlight**

*Most entrepreneurs are primarily motivated by passion for the business and not fame and money.*

## **Characteristics of Successful Entrepreneurs**

- A** Passion for business. (The most important characteristics) (love what they do)
- B** Moderate risk taker. Calculated risk
- C** Creative.
- D** Energetic.
- E** Have vision.
- F** Alert to opportunities.

## **Micro Business: (Small Business) Introduction:**

The definition of small businesses varies from country to country.

In the United States, any business with less than 100 employees is considered a small business.

In Europe the figure is 50 employees.

In Australia, a business with less than 15 employees is considered a small business.

In Qatar, a business where the number of labor force does not exceed two hundred and fifty (250) employees.

## **Definition of Micro business:**

It's a business privately owned and operated by with small number of employees, and starts up with a limited capital and relatively low volume of sales.



## Practice

### Practice activity 3

In five minutes, work individually and list characteristics (Properties) of a Micro Business.

### Legal forms for Micro Business :

- 1.** Sole traders: only one owner who is considered the owner and the manager of the company. It is the simplest form of business.
- 2.** Partnership: It has more than one owner (2 or more).
- 3.** Limited Partnership: It is a type of partnership where there are two types of partners at least one of them is general and the others are limited partner.

*Watch the following video then write the advantages and disadvantages of the following legal form of partnerships.*

- <https://www.youtube.com/watch?v=BAQ6H6ZmoB0>



## Practice

### Practice activity 4

*Read the following scenarios and determine the appropriate type of business ownership*

Yousef has been selling second-hand four wheel drive vehicles for several years. He wants to take on an exclusive dealership for a new imported brand of 4WD. However, he does not have sufficient capital to purchase the cars to have in his showroom. He has a friend who is prepared to go into business with him and share the costs. However, his friend does not want to risk his own personal assets.

**Type of business**

**Justify your answer**

.....  
.....

Faisal has been working in an upholstery business for several years and has learnt a great deal about the manufacture of household furniture. His brother, Khalid has been working as a customer service manager in a home furniture outlet for many years also. They decide to establish their own furniture manufacturing business.

**Type of business**

**Justify your answer**

.....  
.....

Yassin has been driving taxis for several years and he now has sufficient capital to purchase his own vehicle and licence.

**Type of business**

**Justify your answer**

.....  
.....



## Importance of Micro Business to country's economy

1. It creates jobs opportunities.
2. It contributes to economic growth.
3. It brings innovation to the community.
4. It raises people's income and their standard of living.



### Practice

#### Practice activity 5

Micro businesses have played an increasingly important role in economic development.

List four reasons why Micro Business is important to countries' economy.

.....

.....






## Practice

## Practice activity 6

- 1.** Use A3 papers with your group search on internet and list legal forms for microbusiness.
- 2.** Using the following pictures list the Importance of Micro Business to country's economy.

<p><b>Images</b></p>	<p><b>Importance of Micro Business to country's economy</b></p>
	
	

Images	Importance of Micro Business to country's economy
	
	



## Brainstorming:

In 2 minutes, work with your group members and think of advantages and disadvantages of having your own business.

A large, empty rectangular box with a thin grey border, intended for brainstorming notes.

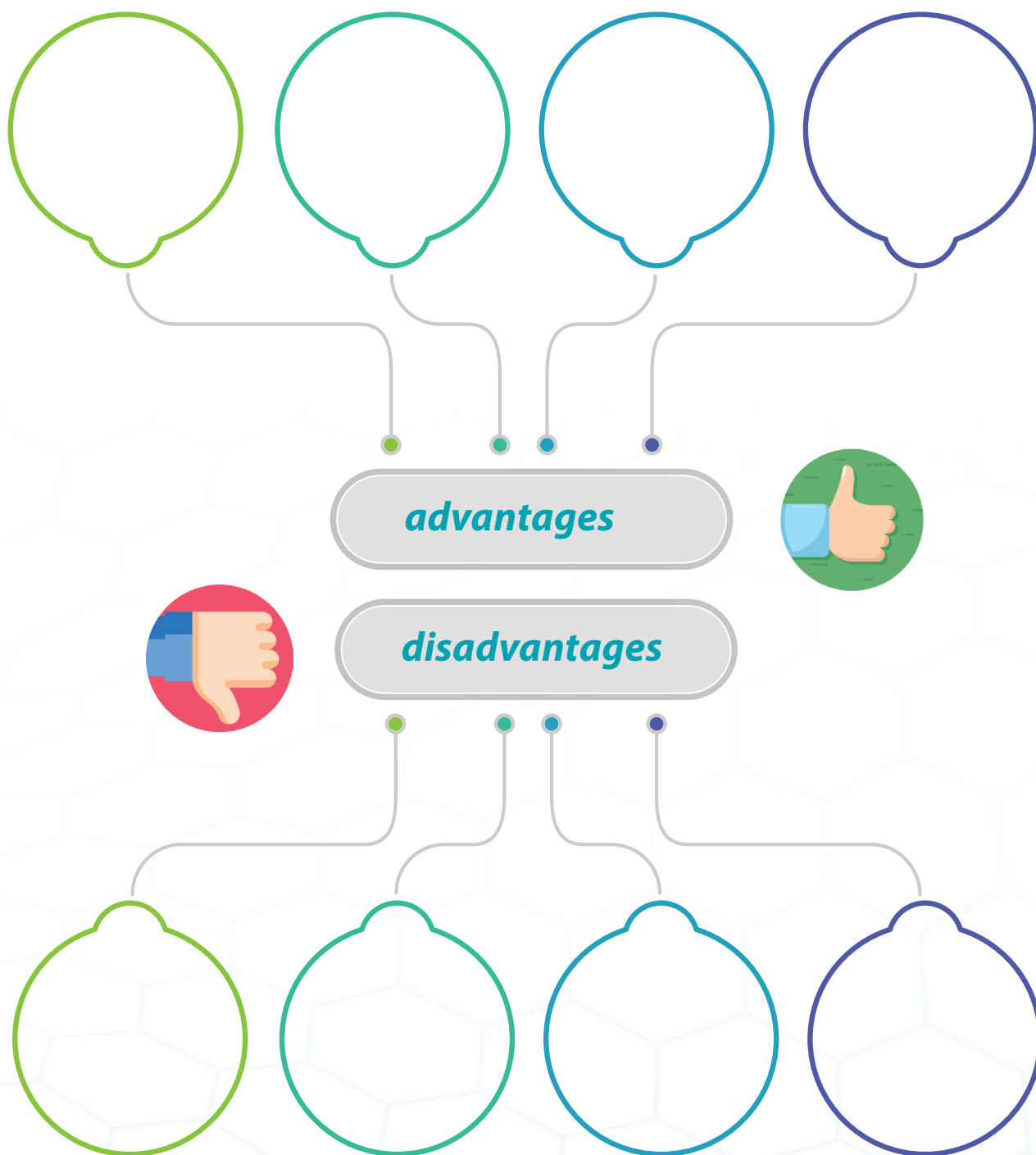
## ***Advantages of Micro Business Ownership***

- 1. Independence:** You are your own boss.
- 2. Lifestyle:** You decide when and where you want to work. In addition, you can run business from your home.
- 3. Financial rewards:** Running your own business gives you a chance to make more money than if you are employed by someone else.
- 4. Learning opportunities:** As a business owner, you will be involved in all parts of your business.

## ***Disadvantages of Micro Business Ownership***

- 1. Financial risk:** The money needed to start business can be huge, and no guaranteed income so entrepreneur may face big financial loss.
- 2. Stress:** You will have many things to worry about as competition, employees, bills and customers' problems.
- 3. Time commitment:** Running a business is extremely time-consuming. In fact, you will have less free time than you would have working for someone else.
- 4. Undesirable duties:** You will probably have to perform some unpleasant tasks, like firing people.







## Practice

### Practice activity 7 *Case study*

*Because you are convinced that the best way to get rich is to work for yourself, you are thinking about starting your own business. You have an idea and 100,000\$ that you just inherited from a great-aunt. You even have a location: Palo Alto, California, which (according to a Forbes magazine article) is the best place in the United States to get rich. However, **There's a Problem***

*You must move to California and start your own business; you'll have to drop out of college.*

#### **Required**

- 1. list the advantage and disadvantages of going into that business.*
- 2. Are you willing to take the financial risk needed to start a business? Why, or why not?*

#### **Answers:**

**1**

Advantages of Micro Business ownership	Disadvantages of Micro Business ownership

2



.....



.....



## Practice

### Practice activity 8

**1** *All of the following are considered disadvantages of entrepreneurship except*

- A** Time commitment
- B** Independence.
- C** Stress
- D** Undesirable duties.

**2** *All of the following are considered advantages of entrepreneurship except*

- A** Financial reward.
- B** Independence.
- C** Stress.
- D** Learning opportunities.

**3 The following reasons show the importance of Micro Business to the country's economy except**

- A** Creates jobs opportunities.
- B** It contributes in economic growth.
- C** It brings innovation to the community.
- D** Decrease people's income and their standard of living.

**Steps for entrepreneurial process (DDMM)?**





## Practice

### Practice activity 9

Put the following steps of entrepreneurial firms in the correct order:

Developing successful  
business ideas

Managing and growing  
the entrepreneurial firm

Deciding to become an  
entrepreneur

Moving from an idea to  
an entrepreneurial firm



### ***Examples of Micro Business:***

<https://www.youtube.com/watch?v=G0dzLanYW1E>

Watch the video and list at least six examples of Micro Business



## Examples of Micro Business:



The Beauty Salon





### ***Why does a business start to fail?***

<https://www.youtube.com/watch?v=0WhKcDle3Ps>

*Watch the video and list the reasons causing failure of small business.*

## ***Reasons causing the failure of a small business***

Watch the following video and identify the reasons causing the failure of a Micro Business.

<https://www.youtube.com/watch?v=0WhKcDle3Ps>


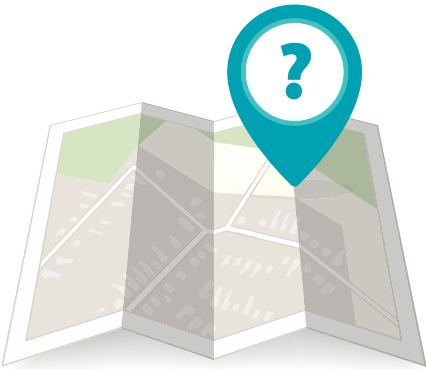

- 1.** *Poor management.*
- 2.** *Lack of experience.*
- 3.** *Poor location.*
- 4.** *Insufficient capital.*
- 5.** *Starting for the wrong reason.*
- 6.** *Over expansion.*



## Practice

### Practice activity 10

Using the following pictures list the reasons for becoming an entrepreneur

Images	Reasons
	
	
	



## Practice

### Practice activity 11

Qatar Business Incubation Center's is one of the opportunity available in Qatar for entrepreneurs. Identify four other sources that are available to you in Qatar to assist you to research and develop your potential business opportunity.

#### **Answers:**

1

2

3

4





## Practice

### Practice activity 12

What are the differences between a product and a service?

Points of Comparison	Product	Service
Definition		
Tangibility		
Storage		
Ownership		
Returns		
Examples		



## Practice

### Practice activity **13**

**Now ask yourself:** 'If there were three to five products or services that would make my life better, easier, more interesting etc., what would they be?'

**Write down your ideas below.**

**Ideas of products or services that would make my life easier.**

#### ***Possible Answers:***

.....

.....

.....

.....

.....

.....

.....

.....



## Practice

### Practice activity 14

Complete the following Mind map:

Micro Business characteristics: -

Micro Business Examples: -

What is the a Micro Business?

List some reasons which can encourage you to go into a Micro Business

Importance of Micro business to country's economy

List reasons for business failure

Legal forms of a Micro Business



## ***Chapter One***

### ***General Activities***



## Practice

### Practice activity 15

**Choose the BEST answer for each of the following.**

**1** *The three primary reasons that people become entrepreneurs and start their own business are to:*

- A** *Gain prestige, realize financial reward, and eliminate risk in their lives.*
- B** *Do what they were “born” to do, be their own boss, and gain prestige.*
- C** *Take big risks, be their own boss, and do what they were “born” to do.*
- D** *Be their own boss, pursue their own ideas, and realize financial rewards.*

**2** *The number one reason that people become entrepreneurs is to*

- A** *Realize financial reward.*
- B** *Gain prestige.*
- C** *Do what they were “born” to do.*
- D** *Be their own boss.*

**3** ----- **is the person, who organizes, manages and operates multiple businesses, while ----- is the process of turning an idea into a Business.**

**A** Entrepreneurship, Entrepreneur.

**B** Entrepreneur, Entrepreneurship.

**C** Manager, Entrepreneur.

**D** Manager, Internship.

**4** **Compared to working as an employee, an entrepreneur who starts a small business is likely to spend**

**A** Significantly less time working because he is his own boss.

**B** About the same amount of time working but he enjoys his work more.

**C** Significantly, more time working because so much depends on him.

**D** He will hire an employee and won't need to spend any time in work.

**5** **Mohamed likes the idea of being a business owner and now he is considering starting a new business, but he is afraid to face the following problems**

**A** Time commitment, Independence, Stress

**B** Financial rewards, Stress, learning opportunities.

**C** Financial risks, stress, undesirable duties

**D** Learning opportunities, Stress, Time commitment.



**6 Ahmad is considering starting a new business for the following advantages**

- A** Time commitment, Independence, Stress
- B** Financial rewards, Independence, learning opportunities.
- C** Financial risks, stress, undesirable duties
- D** Learning opportunities, Stress, Time commitment.

**7 Steps for entrepreneurial process**

- A** Deciding to become an entrepreneur, developing successful business ideas, moving from an idea to business, and managing and growing the business.
- B** Developing successful business ideas, deciding to become an entrepreneur, moving from an idea to business, and managing and growing the business.
- C** Deciding to become an entrepreneur, moving from an idea to business, developing successful business ideas, and managing and growing the business.
- D** Deciding to become an entrepreneur, developing successful business ideas, managing and growing the business and moving from an idea to business.

**8 Which of the following is not one of the four steps of the entrepreneurial process?**

- A** Deciding to become an entrepreneur.
- B** Determining how to seize the spotlight.
- C** Developing Successful business ideas.
- D** Moving from an idea to an entrepreneurial firm.

**9 From the reasons causing the failure of a Micro Business**

- A** *Poor management, lack of experience, poor location and enough capital.*
- B** *Poor management, lack of experience, good location and insufficient capital.*
- C** *Qualified management, lack of experience, poor location, insufficient capital.*
- D** *Poor management, lack of experience, poor location, insufficient capital.*

**10 Characteristics of a Micro Business**

- A** *Limited capital, limited number of employees and low volume of Sales.*
- B** *Large capital, limited number of employees and low volume of Sales.*
- C** *Limited capital, large number of employees and low volume of Sales.*
- D** *Limited capital, limited number of employees and great volume of Sales.*

**11 Micro Business is important to country's economy because it**

- A** *Creates jobs opportunities, contributes to economic growth, brings innovation, and raises standard of living.*
- B** *Creates jobs opportunities, doesn't contribute to economic growth, brings innovation, and raises standard of living.*
- C** *Creates jobs opportunities, stimulates economic growth, brings innovation, and has no effect on standard of living.*
- D** *Creates jobs opportunities, contributes to economic growth, doesn't bring innovation, and doesn't raise standard of living.*



## ***Chapter Two***

### ***Ideas and opportunities First: Opportunities***



## What is a business opportunity?



An opportunity is a set of circumstances that creates a need for a new product, service or business.

### Differentiate between Idea and opportunity:

#### Ideas

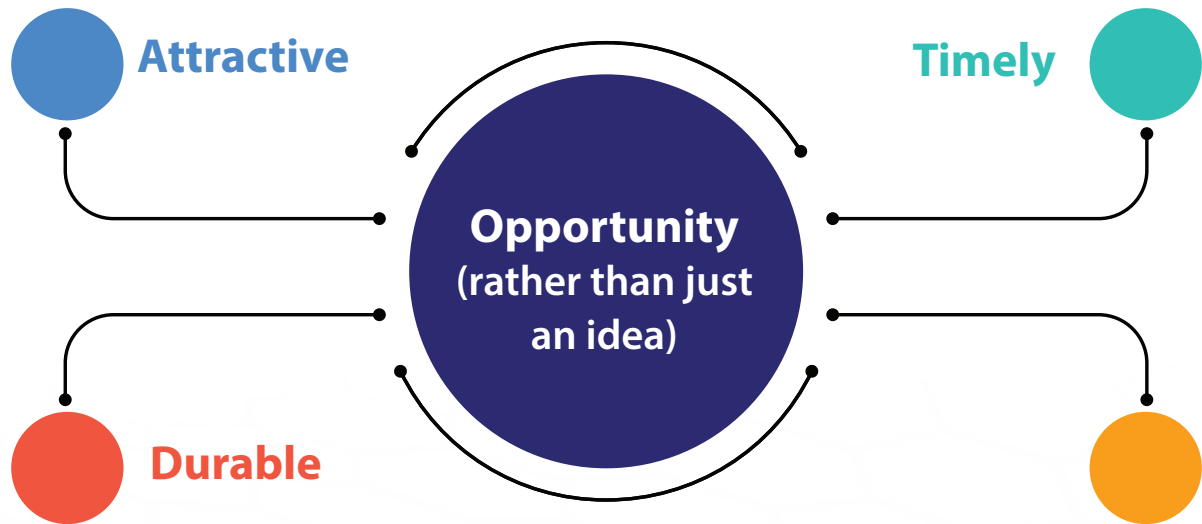
- An idea is a thought, an impression or a concept.
- It is something that you imagine or picture in your mind
- People get ideas all the times.

#### Opportunity

- An opportunity is a favorable set of circumstances that creates a need for a new product, service or business.
- It is good chance for advancement
- Opportunities are hard to spot.

- Ideas happen all the time.
- Opportunities are hard to spot.
- It's important that a particular idea meet an opportunity.

## What are the four essential qualities (properties) of an opportunity?



**Anchored in a product, service, or business that creates or adds value for its buyer or user**



## Practice

### Practice activity 16

#### 1 Compare between an opportunity and an idea

Opportunities	Ideas
.....	.....
.....	.....
.....	.....
.....	.....

#### 2 List characteristics (properties) of an opportunity

1. ....
2. ....
3. ....

### Ways to Identify an Opportunity

There are three ways to Identify an Opportunity

Observing  
Trends

Solving a  
Problem

Finding  
Gaps in the  
Marketplace



## First: Observing trends (PEST Analysis)



*Trends create opportunities for entrepreneurs to pursue.*

*What are the most important trends?*

- Political
- Economic
- Social
- Technological advances

*It's important to be aware of changes in these areas.*



## Practice

### Practice activity 17

*Mention the terminology for each letter of the PEST analysis*



#### **Answers:**

**P =** .....

**E =** .....

**S =** .....

**T =** .....

## 1 Political trend

### Political Action and Regulatory Changes



#### Specific Example

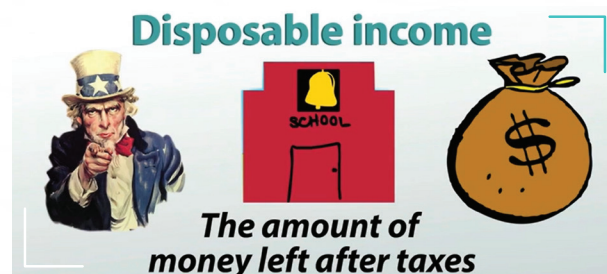
The No Child Left Behind Act of 2002 required to reassess students on certain grades especially in reading and math. Kim and Jay Kleeman, two high school teachers, started Shakespeare Squared, a company that helps high schools comply with the act.

## 2 Economic Trend



Consumer spending patterns

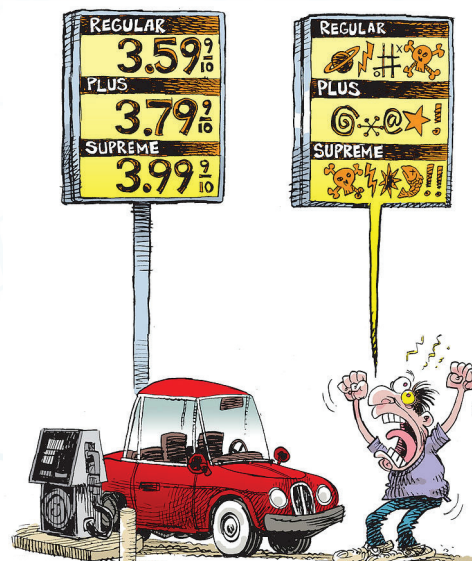
**Interest Rates**  
*On the Rise?*  
%



Level of disposable income

### Example of Economic Trend Creating a Favorable Opportunity

- A weak economy favors Business that helps consumers to save money.
- An example is GasBuddy.com, a company started to help consumers save money on gas.



### 3 Social trend



#### Examples of Social trends:

- Increasing number of social networks on the internet



#### Examples of Social trends:

Increasing interest in health, fitness, and wellness



Led to the appearance of



Yoga centers



Gym and sports centers



Healthy Food and Beverages restaurants



Nutrition consulting centers



## 4 Technological Trends:



### *Example*

- Netflix program for watching movies on the internet.

Once a technology is created, products are also created to cope with it.



### *Examples of Technological Advances*

- H2OAudio, a company that makes waterproof housings for the Apple iPod.

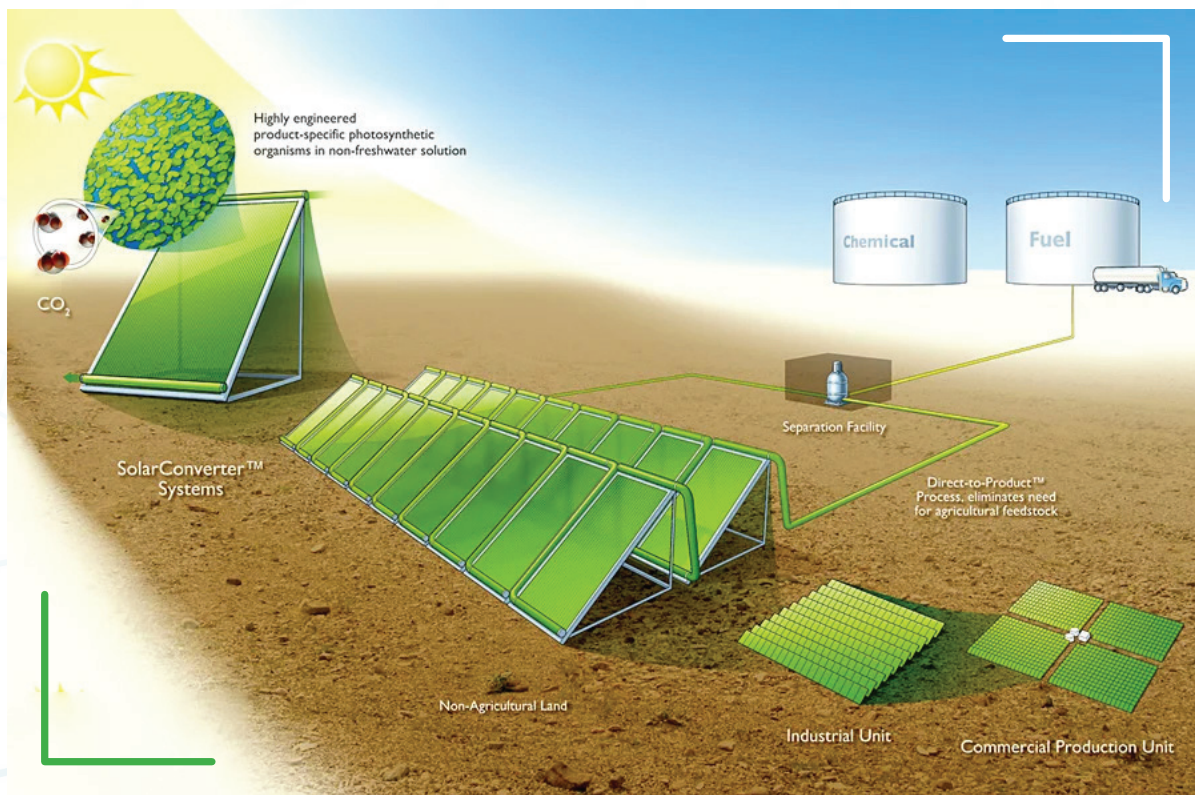


**h2o**audio

- Emphasis on alternative forms of energy.



- Encouraging clean forms of energy including wind, solar biofuels and others







## Practice

### Practice activity 18

*Match the examples in column A with the suitable trend in column B*

Examples (A)	Trend (B)
GasBuddy. com that helps a consumer to save money	a- Social Trend
Emphasis on alternative forms of energy.	b- Economic trend
H2O Audio, a company that makes waterproof housings for the Apple iPod	
Interest rates	
Increasing interest in health, fitness, and wellness	c- Political trend
Consumer spending pattern	
Increasing number of social networks on the internet	
Disposable income	d- Technological trend
The No Child Left Behind Act of 2002	
Netflix program for watching movies on the internet.	
Shakespeare Squared company	
Encouraging clean forms of energy including wind ,solar biofuels and others	



## Practice

### Practice activity 19

*Mention the name of the trend for each of the following examples:*

- Government policy
- Political stability
- Corruption
- Foreign trade policy
- Tax policy
- Labour law
- Trade restrictions

- Economic growth
- Exchange rates
- Interest rates
- Inflation rates
- Disposable income
- unemployment rates

- Population growth rate
- Age distribution
- Career attitudes
- Safety emphasis
- Health consciousness
- Lifestyle attitudes
- Cultural barriers

- Technology incentives
- Level of innovation
- Automation
- R&D activity
- Technological change
- Technological awareness

## ***Second: Solving a Problem***

Noticing a problem and finding a way to solve it.



### ***Example***

Safety web is a web- site that helps parents protect their children's online safety.

## ***Third: Finding Gaps in the Marketplace***

It is a product or service needed by a specific group of people but doesn't represent a large enough market.



### ***Example***

In 2000 Tish Cirollov realized there were no guitars on the market made specifically for women. So, she started a company that makes guitars just for women





## Practice

### Practice activity **20**

List examples for each of the following :

Examples of Political trends

Examples of Economic trends

Examples of Social trends

Examples of Technological trends

Solving a problem

Finding gap in the marketplace

## ***Techniques for generating ideas***

### **1 Brainstorming**

To generate a large number of ideas and solutions to problems quickly.



### **2 Focus group**



### **3 Library Research**



## 4 **Internet Research**

*What are the sources of business ideas and opportunities?*

- Business consultants and advisors
- Accountants
- Government departments and agencies
- Business brokers
- Banks and other financial institutions
- Local councils
- Industry or trade associations
- Market research reports and publications
- Internet
- Statistics authority
- Business mentors
- Business incubators
- Other successful business people.





## Practice

### Practice activity 21

**1** *Identify sources of information available to you in Qatar.*

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

**2** *List different techniques to generate an idea:*

1. ....
2. ....
3. ....
4. ....





## Practice

### Practice activity 22

Complete the following mind map

Ways to generate an idea

Ways to recognize opportunities

*What is an idea?*

*What is an opportunity?*

List five sources of business ideas and opportunities

List three properties of an opportunity



## ***Chapter Two***

### ***Activities***

**Choose the BEST answer for each of the following.**

**1 Opportunities are:**

- A** Easy to spot.
- B** Easy to spot in manufacturing sector but tough to spot in service sector.
- C** Tough to spot.
- D** Neither easy nor tough to spot.

**2 An opportunity has three essential qualities**

- A** Attractive, timely and durable.
- B** Practical, opportune and appropriate.
- C** Realistic, striking and timely.
- D** Attention- getting, attractive and durable

**3 Which of the following is correct regarding opportunities and ideas?**

- A** An opportunity and an idea is the same thing.
- B** An opportunity is a thought, an impression or a concept.
- C** It's important to recognize whether a particular idea meet an opportunity.
- D** An idea is a favorable set of conditions that creates a need for a new product, service or business.

**4** *Is the process of determining whether a business idea is viable.*

**A** *Opportunity recognition*

**B** *Feasibility study.*

**C** *Entrepreneur.*

**D** *Entrepreneurship*

**5** *An ----- is a favorable set of conditions that creates a need for a new product, service or business, while an ----- is a thought, an impression or a concept.*

**A** *scheme, notion.*

**B** *opportunity, idea.*

**C** *idea, opportunity.*

**D** *notion, scheme.*

**6** *The three ways to identify an opportunity include*

**A** *Observing trends, solving a problem, and finding gaps in the marketplace.*

**B** *Studying industry trade journals, talking to customers, solving a problem.*

**C** *Observing trends, conducting brainstorming sessions, and studying industry trade journals.*

**D** *Reading books, solving a problem, and finding gaps in the marketplace.*

**7** ***GasBuddy.com, and GasPriceWatch.com are companies started to help consumers save money on gas. Which trend helped in creating these companies***

- A** *Political changes.*
- B** *Economic forces.*
- C** *Technological advances.*
- D** *Social forces.*

**8** ***Which of the following reflects Economic force that would represent an opportunity?***

- A** *Level of disposable income, new uses of old technologies, and new laws.*
- B** *New technology, consumer spending patterns, and new laws.*
- C** *Interest rate, consumer spending patterns, and level of disposable income.*
- D** *Social trends, level of interest rates, and what people think.*

**9** ***Which of the following is not an example of a social force?***

- A** *Changes of interest rates.*
- B** *Emphasis on clean forms of energy including wind, solar, biofuels and others.*
- C** *Increasing diversity in workplace.*
- D** *Increasing number of people going back to school.*

**10** *An increased focus on health and wellness is important that it created an opportunity.*

- A** *Political changes.*
- B** *Economic forces.*
- C** *Technological advances.*
- D** *Social forces.*

**11** *The increasing number of social networks on the internet is important*

- A** *Political trend.*
- B** *Economic trend.*
- C** *Legal trend.*
- D** *Social trend.*

**12** *NetFlix.com allows people to watch television shows and movies on the Internet, this opportunity is created by*

- A** *Political trend.*
- B** *Economic trend.*
- C** *Technological trend.*
- D** *Social trend.*

**13** *Safety web is a web- based service that helps parents protect their children's privacy and safety which of the following is a method of identifying an opportunity*

- A** Solving a problem.
- B** Observing problem.
- C** Finding gaps in the marketplace.
- D** Studying government reports.

**14** *In 2000 Tish Cirovolv realized there were no guitars in the market made specifically for women. She recognized this idea by*

- A** Brainstorming.
- B** Observing trend.
- C** Solving problem.
- D** Finding gap in the market

**15** *Brainstorming is used to generate a number of ideas*

- A** Quickly.
- B** Slowly.
- C** Neither quickly nor slowly.
- D** Time isn't specified



## Case study 1

***Read the below case study about young entrepreneurs and answer the questions.***

Many years ago, there weren't many fast-food restaurants in the business area. Most were across town, where the neighborhoods were. Two young men found this lunch situation very frustrating. There weren't many affordable choices. Sure, there were some food courts located in the shopping centers, but the parking and the delays made life difficult.

One day, as they were lamenting their lunch problem, one of them said, 'Wouldn't it be great if we could get some good food delivered?' The light bulb went on! Then they did what many people don't do – they did something about their idea. They started Big-Sandwich a restaurant delivery business.

Today, their business has served more than 15 million people! It is neither a complicated business nor an original one. Their competition is tougher, and yet they are doing phenomenally well. And it all began because they listened to their own frustrations and decided to do something about them. Little did they know that research cites the shrinking lunch hour as one of the biggest complaints by workers. Some only get 30 minutes, making it nearly impossible to get out, get lunch and get back on time.



## Answer the following Questions

- A** *Big-Sandwich provides different and new service to the market. What is the service that Big-Sandwich provides ?*

**Service provided by Big - Sandwich**

.....

.....

- B** *Supply a definition of service*

.....

.....

- C** *From the case above what is the problem that Big-Sandwich's owners had?*

.....

.....

- D** *Which technique -of the three techniques of recognizing an opportunity- had created the previous opportunity?*

.....

.....

- E** *How did Big Sandwich's owner identify the problem?*

.....

.....

## Case study 2

***Read the below case study about young entrepreneurs and answer the following questions.***

This story is about an existing business that adapted to changing circumstances. Jonno's Car Wash is a business owned and operated by Jonathon Sciola. The business commenced operations in 2004. Initially the business was a traditional water-based mobile car wash.

Jonathon turned the focus of his business towards the corporate sector, visiting workplaces and washing numerous cars in one location, rather than one car at numerous locations. He had achieved his goals and had a comfortable income and large loyal customer base.

However, the extended drought in Victoria and severe water shortages looked like crippling his business. Jonno was confronted with the closure of his car wash business, but instead it gave this business the advantage over many competitors and has seen his waterless carwash business skyrocket! He participated in a Business Program for young entrepreneurs. The program involved five workshops and five mentoring sessions—the workshops cover the different ways a business can grow. Here Jonathon again received the inspiration which helped his business to grow.

'The mentors taught me to keep my eyes on environmental and economic factors that would affect my business,' said Jonathon. 'I identified that the water shortage and water restrictions were going to be a concern to my business and so found a waterless product to clean cars.'

'It has been so successful in helping my business to grow that I now supply waterless car wash chemicals to 35% of Melbourne's car dealers, including many Mercedes, BMW and Ford dealerships.'



## **Answer the following Questions**

**1** *In Jonno's Car Wash case the business provided a service at the beginning and then switched to provide a new product to adapt to changing in circumstances.*

**A** *What was the service at the beginning?*

.....

**B** *What was the new product supplied by Jonno's Car Wash?*

.....

**C** *From the case above what, was the problem that faced Jonno's Car Wash?*

.....

**D** *Define a product*

.....

**2** *Which technique -of the three techniques of recognizing an opportunity- had created the previous opportunity?*

.....  
.....  
.....

**3** *What did mentors taught Jonathon about his business ?*

.....  
.....  
.....



## ***Chapter Three***

# ***Feasibility Analysis***

It is the process of determining if a business idea is **viable** and **worth pursuing**.

### **Components (Forms) of Feasibility Analysis**

Product/Service Feasibility Analysis

Industry/Market Feasibility Analysis

Organizational Feasibility Analysis

Financial Feasibility Analysis

### **First :Product/Service Feasibility**

*It consists of two main analysis*

Product/Service Desirability

Product/Service Demand

### **Forecasting Demand**

*Using the following methods*

- A** Naive.
- B** Moving average.
- C** Weighted moving average.
- D** Exponential smoothing





## Problems

### Problem 1

Given the following data

Time	2015	2016	2017	2018
Demand	50	50	50	50

#### Required

Forecast demand for 2019 using the Naive Approach

### Problem 2

Given the following data

Time	2015	2016	2017	2018
Demand	50	55	60	65

#### Required

Forecast demand for 2019 using the Naive Approach



### Problem 3

Given the following data

Month	Demand	Three-month simple moving average	Five-month simple moving average
Jan	1,325		
Feb	1,353		
Mar	1,305		
Apr	1,275		
May	1,210		
Jun	1,195		
Jul	1,227		
Aug			

#### Required

- 1- Forecast the demand for April till August using
  - a. 3- month simple moving average
  - b. 5-month simple moving average
- c- Describe the trend

## Problem 4

Given the following data

Year	Demand	Three-month simple moving average	Five-month simple moving average
2006	32		
2007	40		
2008	50		
2009	28		
2010	30		
2011	44		
2012	40		
2013	25		
2014	52		
2015	48		
2016	40		
2017	44		
2018			

### Required

Forecast the demand for the period from 2009 to 2018

- 3-Year simple moving average
- 5-Year simple moving average
- Describe the trend.

## Problem 5

Given the following data

Year	Demand	Three-month simple moving average	Five-month simple moving average
2011	100		
2012	105		
2013	103		
2014	107		
2015	109		
2016	110		
2017	115		
2018	117		
2019			

### Required

1- Forecast the demand for the period from 2014 to 2019

- 3-Year simple moving average
- 5-Year simple moving average.
- Describe the trend

## Problem 6

Given the following data

Month	Demand	Weight	3-month weighted moving average
Jan	1,325		
Feb	1,353		
Mar	1,305		
Apr	1,275	50%	
May	1,210	30%	
Jun	1,195	20%	
Jul	?		

### Required

Forecast the demand for July using 3- month weighted moving average.

## Problem 7

Given the following data

Year	Demand	Weight	3- year weighted moving average
2015	48	20%	
2016	40	30%	
2017	44	50%	
2018			

### Required

Forecast the demand for 2018 using 3- year weighted moving average

### Problem 8

Given the following data

Month	Demand	Weight	5- month weighted moving average
Jan	1,325		
Feb	1,353	10%	
Mar	1,305	15%	
Apr	1,275	40%	
May	1,210	15%	
Jun	1,195	20%	
Jul	?		

#### Required

Forecast the demand for July using 5- month weighted moving average.

### Problem 9

Given the following data

Year	Demand	Weight	5- year weighted moving average
2014	107	15%	
2015	109	25%	
2016	110	10%	
2017	115	20%	
2018	117	30%	

#### Required

Forecast the demand for 2019 using 5- year weighted moving average



## ***Chapter Four***

### ***Feasibility Study***



## ***What is a Feasibility Study?***

A feasibility study is a practical assessment tells the organization if a project is feasible.

### ***Feasibility Study Conducted to determine:***

- 1. Does the company possess the required resources and technology?*
- 2. Will the company receive a sufficiently high return on its investment?*

### ***Steps in a Feasibility Study:***

- 1. Introductory analyses.*
- 2. Prepare a projected income statement.*
- 3. Prepare a market survey.*
- 4. Prepare organizational structure.*
- 5. Decide whether to go on the project.*

### ***Contents of a Feasibility Report:***

- 1. Report Summary*
- 2. Description of the Product/Service*
- 3. Technology*
- 4. Product/Service Marketplace*
- 6. Marketing Strategy*
- 7. Organizational Structure*
- 8. Financial Projections*

## ***Types of Feasibility Study***

### **1 Technical feasibility**

- Hardware and software
- Existing or new technology
- Manpower
- Site analysis
- Transportation

### **2 Financial feasibility**

- Initial investment
- Resources of capital: Banks, investors, venture capitalists
- Return on investment

### **3 Market feasibility**

- Type of industry
- Current market
- Future market growth
- Competitors and potential customers
- Projection of sales

### **4 Organizational feasibility**

- Organizational structure of the business
- Legal structure
- Management team's competency, professional skills, and experience

### ***Why must we have Feasibility Study before starting a business?***

- Determine the amount of capital required to start the business.
- Determine the profitability of the business.
- Identify the business challenges.
- Enable you estimate the financial, human, and technological resources that will be needed to business.

### ***Technical Feasibility consists of:***

- 1. Hardware and software.*
- 2. Existing or new technology.*
- 3. Manpower*
- 4. Site analysis.*
- 5. Transportation.*

### ***Financial Feasibility consists of:***

- 1. Initial investment*
- 2. Resources of capital*
- 3. Return on investment.*

### ***Market Feasibility consists of***

- 1. Type of industry.*
- 2. Current market.*
- 3. Future market growth.*
- 4. Competitors and potential customers*
- 5. Projection of sales*

### ***Organizational Feasibility consists of***

- 1. Organizational structure of the business*
- 2. Legal structure.*
- 3. Management team's competency, professional skills, and experience*

### **Case Study:** An example of business that failed because of lack or poor feasibility studies.

Mohamed Hassan conducted a feasibility study and startup a Factory for Car navigation system the project went down not because it did not have a good product or because of lack of financing. In fact, the navigation device was well- reviewed by customers, who said it was a great device. The problem that led to company failure was its high price of \$600. Even when the company reduced the price to \$399 then \$299, the product was still too expensive compared to almost-similar products which were selling at \$100 or less.

#### ***What lessons can be learned from this failure case?***

1. ....
2. ....
3. ....
4. ....
5. ....
6. ....

## Q 1

***Why must we have Feasibility Study before starting a business?***

1. ....
2. ....
3. ....
4. ....
5. ....

## Q 2

***Indicate whether each of the following statements is True or False:***

Statement	True	False
1- Feasibility study is a notion, a concept, or a thought.		
2- Organizational structure of the business is one the component of the financial feasibility.		
3- One of the steps of feasibility study is to prepare a market survey.		
4- Feasibility study is an evaluation or analysis of the potential impact of a proposed project.		

### Q 3

***What are the types of feasibility study?***

1. ....
2. ....
3. ....
4. ....

### Q 4

***What are the Steps in a Feasibility Study?***

1. ....
2. ....
3. ....
4. ....
5. ....

### Q 5

***List contents of a Feasibility Report.***

1. ....
2. ....
3. ....
4. ....
5. ....
6. ....
7. ....



## Q 6

### **Choose the best answers:**

**6/1: Feasibility study is conducted to determine:**

- A** Resources and technology possessed by the company.
- B** The sufficiency of the returns received on investment.
- C** Both a and b
- D** None of the above.

**6/2: A feasibility study is:**

- A** A notion, a concept, or a thought.
- B** Practical assessment that tells the organization if a project is feasible.
- C** A set of favorable conditions that that makes the idea possible.
- D** None of the above.

**6/3: When preparing financial feasibility which of the following can be identified.**

- A** Initial investment (Capital)
- B** Resources of capital: Banks, investors, venture capitalists
- C** Return on investment.
- D** All the above.

**6/4: All the following are steps of a feasibility study except**

- A** Prepare introductory analysis.
- B** Prepare a projected income statement.
- C** Prepare a market survey.
- D** Executive Summary.

**6/5: By technical feasibility, a selected project based on:**

- A** Technology is available to implement it.
- B** People are available to implement it.
- C** People have technical ability to implement it.
- D** Funds are available to implement it.

**6/6: Why is a feasibility study prepared?**

- A** To achieve maximum profit.
- B** To increase construction cost according to design criteria, quality & space.
- C** To reduce social benefits.
- D** To maximize risks & uncertainty.

**6/7: A feasibility study includes feasibility, which consists of competitors and potential customers.**

- A** Technical Feasibility
- B** Financial Feasibility
- C** Market Feasibility
- D** Organizational Feasibility



## ***Chapter Five***

### ***Evaluate the Acceptability of a Project***

**Methods for  
performing  
Financial  
analysis**

1. Net Present value
2. Internal rate of return
3. Pay back period method
4. Simple rate of return



**1**

**NET PRESENT VALUE**

**What is a Net  
Present Value?**

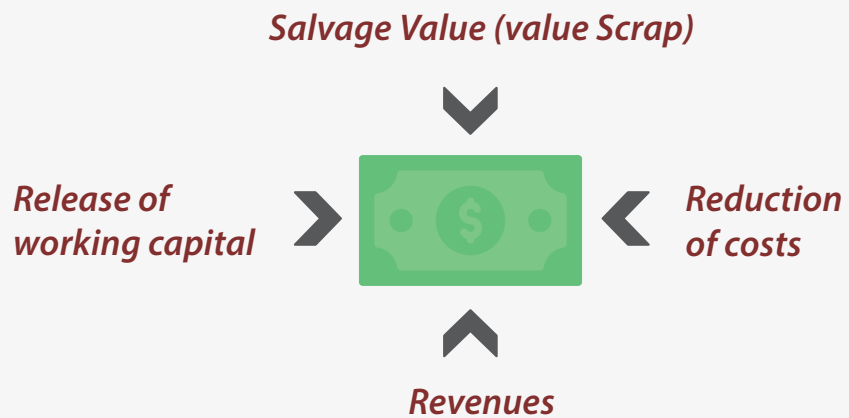
A financial technique which uses a project's costs and returns over time to determine if the project will make a positive return.

**Steps to  
Calculate net  
present value.**

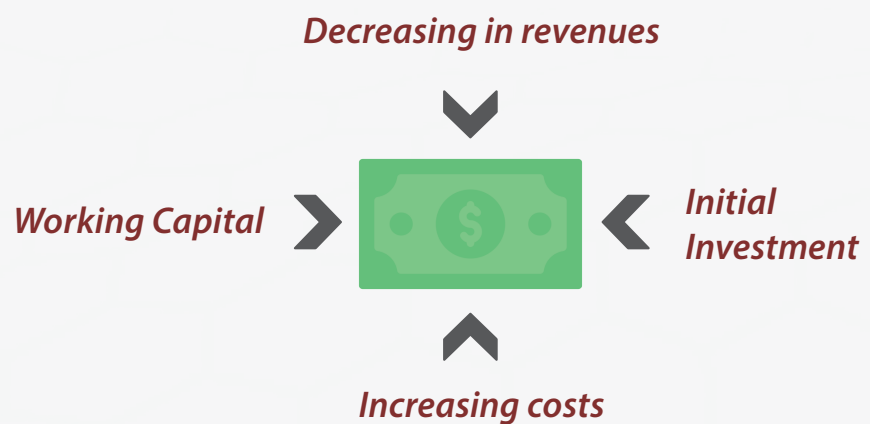
1. Calculate the present value of cash inflows.
2. Calculate the present value of cash outflows,
3. Subtract the present value of the outflows from the present value of the inflows.

$$NPV = \text{Cash Inflows} - (\text{Cost of Investment} + \text{Cash Outflows})$$

### Examples of Cash Inflows



### Examples of Cash Outflows



### **Understand how the value of money fluctuates over time:**

The value of \$100 is different today than it was five years ago or will be five years from now. When you invest money, the value will increase or decrease depending on the rate of return. In addition, inflation affects the value of money. Even though \$100 may be enough to purchase an item today, it may not be enough to purchase that same item in the future.

2015      2020  
\$100 → \$??

# The Net Present Value Method



## General decision rule ...

If the Net Present Value is ...	Then the Project is ...
Positive ...	Acceptable because it promises a return greater than the required rate of return.
Zero ...	Acceptable because it promises a return equal to the required rate of return.
Negative ...	Not acceptable because it promises a return less than the required rate of return.

## Compare between Cash inflows and cash out flows

Point of comparison	Cash outflows	Cash inflows
<b>Definition</b>	It is money leaving the business	It is money going into the business.
<b>Examples</b>	1. Initial Investment (Purchase price or cost of equipment) X 1 2. Working capital x 1 3. Increasing in cost X amount in T4 4. Decreasing in revenue X amount in T4	1- Annual cash inflow X T4 1. Single cash inflow X T2 3. Release (Refund) working capital X T2 4. Scrap value X T2 5. Decreasing in cost (Cost saving) X T4 6. Increasing in revenue X T4



## Activity 1

*Doha Stars Company has \$300,000 to invest in equipment. The company is trying to decide between two alternative uses of the funds. The alternatives are as follows:*

	Project A	Project B
Cost of equipment (initial investment)	\$300,000	\$300,000
Working capital investment released after 7 years	\$0	\$300,000
Annual Cash inflows	\$80,000	\$60,000
Salvage value of equipment used in seven years	\$20,000	\$0
Life of project	7 Years	7 Years

### REQUIRED

*Using Net present value method (NPV) determine which investment alternative would you recommend that the company accepts if the company is using 20% rate of return, explain your decision.*

SOLUTION

Project A	Amount	Factor	PV
Cash outflows			
Cash Inflows			
Net present value			

Project B	Amount	Factor	PV
Cash outflows			
Cash Inflows			
Net present value			

Explanation

## Activity 2

*Sharp Company has \$15,000 to invest. The company is trying to decide between two alternative uses of the funds as follows:*

Description	Invest in project A	Invest in project B
Investment required	\$15,000	\$15,000
Annual cash inflows	\$40,000	\$0
Single cash inflow at the end of 10 years	\$0	\$60,000
Life of the project	10 years	10 years

*Sharp Company uses a 16% discount rate (required rate of return).*

### REQUIRED

1. Show all computations using net present value.
2. Which investment would you recommend that the company accepts? Explain?

## SOLUTION

Project A	Amount	Factor	PV
Cash outflows			
Cash Inflows			
Net present value			

Project B	Amount	Factor	PV
Cash outflows			
Cash Inflows			
Net present value			

## Explanation

---

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---

## Activity 2

*AL-Shamal Contracting Company owns the mining rights to a large piece of land in a mountainous area. An engineering and cost analysis has been made to buy a new equipment needed for mining, and it is expected that the following cash flows would be associated with opening and operating a mine in the area.*

*At the end of five years, the working capital will be released and maybe used elsewhere by AL-Shamal Contracting Company.*

Equipment information (cost and revenue information)	
Purchase price of an equipment	850,000
Annual net cash receipts (inflows)	170,000
Working capital required	100,000
Salvage value of equipment in five years	200,000
Working capital released	100,000

### REQUIRED

**1.** Calculate the net present value to find out whether the company should accept the purchase of the new equipment or not. Explain your decision, Given that, AL-Shamal Contracting Company uses a discount rate (required rate of return) of 14%.

SOLUTION

	Amount	Factor	PV
Cash outflows			
Cash Inflows			
Net present value			

Explanation



## Enrichment Activities

**Choose the correct answer:**

**1** A project would normally be undertaken if its net present value is:

- A** Positive
- B** Zero
- C** Both (a) and (b)
- D** Negative

**2** The first step in calculation of net present value is to find out:

- A** Present value of equity
- B** Future value of equity
- C** Present value of cash flow
- D** Future value of cash flow

**3** A project that has been tested for its feasibility the cost of the asset is \$200,000 and the project is expected to generate cash inflows \$50,000 and Salvage value of equipment in five years \$25,000, If the discount rate is 12% the NPV of the project will be:

- A** \$1.00
- B** \$5,575
- C** \$-5,575
- D** \$-1.00

## SOLUTION

	Amount	Factor	PV
Cash outflows			
Cash Inflows			
Net present value			

**4** A project that has been tested for its feasibility the cost of the asset is \$150,000 and the project is expected to generate cash inflows \$80,000 and Salvage value of equipment in five years \$30,000, If the discount rate is 12% the NPV of the project will be:

	Amount	Factor	PV
Cash outflows			
Cash Inflows			
Net present value			

- A** \$155,410
- B** \$-155,410
- C** 1.00
- D** -1.00

## 2- The Internal Rate of Return



### *What is Internal Rate of Return (IRR)?*

IRR measures the return of a potential investment and used to evaluate the attractiveness of a project. If the IRR of a new project exceeds a company's required rate of return, that project is acceptable. If IRR falls below the required rate of return, the project should be rejected.



### General decision rule ...

If the Internal Rate of Return is ...	Then the Project is ...
Equal to or greater than the minimum-required rate of return ...	Acceptable.
Less than the minimum required rate of return ...	Rejected.

## Activity 1

Doha Sky Company is investigating the purchase of a new \$45,000 delivery truck that would contain specially designed warming racks. The new truck would have a six-year useful life. It would save cost \$5,400 per year over the present method of delivering pizzas. In addition, it would result in increasing the revenue by \$3,600 more each year.

### REQUIRED

Use the internal rate of return and determine whether the company should accept the project or not if the company requires  $IRR = 6\%$ . Explain your decision.

## SOLUTION

n/i	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%	12.0%	20.0%
1	0.99010	0.98522	0.98039	0.97561	0.97087	0.96618	0.96154	0.95694	0.95238	0.94787	0.94340	0.93458	0.92593	0.91743	0.90909	0.90090	0.89286	0.83333
2	1.97040	1.95588	1.94156	1.92742	1.91347	1.89969	1.88609	1.87267	1.85941	1.84632	1.83339	1.80802	1.78326	1.75911	1.73554	1.71252	1.69005	1.52778
3	2.94099	2.91220	2.88388	2.85602	2.82861	2.80164	2.77509	2.74896	2.72325	2.69793	2.67301	2.62432	2.57710	2.53129	2.48685	2.44371	2.40183	2.10648
4	3.90197	3.85438	3.80773	3.76197	3.71710	3.67308	3.62990	3.58753	3.54595	3.50515	3.46511	3.38721	3.31213	3.23972	3.16987	3.10245	3.03735	2.58873
5	4.85343	4.78264	4.71346	4.64583	4.57971	4.51505	4.45182	4.38998	4.32948	4.27028	4.21236	4.10020	3.99271	3.88965	3.79079	3.69590	3.60478	2.99061
6	5.79548	5.69719	5.60143	5.50813	5.41719	5.32855	5.24214	5.15787	5.07569	4.99553	4.91732	4.76654	4.62288	4.48592	4.35526	4.23054	4.11141	3.32551
7	6.72819	6.59821	6.47199	6.34939	6.23028	6.11454	6.00205	5.89270	5.78637	5.68297	5.58238	5.38929	5.20637	5.03295	4.86842	4.71220	4.56376	3.60459
8	7.65168	7.48593	7.32548	7.17014	7.01969	6.87396	6.73274	6.59589	6.46321	6.33457	6.20979	5.97130	5.74664	5.53482	5.33493	5.14612	4.96764	3.83716
9	8.56602	8.36052	8.16224	7.97087	7.78611	7.60769	7.43533	7.26879	7.10782	6.95220	6.80169	6.51523	6.24689	5.99525	5.75902	5.53705	5.32825	4.03097
10	9.47130	9.22218	8.98259	8.75206	8.53020	8.31661	8.11090	7.91272	7.72173	7.53763	7.36009	7.02358	6.71008	6.41766	6.14457	5.88923	5.65022	4.19247

## Explanation

### Activity 2

*Leven Products Co. is investigating the purchase of a new grinding machine that has a projected life of 15 years. It is estimated that the machine will save operating cost \$10,000 per year and will increase sales by \$10,000. What is the machine's internal rate of return if it costs \$111,500 new?*

## SOLUTION

## Explanation

### Activity 3

*Sunset Press has just purchased a new trimming machine that cost \$14,125. The machine is expected to increase revenue \$2,500 per year and to have a 10-year life. Compute the machine's internal rate of return. If the company's required rate of return is 10%, did it make a wise investment? Explain.*

### SOLUTION

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### Explanation

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# PAYBACK PERIOD

## What Is the Payback Period?

*The payback is a method of evaluating a project by measuring the time it will take to recover the initial investment.*

## 3- The Payback Period Method



### General decision rule ...

If Payback Period is ...	Then the Project is ...
Equal to or less than maximum desired payback period ...	Acceptable.
Greater than the maximum desired payback period ...	Rejected.

### Payback method with uneven cash flow:

#### Activity 1

*The management of Qatar Contracting, a civil engineering design company, is considering an investment with the following cash flows:*

Year	Investment	Cash inflow
1	\$38,000	\$2,000
2	\$6,000	\$4,000
3		\$8,000
4		\$9,000
5		\$12,000
6		\$10,000
7		\$8,000
8		\$6,000
9		\$5,000
10		\$5,000

## REQUIRED

1. Complete the following table using the payback period method.
2. Determine the payback period of the investment. Would the project be acceptable if the maximum desired payback period is 7 years?

## SOLUTION

Year	Investment	Cash Inflow	Cumulative Cash inflows

## Explanation

### Activity 2

*An investment of \$200,000 is expected to generate the following cash inflows in six years:*

Year	Investment	Cash Inflow
1	\$200,000	\$70,000
2		\$60,000
3		\$55,000
4		\$40,000
5		\$30,000
6		\$25,000

## REQUIRED

1. Compute payback period of the investment.
2. Should the investment be made if management wants to recover the initial investment in 3 years or less?

## SOLUTION

Year	Investment	Cash Inflow	Cumulative Cash inflows

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## Explanation

### Activity 3

The investment and expected cash inflows of a project over 8-year period is given below:

Year	Investment	Cash inflow
1	\$10,000	\$2,000
2		\$0
3		\$4,000
4		\$2,000
5	\$4,000	\$1,000
6		\$6,000
7		\$4,000
8		\$4,000

### REQUIRED

1. Compute the payback period of the project. Would the project be acceptable if the maximum desired payback period is 6 years?

**SOLUTION**

Year	Investment	Cash Inflow	Cumulative Cash inflows

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**Explanation**

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## Activity 4

Warren company is comparing between two investment alternatives (investment A and B) with a life of 6 years.

Year	Investment	Project A	Cumulative cash inflows	Project B	Cumulative cash inflows
Year 1	10,000	3,000		2,000	
Year 2		3,500		2,500	
Year 3		3,500		2,500	
Year 4		1,500		2,500	
Year 5		1,500		3,000	
Year 6		3,000		5,500	

### REQUIRED

1. Complete the previous table using payback period method.
2. Determine which project has the shortest payback period.
3. Which project will be acceptable if the maximum desired payback period is 3 years?

## SOLUTION

Year	Investment (A)	Cash Inflow	Cumulative Cash inflows

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Year	Investment (B)	Cash Inflow	Cumulative Cash inflows

## Payback method with even cash flow:

Annual cash inflow is even (i.e., same cash flow every period), the payback period of the project can be computed by applying the simple formula given below:

$$\text{Payback Period} = \frac{\text{Initial Investment}}{\text{Net Annual Cash Inflow}}$$

### Activity 5

ABC Cleaning Service is investigating the purchase of an ultrasound machine for cleaning window blinds. The machine would cost \$136,700, Scalia's has estimated that the new machine would increase the company's cash inflows, by \$25,000 per year.

#### REQUIRED

Compute the payback period for the machine.

## SOLUTION

### Activity 6

*Al-Wakra Supplying Company is considering the purchase of a new equipment. Relevant information concerning the equipment given below:*

Years	Investment	Cash inflow
12	\$180,000	\$37,500

### REQUIRED

1. Compute the payback period for the investment.
2. If the company rejects all proposal with a payback period more than four years would it invest in that project?

## SOLUTION

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### Activity 7

**Choose the correct answer:**

**1** Capital is

- ☐ A The cash available for day-to-day operations.
- ☐ B Initial investment of a project.
- ☐ C Working capital of a project.
- ☐ D None of the above.

**2** When using Net present value method If the project promises a return greater than the required rate of return then

- ☐ A Net present value is positive.
- ☐ B Net present value is negative.
- ☐ C Net present value is zero.
- ☐ D None of the above.

**3 Working Capital is:**

- A** The cash available for day-to-day operations.
- B** Initial investment of a project.
- C** Capital of a project.
- D** d)None of the above.

**4 When using Net present value method If a project promises a return less than the required rate of return then:**

- A** Net present value is positive.
- B** Net present value is negative.
- C** Net present value is zero.
- D** None of the above.

**5 All the above are methods to prepare financial analysis except:**

- A** Net Present Value.
- B** Internal rate of return.
- C** Payback period.
- D** Simple moving average.

**6 All the following are considered cash outflow except:**

- A** Initial investment.
- B** Working capital.
- C** Released working capital.
- D** Purchase price.



**7** *Net present value method depends on comparing:*

- ☐ **A** *Present value of cash inflows and out flows.*
- ☐ **B** *Present value of annuities.*
- ☐ **C** *Present value of interest payments.*
- ☐ **D** *All the above.*

## Activity 8

***Mention whether the following statements are true or false.***

**1** *Working capital is the purchase price of an equipment.*

- ☐ True
- ☐ False

**2** *Using the net present value method, a net present value of negative indicates that the project would not be acceptable.*

- ☐ True
- ☐ False

**3** *The internal rate of return is calculated by dividing the initial investment by the annual cash inflow.*

- ☐ True
- ☐ False

**4** *If the internal rate of return (IRR) equal to or greater than the required rate of return the project is accepted.*

- ☐ True
- ☐ False

**5** *Capital is the Initial investment.*

☐ True

☐ False

**6** *Using the net present value method, a net present value of positive indicates that the project would not be acceptable.*

☐ True

☐ False

**7** *Scrap value is considered a cash inflow.*

☐ True

☐ False

**8** *If a project promises a net present value = zero then reject the project.*

☐ True

☐ False

**9** *The payback technique is a quick way to calculate a project's net present value.*

☐ True

☐ False

**10** *A disadvantage of the cash payback technique is that it ignores the time value of money.*

☐ True

☐ False

**11** *A disadvantage of the cash payback technique is that it ignores cash flows after the payback period.*

☐ True

☐ False

تصميم وإخراج  
**النشبل**  
**AL SHEBL**