

## Accounting Issues for an Entrepreneur

### About the Entrepreneur

Mr. Ram Kumar<sup>1</sup> completed his bachelor's degree in Computer Science from Anna University, Chennai and later went on to pursue M.Sc in International Business Management from Leeds Metropolitan University, Leeds, U.K. Prior to his higher studies, he worked and gained few years of experience in an Iron Foundry in one of the southern states of India. After completing his higher studies in the U.K, he had two options before him- either to seek employment or start up a new venture. The curriculum and the pedagogy encouraged him to continue his stay in U.K. The University was also encouraging their students to start their own ventures. This was one of the motivating factors for his inclination towards entrepreneurship. Also, he had a passion for entrepreneurship because he hailed from a family which had a rich tradition of running its own business. He was more inclined to start his own business and wanted to incorporate one in which he had prior work experience and at the same time there was huge opportunity for the business in the U.K.

### About the Business Plan

The experience in the Foundry Industry was quite handy for Mr.Ram Kumar and he decided to establish a business offering consulting services in product design, material grade, manufacturing process and product services for iron castings, steel castings, die casting and



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<sup>1</sup> Name of the Entrepreneur changed.

industrial valves. There was huge demand in the U.K and other European Nations. The UK's castings and forging requirements is vast and comprehensive. Businesses find it hard to identify the appropriate material grade and manufacturing process that are applicable to their design and interpret them to be able to meet their requirement. The customers' are looking for budgeted price for high quality components and reducing cost on component development process and samples which will enable them to provide high quality products. His business idea was to provide consultancy on castings, forgings or valve and helping his customers choose the right material grade and manufacturing process to reduce development cost. This is the gap that the present business is planning to fill for its clients and follow-up plan is carried out to review the product revision to their component periodically.

The company was incorporated on 13 March 2013. The company formed was named as Valcasts Ltd. by its founder and director Mr. Ram Kumar. Later on he carefully changed the company name to Alloy Cast Ltd<sup>2</sup> on 1 August 2014 for marketing purposes and he felt that an effective business name could prove powerful branding tool. The Company has established its home office based in Grimsby, North East Lincolnshire<sup>3</sup> – UK. A dedicated telephone line and a business website which serves as a marketing tool has already been installed and developed. The office space is estimated to be approximately 500 square feet with all the facilities and furniture to rent an office space in commercial office complex in Grimsby, North East Lincolnshire (from on 1<sup>st</sup> April 2015) in the line with his growth plans and team expansion. The structure of current office address is well established and satisfies the basic needs of Alloy Cast Ltd.

Initially, the company was concentrating only on industrial and manufacturing consultation and later as the consulting business grew, the customers requested on manufacturing and product delivery services. Therefore, the firm handpicked the manufacturers to ensure the components are fully investigated, tested and approved to provide only the highest quality of products, on time, every time. The company

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<sup>2</sup> Name of the Company Changed    <sup>3</sup> The name of the place is changed

earned a decent income from consulting services. Exhibit I shows the financials of the Company for the year ending 31/3/2014

### Exhibit I

<b>Profit and Loss Account for the Year Ending 31/3/2014</b>	<b>£</b>
Turnover	6210
Cost of sales	150
Gross Profit	6060
Administrative Expenses	4719
Operating profit	1341
<b>Profit for the Financial Period</b>	<b>1341</b>

### Balance Sheet as on 31/03/2014

<b>Fixed Assets</b>		<b>£</b>
Tangible Assets	600	
Depreciation	150*	450
Current Assets		
Cash in hand and at Bank		1132
<b>Total Assets</b>		<b>1582</b>
Current Liabilities		240
Total Assets less Current Liabilities		<b>1342</b>
Capital and Reserves		
Called up share capital		1
Profit and loss account	1341	1341
<b>Total Shareholders funds</b>		<b>1342</b>

\*25% WDV method

Based on the financials, Mr.Ram Kumar wanted to expand his business horizons. Encouraged with the growing demand in the U.K market, he decided to broaden his consulting services by including CAD and CAM (Computer Aided Designs and Manufacturing) from the financial year 2015-2016, so that he could deliver outstanding designs which are simple to manufacture and at the same cost effective. Also, he wanted

to import all the components from India such as, valves, castings, forgings and hold stock in the Inventory. His plan was not only to offer consulting services but also to sell the components to Industries such as Oil and Gas, Petroleum Refineries, chemical etc. For his expansion plans, he will have to invest in people, infrastructure and more on marketing his business services across U.K and Europe. Based on a report in the U.K, one of the emerging trends in this market is the growth in renewable energy casting. Metal castings will play a key role in the growth of all renewable energy sources such as biomass, geothermal heat pumps, hydropower, solar photovoltaic cells, and wind. The Casting and Forging Market in Europe is driven by several factors, one of them being increased demand for casting and forging from the automotive industry. Components such as cylinder heads, transmission housings, crankcases, engine blocks, pumps, bearings, suspension and bodywork parts, and wheels are produced using casting methods. Currently there are two types of competitors for this business, namely, Competitor A and Competitor B. **Competitor A** – They are well-established manufactures of castings and inventory services, and make quick work. However, they have a high staff turnover, a young and inexperienced staff, and more interested in inventory and JIT delivery than in maintaining existing infrastructure or finding customised solutions. They do not offer any consultation services on material grade, component integrity or process of manufacturing to get high quality of the castings. They really offer only casting support.

**Competitor B** – Smaller and less known than 'A', 'B' provides both castings and forging parts for their clients in the county with inventory services. They are willing to spend more time with a client, figuring out exactly what their needs are, and suggesting options than competitor A. However, they are inefficient in balancing the quality and price, which deters potential customers and can turn existing customers to other competitors. They also do not offer consultation services on process of manufacturing to bring out the best quality on fixed time scale and budget. They are known for poaching customers

from their competitors and their management is complacent and lethargic and cannot sustain competition. Alloy Cast can differentiate from its competitors and can offer the services in a combined way. The SWOT analysis of the Company is as follows :

<b>Strengths</b> <ul style="list-style-type: none"> <li>* Technical competence with product knowledge</li> <li>* Quality and Reliability</li> <li>* Required certifications and approvals</li> </ul>	<b>Weakness</b> <ul style="list-style-type: none"> <li>* Limited customers</li> <li>* Limited Inventory and Space</li> <li>* Limited resources</li> </ul>
<b>Opportunities</b> <ul style="list-style-type: none"> <li>* Excellent order potential in the domestic market</li> <li>* Huge markets for renewable energy castings</li> <li>* Reduction in service cost to compete with global players.</li> </ul>	<b>Threats</b> <ul style="list-style-type: none"> <li>* Shortage of personnel</li> <li>* Fluctuation in manufacturer's cost</li> <li>* Competition</li> </ul>

Exhibit II Shows the turnover and other expenses for the year ending 31/3/2015.

**Exhibit II**  
**Turnover and Expenses for the Year 2014-2015**

Particulars	£
<b>Turnover</b>	21025
Table and Pocket Projector	1650
Website development	2200
Marketing	350
Administrative Expenses	8505
Travel Expenses	7241
Professional Development	650

Mr. Ramkumar has to invest some funds to meet his expansion plans. His Visa is due for renewal (once in two years visa has to be renewed in U.K- either business visa/employment visa). Mr. Ram Kumar has to show at the time of submitting his visa renewal form that his current business is progressing well and at the same time he has adequate funds to invest in the expanding business. He has to show sufficient balance in his account and submit the statement along with the visa form and requisite fees. His father, Mr. Krishnsamy, who is a successful entrepreneur in India, has agreed to contribute £53000 in the first year of expansion. In the third year, he has plans of investing another £28000 from the income generated from the operations. While submitting the documents for visa renewal, Mr. Ram Kumar has to submit the financials/projections for the next three years in the form of Income Statement, Balance Sheet, Cash Flow Statement and break even analysis. Considering his technical background, he has very little knowledge in preparing the statements. Only on the approval and receipt of renewed visa, he can focus on his business and other expansion plans.

Exhibit III shows the budgeted expenses for the next three years to meet the demands of his expansion plans. He expects to do a turnover of £47640 in 2016, £98000 in 2017 and 162000£ in 2018, respectively.

**Exhibit III**  
**Budgeted Expenses**

	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>
	£	£	£
<b>Operating Expenses</b>			
Salary	40600	62400	93600
Exhibitions and Marketing	1000	3000	4000
Office Supplies & Appliances	1000	1500	2000
Business & Legal Insurance Policies	450	450	450
Continuing Education & Professional Development	1000	1000	1000
Cab Hire Charges	1100	1200	1200
<b>Expenses</b>			
Office Rent & Utilities	4500	6600	6600
Inventory Rent & Utilities	0	0	33000
<b>Total Operating Expenses</b>	<b>49650</b>	<b>76150</b>	<b>141850</b>

