

Foundations of Entrepreneurship (number of students: 261)

Subject Code: EP60020

Answer briefly without sacrificing the key issues in not more than three sentences

Question 1

State some of the important contributions of entrepreneurs to the society?

Entrepreneurs create jobs, increase government income helping to build infrastructure for health, education, utilities, transportation, etc., contribute to per capita GDP, earn foreign exchange for the country, offer new products and services. Entrepreneurs improve overall quality of life of citizens.

Question 2

What do you take away from the story of Karsanbhai Khodidas Patel?

First, it is not impossible to build large business empire from humble beginning. Second, almost anyone can dream big and accomplish it by identifying a pinpoint and finding a product-market-fit. He started small, persevered, focused on the customers' exact unmet needs, and has built his empire brick by brick.

Question 3

Explain what the following text in quotation tries to drive home:

“Majority of the entrepreneurial ventures fail due to reasons that could have been avoided.”

The statement communicates that the data on failure rate of startups should not intimidate aspiring entrepreneurs. This should be viewed from the data on failures of startups showing that most of them failed for causes that could have been averted by some prior knowledge about the pitfalls and proactive actions.

Question 4

Can entrepreneurship be taught?

While some of the traits such as risk-taking propensity, creativity, and honesty are innate, some of the key qualities such as business model innovation, people skill, winning strategies, discipline, lean philosophies, marketing, operational & financial management, that are key to successful creation and running of a venture can be learnt. The knowledge of myths, the causes of failure and success would help in motivating to start, averting failure, and achieving success.

Question 5

Ideally, what is the right age of a person to create a new venture?

It emerges from the data that entrepreneurs of a wide-ranging age groups successfully built and run ventures to create enormous values establishing the argument that there is no perfect age for entrepreneurship. However, it is thought that young generation may be more creative and are ready to take greater risks, whereas older people are rich in experience that may help in execution and they are well connected.

Question 6

Why should one study entrepreneurship course?

Entrepreneurship has many dimensions, much of which can be learnt. Data shows that majority of the ventures fail because of reasons that could have been averted with prior knowledge of failed and successful ventures. Furthermore, companies are increasingly preferring to recruit candidates with entrepreneurial mindset and knowledge. Therefore, knowledge on entrepreneurship is helpful for everybody irrespective of the profession one chooses.

Question 7

Why the knowledge of financial statements is critical for entrepreneurs?

Having a strong grip on the information in financial statements, one would know the financial implications of all their business decisions and actions and will help in avoiding those that are detrimental to the long-term sustainability of the venture, choose the profitable options, and avoid the **fatal** event of running out of cash.

Question 8

Define Corporate Entrepreneurship.

Corporate entrepreneurship is the process of promoting employees of leadership and creative talents to independently engage in building innovative products or services within the confine of an established enterprise that provides all necessary resources, mentoring, space and also allocate dedicated time to pursue such dreams. The concerned employee owns the technologies emerging out of such exercise, can create new venture around them, and the incubating company have the first right of refusal to buy these technologies and adopt. The process creates wealth for the employees and helps the company to build new products in an accelerated and economic way.

Question 9

How could Sofia Amoruso sell most of her products without discount?

Sofia knew her customers, their likings and aspirations very well and designed the garments to suit their style quotient. She used to connect with customers on social media to get to know

them better, incorporate feedbacks in designs, and used to gratify them by displaying their pictures on the portal, thereby, building a huge overenthusiastically loyal followers of her brand.

Question 10

What are the takeaways from the story of Sofia Amoruso?

Anyone can become an entrepreneur and create huge value for self and other stakeholders by identifying a right opportunity to meet an unmet need of a large customer base without requiring huge capital investment or help from others. On the flip side, it emerged that growing a business and sustaining it requires professional expertise, even though the start may be great.

Question 11

Entrepreneurs identify opportunities in adversities. Explain an action by Dhirubhai Ambani that demonstrates this logic.

Owing to shortage of foreign exchange reserves during the 60s, India allowed to import only essential items forcing many import-based businesses to shut down. Dhirubhai could identify opportunity under such adverse situation, who exported rayon to contacts in Aden at a loss to earn foreign exchange and imported synthetic fiber to sell in India almost like a monopolist.

Question 12

What is the cause of failure of the maximum percentage of startups? How could they have avoided failure?

It has been established that 42% of the startups failed after raising substantial funding because these companies made something that their supposed customers did not buy. Thus, the maximum percentage of failures manifests for lack of product-market-fit.

Question 13

Define 'founder's dilemma.'

Many founders try to manage everything with the false belief that they are the only ones who can do it right resulting in demoralized employees and suboptimal performance. They find themselves in a situation when they are incapable of leading the company onto the growth path that a professional CEO is capable of accomplishing. They have the dilemma of selection between loss control or grow the business by empowering people and hiring professionals.

Question 14

The list of qualities of successful entrepreneurs is very long. Yet, one need NOT get intimidated by such a long list of entrepreneurial qualities. Why?

First, one does not need to possess all the listed qualities to succeed in entrepreneurship. Second, many of the traits can be acquired through practice and perseverance. Third, many of

these qualities may be possessed by some of the members of the founding team, including the early employees, mentors, and independent directors.

Question 15

Why is it necessary to follow prudence in the accounting system?

Information provided in financial statements is consumed by many people in myriads of domains including economists and governments, and investment decisions of trillions of dollars are made based on such information, so are policy decisions. From the company perspectives, laxity on financial reporting would misguide the management and decisions based on such information would be perilous.

Question 16

Why is EBITDA so popular among analysts and financial reporters?

Since capital structure, tax incidences, amortization are different across businesses, EBITDA helps to compare companies in the spirit of apples-to-apples comparison by eliminating those metrics. Furthermore, since EBITDA figures are higher than operating or net profit, it helps to make performance comparison between companies incurring operating or net losses, particularly relevant in case of startups.

Question 17

Why is the cash flow statement important for stakeholders of a business?

It is said that cash is the king and a business ceases to exist when the cash flow turns negative. Cash flow statement clearly indicates sources and applications of cash and thus helps to ascertain real financial performance of an enterprise.

Question 18

Explain the 80-20 rule, also known as the Pareto Principle?

Known as the Pareto Principle, this axiom asserts that 80% of the outcomes result from 20% of the input factors for any process. In the context of product development, 80% of the final desired product is built by taking care of 20% of the factors which are key to define it and thus, it is sensible not to strive to achieve 100% perfection as it would need four times more efforts and time. Startups can go to market with a product that is 80% ready and can gradually refine moving forward.

Question 19

Are myths about entrepreneurship helping to motivate more people to adopt it?

Explain.

Myths around entrepreneurship mostly demotivate and intimidate first generation entrepreneurs. Early understanding the falsehood of myths is essential for promotion of entrepreneurship.

Question 20

Can Indian corporates compete in the global markets dominated by high-tech companies? Explain with examples.

Indian corporates have demonstrated their capabilities to be the best in the world in technology-intensive business sectors. India is already the global pharma capital, IT super power, and has dominated the global two-wheeler markets while emerging as the best source of components for four-wheelers. India is poised to be global leader in various forms of renewable energies.

Question 21

When a company loses its entrepreneurial drive, it starts going downhill. The same thing happened with Microsoft before Satya Nadella took charge as the Chairman and CEO. The market value of Microsoft has gone up about tenfold ever since. What did he do after taking charge that helped Microsoft to unlock values?

The first and major things Satya Nadella did were to interact with employees to understand their talents and visions about the company and identified the winning business opportunities such as cloud computing including the Azure cloud-based computer processing and storage to businesses, virtual reality, artificial intelligence, and cybersecurity. Thus, he could exploit full potentials of the talented employees and transformed Microsoft into a service and platform-based enterprise engaging in building and offering futuristic solutions.

Question 22

The following data are related to a company's operation for the year 2020-21. There are also some balance sheet data as of 31.03.2020. The company DID NOT purchase any new fixed assets or sell any existing fixed assets during the year 20-21. Estimate the **Gross Profit, depreciation, Operating Profit**, and **Net Profit** and **report them at the end of the sum. SHOWING THE DETAILS OF ESTIMATION IS MANDATORY**, and merely writing the answers will not qualify for marks.

Payment of rent	60
Advertisement expense	30
Book value of machinery	500
Salary	140
Closing stock	150
Transportation & Traveling expense	40
Maintenance and insurance exp	20
Legal expense	10
Purchase of goods	850
Opening stock	130
Amortization of Prelem. & preop.	20
Repayment of bank loan	150
Trade Receivables	620
Electricity and telephone bill payment	50
Interest on bank loan	50

Sale of goods	1500
Trade Payables	900
Payment of dividend	50
Company pays income tax @ 20%	
Outstanding in short term loan	300
Book value of building	100
Depreciation @10% reducing balance method for building and machinery	
EBITDA	320

Solution

GP		Depreciation	
Sales	1500	Building	100
opening s	130	Depreciation	10
Purchase	850	Book value	90
Sub-tot	980		
Cl st	150	Machinery	
Cost -good	830	Last account	500
GP	670		
	350		
EBITDA	320	Total	500
		Depreciation	50
Op exp	430	Book value	450
Op. Exp	430	Total depn	60
Op prof	240		
Interest	50		
PBT	190		
Income ta	38		
NP	152		
EBITDA	320		

Question 23

The following data are related to a company's operation for the year 2020-21. There are also some balance sheet data as of 31.03.2020. The company DID NOT purchase any new fixed assets or sell any existing fixed assets during the year 20-21. Estimate the **Gross Profit, depreciation, Operating Profit, and Net Profit** and **report them at the end of the sum. SHOWING THE DETAILS OF ESTIMATION IS MANDATORY, and merely writing the answers will not qualify for marks.**

Payment of rent	120	
Advertisement expense	50	
Book value of machinery	600	
Salary	100	
Closing stock	150	
Transportation & Traveling expense	40	
Maintenance and insurance exp	20	
Legal expense	10	
Purchase of goods	900	
Opening stock	140	
Amortization of Prelem. & preop.	20	
Repayment of bank loan	100	
Book value of buildings	100	
Trade Receivables	596	
Electricity and telephone bill payment	30	
Interest on bank loan	50	
Sale of goods	1600	
Trade Payables	900	
Dividend payment during the year	46	
Company pays income tax @ 20%		
Outstanding in short term loan	300	
Cash in hand as on 31.03.2021	70	
Depreciation @10% reducing balance method for building and machinery		
EBITDA	340	

Solution

GP		Depreciation	
Sales	1600	Building	100
opening s	140	Depreciation	10
Purchase	900	Book value	90
Sub-tot	1040		
Cl st	150	Machinery	
Cost -good	890	Last account	600
GP	710		
	370	Total	600
EBITDA	340	Depreciation	60
Op. Exp	460	Book value	540
Op prof	250	Total depn	70
Op prof	250		
Interest	50		
PBT	200		
Income ta	40		
NP	160		
Dividend	46		
Retained i	114		
EBITDA	340		

Question 24

The following data are related to a company's operation for the year 2020-21. There are also some balance sheet data as of 31.03.2020. The company DID NOT purchase any new fixed assets or sell any existing fixed assets during the year 20-21. Estimate the **Gross Profit, depreciation, Operating Profit, and Net Profit** and **report them at the end of the sum. SHOWING THE DETAILS OF ESTIMATION IS MANDATORY, and merely writing the answers will not qualify for marks.**

Payment of rent	100	
Advertisement expense	50	
Book value of machinery	700	
Salary	100	
Closing stock	100	
Transportation & Traveling expense	40	
Maintenance and insurance exp	20	
Legal expense	10	

Book value of buildings	200	
Purchase of goods	1000	
Amortization of Prelem. & preop.	20	
Repayment of bank loan	80	
Opening stock	160	
Trade Receivables	500	
Electricity and telephone bill payment	30	
Interest on bank loan	50	
Sale of goods	1700	
Trade Payables	904	
Dividend payment	46	
Company pays income tax @ 20%		
Outstanding in short term loan	300	
Cash in hand as on 31.03.2021	20	
Depreciation @10% reducing balance method for building and machinery		
EBITDA	290	

Solution

GP		Depreciation	
Sales	1700	Building	200
opening s	160	Depreciation	20
Purchase	1000	Book value	180
Sub-tot	1160		
Cl st	100	Machinery	
Cost -good	1060	Last account	700
GP	640		
		Total	700
	350	Depreciation	70
EBITDA	290		
Op. Exp	460	Book value	630
Op. Exp	460	Total depn	90
Op prof	180		
Interest	50		
PBT	130		
Income ta	26		
NP	104		
Dividend	46		
Retained i	58		
EBITDA	290		

Question 25

The following data are related to a company's operation for the year 2020-21. There are also some balance sheet data as of 31.03.2020. The company DID NOT purchase any new fixed assets or sell any existing fixed assets during the year 20-21. Estimate the **Gross Profit, depreciation, Operating Profit, and Net Profit** and **report them at the end of the sum. SHOWING THE DETAILS OF ESTIMATION IS MANDATORY**, and merely writing the answers will not qualify for marks.

Payment of rent	110	
Advertisement expense	60	
Book value of machinery	400	
Salary	100	
Closing stock	100	
Transportation & Traveling expense	40	
Maintenance and insurance exp	20	
Legal expense	10	
Purchase of goods	600	
Amortization of Prelem. & preop.	20	

Book value of buildings	300	
Repayment of bank loan	80	
Opening stock	200	
Trade Receivables	500	
Electricity and telephone bill payment	30	
Interest on bank loan	50	
Sale of goods	1400	
Trade Payables	750	
Dividend payment during the year	46	
Company pays income tax @ 20%		
Outstanding in short term loan	300	
Cash in hand as on 31.03.2021	28	
Depreciation @10% reducing balance method for building and machinery		
EBITDA	330	

Solution

GP		Depreciation	
Sales	1400	Building	300
opening s	200	Depreciation	30
Purchase	600	Book value	270
Sub-tot	800		
Cl st	100	Machinery	
Cost -good	700	Last account	400
GP	700		
		Total	400
	370		
EBITDA	330	Depreciation	40
Op exp	460	Book value	360
Op. Exp	460	Total depn	70
Op prof	240		
Interest	50		
PBT	190		
Income ta	38		
NP	152		
Dividend	46		
Retained i	106		
EBITDA	330		

Question 26

The following data are related to a company's operation for the year 2020-21. There are also some balance sheet data as of 31.03.2020. The company DID NOT purchase any new fixed assets or sell any existing fixed assets during the year 20-21. Estimate the **Gross Profit, depreciation, Operating Profit, and Net Profit** and **report them at the end of the sum. SHOWING THE DETAILS OF ESTIMATION IS MANDATORY, and merely writing the answers will not qualify for marks.**

Payment of rent	72	
Advertisement expense	70	
Book value of machinery	600	
Salary	50	
Closing stock	100	
Transportation & Traveling expense	40	
Maintenance and insurance exp	20	
Legal expense	10	
Purchase of goods	550	
Amortization of Prelem. & preop.	20	
Repayment of bank loan	80	
Opening stock	140	
Trade Receivables	400	
Electricity and telephone bill payment	30	
Book value of building	250	
Interest on bank loan	50	
Sale of goods	1350	
Trade Payables	790	
Dividend payment during the year	46	
Company pays income tax @ 20%		
Outstanding in short term loan	300	
Cash in hand as on 31.03.2021	144	
Depreciation @10% reducing balance method for building and machinery		
EBITDA	468	

Solution

GP		Depreciation	
Sales	1350	Building	250
opening s	140	Depreciation	25
Purchase	550	Book value	225
Sub-tot	690		
Cl st	100	Machinery	
Cost -good	590	Last account	600
GP	760		
		Total	600
	292	Depreciation	60
EBITDA	468		
Op. Exp	397	Book value	540
Op. Exp	397	Total depn	85
Op prof	363		
Interest	50		
PBT	313		
Income ta	62.6		
NP	250.4		
Dividend	46		
Retained i	204.4		
EBITDA	468		

Question 27

The following data are related to a company's operation for the year 2020-21. There are also some balance sheet data as of 31.03.2020. The company DID NOT purchase any new fixed assets or sell any existing fixed assets during the year 20-21. Estimate the **Gross Profit, depreciation, Operating Profit, and Net Profit** and **report them at the end of the sum. SHOWING THE DETAILS OF ESTIMATION IS MANDATORY**, and merely writing the answers will not qualify for marks.

Payment of rent	140	
Advertisement expense	100	
Book value of machinery	560	
Salary	100	
Closing stock	100	
Transportation & Traveling expense	40	
Maintenance and insurance exp	50	
Legal expense	10	

Purchase of goods	550	
Amortization of Prelem. & preop.	20	
Book value of building	230	
Repayment of bank loan	80	
Opening stock	210	
Trade Receivables	400	
Electricity and telephone bill payment	30	
Interest on bank loan	50	
Sale of goods	1420	
Trade Payables	750	
Company pays dividend during the year	46	
Company pays income tax @ 20%		
Outstanding in short term loan	300	
Cash in hand as on 31.03.2021	88	
Depreciation @10% reducing balance method for building and machinery		
EBITDA	290	

Solution

GP		Depreciation	
Sales	1420	Building	230
opening s	210	Depreciation	23
Purchase	550	Book value	207
Sub-tot	760		
Cl st	100	Machinery	
Cost -good	660	Last account	560
GP	760		
		Total	560
	470		
EBITDA	290	Depreciation	56
Op prof	569	Book value	504
Op. Exp	569	Total depn	79
Op prof	191		
Interest	50		
PBT	141		
Income ta	28.2		
NP	112.8		
Dividend	46		
Retained i	66.8		
EBITDA	290		

Question 28

The following data are related to a company's operation for the year 2020-21. There are also some balance sheet data as of 31.03.2020. The company DID NOT purchase any new fixed assets or sell any existing fixed assets during the year 20-21. Estimate the **Gross Profit, depreciation, Operating Profit, and Net Profit** and **report them at the end of the sum. SHOWING THE DETAILS OF ESTIMATION IS MANDATORY**, and merely writing the answers will not qualify for marks.

Payment of rent	108	
Advertisement expense	80	
Book value of machinery	560	
Salary	140	
Closing stock	100	
Transportation & Traveling expense	40	
Maintenance and insurance exp	50	
Legal expense	10	

Purchase of goods	500	
Amortization of Prelem. & preop.	30	
Opening stock	145	
Book value of building	180	
Repayment of bank loan	50	
Trade Receivables	500	
Electricity and telephone bill payment	30	
Interest on bank loan	50	
Sale of goods	1480	
Trade Payables	752	
Dividend payment during the year	46	
Company pays income tax @ 20%		
Outstanding in short term loan	300	
Cash in hand as on 31.03.2021	30	
Depreciation @10% reducing balance method for building and machinery		
EBITDA	477	

Solution

GP		Depreciation	
Sales	1480	Building	180
opening s	145	Depreciation	18
Purchase	500	Book value	162
Sub-tot	645		
Cl st	100	Machinery	
Cost -good	545	Last account	560
GP	935		
		Total	560
	458		
EBITDA	477		
		Depreciation	56
Op prof	562	Book value	504
Op. Exp	562	Total depn	74
Op prof	373		
Interest	50		
PBT	323		
Income ta	64.6		
NP	258.4		
Dividend	46		
Retained i	212.4		
EBITDA	477		

Question 29

The following data are related to a company's operation for the year 2020-21. There are also some balance sheet data as of 31.03.2020. The company DID NOT purchase any new fixed assets or sell any existing fixed assets during the year 20-21. Estimate the **Gross Profit, depreciation, Operating Profit, and Net Profit** and **report them at the end of the sum. SHOWING THE DETAILS OF ESTIMATION IS MANDATORY**, and merely writing the answers will not qualify for marks.

Payment of rent	96	
Advertisement expense	70	
Book value of machinery	740	
Salary	200	
Closing stock	100	
Transportation & Traveling expense	40	
Maintenance and insurance exp	50	
Opening stock	210	
Legal expense	10	
Purchase of goods	450	

Amortization of Prelem. & preop.	30	
Book value of building	320	
Repayment of bank loan	50	
Trade Receivables	400	
Electricity and telephone bill payment	30	
Interest on bank loan	50	
Sale of goods	1500	
Trade Payables	500	
Dividend payment during the year	46	
Company pays income tax @ 20%		
Outstanding in short term loan	550	
Cash in hand as on 31.03.2021	54	
Depreciation @10% reducing balance method for building and machinery		
EBITDA	444	

Solution

GP		Depreciation	
Sales	1500	Building	320
opening s	210	Depreciation	32
Purchase	450	Book value	288
Sub-tot	660		
Cl st	100	Machinery	
Cost -good	560	Last account	740
GP	940		
		Total	740
	496		
EBITDA	444	Depreciation	74
Op. Exp	632	Book value	666
Op. Exp	632	Total depn	106
Op prof	308		
Interest	50		
PBT	258		
Income ta	51.6		
NP	206.4		
Dividend	46		
Retained i	160.4		
EBITDA	444		

Question 30

The following data are related to a company's operation for the year 2020-21. There are also some balance sheet data as of 31.03.2020. The company DID NOT purchase any new fixed assets or sell any existing fixed assets during the year 20-21. Estimate the **Gross Profit, depreciation, Operating Profit, and Net Profit** and **report them at the end of the sum. SHOWING THE DETAILS OF ESTIMATION IS MANDATORY, and merely writing the answers will not qualify for marks.**

Payment of rent	180	
Advertisement expense	80	
Book value of machinery	580	
Salary	200	
Closing stock	100	
Transportation & Traveling expense	40	
Maintenance and insurance exp	50	
Legal expense	40	
Purchase of goods	450	
Amortization of Prelem. & preop.	50	
Opening stock	230	
Repayment of bank loan	50	
Trade Receivables	332	
Electricity and telephone bill payment	30	
Book value of buildings	260	
Interest on bank loan	50	
Sale of goods	1550	
Trade Payables	486	
Company pays dividend during the year	46	
Company pays income tax @ 20%		
Outstanding in short term loan	550	
Cash in hand as on 31.03.2021	40	
Depreciation @10% reducing balance method for building and machinery		
EBITDA	350	

Solution

GP		Depreciation	
Sales	1550	Building	260
opening s	230	Depreciation	26
Purchase	450	Book value	234
Sub-tot	680		
Cl st	100	Machinery	
Cost -good	580	Last account	580
GP	970		
		Total	580
	620		
EBITDA	350	Depreciation	58
Op. Exp	754	Book value	522
Op. Exp	754	Total depn	84
Op prof	216		
Interest	50		
PBT	166		
Income ta	33.2		
NP	132.8		
Dividend	46		
Retained i	86.8		
EBITDA	350		

Question 31

The following data are related to a company's operation for the year 2020-21. There are also some balance sheet data as of 31.03.2020. The company DID NOT purchase any new fixed assets or sell any existing fixed assets during the year 20-21. Estimate the **Gross Profit, depreciation, Operating Profit, and Net Profit** and **report them at the end of the sum. SHOWING THE DETAILS OF ESTIMATION IS MANDATORY**, and merely writing the answers will not qualify for marks.

Payment of rent	84	
Advertisement expense	90	
Book value of machinery	710	
Salary	200	
Closing stock	100	
Transportation & Traveling expense	40	
Maintenance and insurance exp	50	
Legal expense	40	

Purchase of goods	500	
Amortization of Prelem. & preop.	40	
Book value of building	280	
Repayment of bank loan	50	
Opening stock	235	
Trade Receivables	350	
Electricity and telephone bill payment	30	
Interest on bank loan	50	
Sale of goods	1620	
Trade Payables	452	
Dividend payment during the year	46	
Company pays income tax @ 20%		
Outstanding in short term loan	550	
Cash in hand as on 31.03.2021	50	
Depreciation @10% reducing balance method for building and machinery		
EBITDA	451	

Solution

GP		Depreciation	
Sales	1620	Building	280
opening s	235	Depreciation	28
Purchase	500	Book value	252
Sub-tot	735		
Cl st	100	Machinery	
Cost -good	635	Last account	710
GP	985		
		Total	710
	534		
EBITDA	451	Depreciation	71
Op. Exp	673	Book value	639
Op. Exp	673	Total depn	99
Op prof	312		
Interest	50		
PBT	262		
Income ta	52.4		
NP	209.6		
Dividend	46		
Retained p	163.6		
EBITDA	451		