

IT SUPPORT SERVICE

NTQF Level I

Learning Guide #44

UNIT OF COMPETENCE:	DEVELOP UNDERSTANDING OF ENTREPRENEURSHIP
MODE TITLE:	DEVELOPING UNDERSTANDING OF ENTREPRENEURSHIP
LG Code:	ICT ITS1 M11 L05- 39
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LO 5:	Develop One's Own Business Plan

INTRODUCTION

Learning Guide #39

This learning guide is developed to provide you the necessary information regarding the following content coverage and topics –

- Definition of enterprising
- Definition of entrepreneurs
- Role of entrepreneurs
- Use of enterprising

Upon completion of this Learning Guide, you will be able to –

- Analyze and discuss the principles, concept and terminology of entrepreneurship
- Identify the different / various forms of enterprises in the community and their roles
- Categorize and classify the identified enterprises
- Identify and interpret the terms and elements involved in the concept of enterprising
- Explain functions of entrepreneurship in business and how the entrepreneurs improved business and economic environment

Learning Activities

1. Read the specific objectives of this Learning Guide.
 2. Read the information written in the "Information Sheets 1" in pages 3-6.
 3. Accomplish the "Self-check" in page 7.
 4. If you earned a satisfactory evaluation proceed to "Operation Sheet 1" in pages 8-9. However, if your rating is unsatisfactory, see your teacher for further instructions or go back to Learning Activity # 1.
 5. Read the "Operation Sheet 1" and try to understand the procedures discussed.
 6. If you satisfactorily performed Operation Sheet 1, proceed to "Operation Sheet 2" in pages 10-12. However, if your rating is unsatisfactory, see your teacher for further instructions or go back to Operation Sheet 1.
 7. Read the "Operation Sheet 2" and try to understand the procedures discussed.
 8. If you satisfactorily performed Operation Sheet 2, proceed to "Lap Test on page 13. However, if your rating is unsatisfactory, see your teacher for further instructions or go back to Operation Sheet 2.
 9. Do the "LAP test" (if you are ready) and show your output to your teacher. Your teacher will evaluate your output either satisfactory or unsatisfactory. If unsatisfactory, your teacher shall advice you on additional work. But if satisfactory you can proceed to Learning Guide n.
- Your teacher will evaluate your output either satisfactory or unsatisfactory. If unsatisfactory, your teacher shall advice you on additional work. But if satisfactory you can proceed to the next topic.

Information Sheet 1

Cost of An Enterprise

COSTS OF STARTING AN ENTERPRISE

Costs of starting an enterprise

Costs

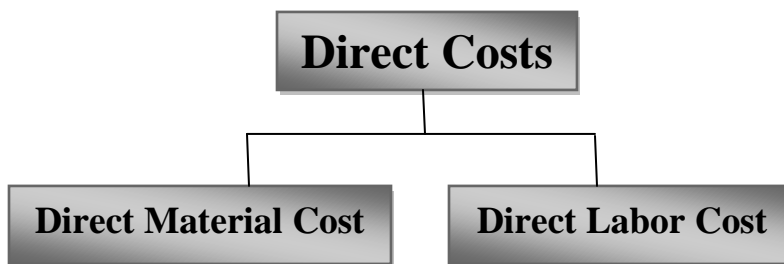
- ◆ Costs are resources consumed or used to produce a unit of product or service
- ◆ Every business generates costs, even if there is no ongoing production, service or trading activities.
- ◆ To understand this, it is essential to know that there are direct costs and indirect costs.

Costs of starting an enterprise

Direct and Indirect Costs

A. Direct costs:

- are those that only arise when an enterprise is manufacturing goods or producing a service or buying goods to resell. These costs depend directly on the number of products, services or goods produced.
- are composed of two cost sub-groups:



- Direct material costs:
 - Expenditures for all items that become part of a product, or are used to produce a service, or are bought for resale, enter into the category of direct material costs.
 - Costs linked to the acquisition of raw materials, such as transport, are included in the direct costs

2. Direct labor costs:

- All wages for workers and helpers that are directly involved in the production or the delivery of services.
- This also includes costs for social security.
- Staff wages for the retailer and wholesaler are not considered as direct costs because one person generally sells many different items.

B. Indirect costs:

- ◆ are all other costs generated from business activities that are not direct costs.
- ◆ are costs that cannot directly be attributed to a specific product or service. for example rent for the office premises, salary for the bookkeeper, interest on the bank loan, telephone costs, fire and car insurance, etc...
- ◆ are also called overhead costs.
- ◆ In wholesale or retail business, all staff costs are indirect costs.

Total cost of a product or service:

$$\begin{aligned} & \text{Sum of Direct Material Costs} \\ & + \text{Sum of Direct Labor Costs} \\ & + \text{Proportion of Indirect Costs} \\ & = \text{Total cost per product or service} \end{aligned}$$

Classification of Costs by Categories

- ◆ Entrepreneurs also have to know the total amount of costs their business generates during a month and during a year.

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- ◆ This information is of importance because it shows the cost structure of the enterprise, and also gives an indication of when particular costs are unnecessarily high.
- ◆ With this information an entrepreneur can try to reduce costs and become more competitive.
- ◆ A business starter has to forecast the total costs of his/her business for at least one year in order to find out whether the planned sales cover the costs or not.
- ◆ All costs that the business' activity creates for the community are called externality costs.
- ◆ All costs that occur in a business can be put into the following categories:
 - Staff costs
 - Material costs
 - Other costs
 - Capital costs

Staff Costs

- An entrepreneur who employs staff becomes an employer and he/she will have legal and social responsibility for his/her employees.
- This responsibility means that he/she has to fulfill a number of requirements that are imposed by laws and regulations, or by collective bargaining agreements such as:
 - Minimum wages
 - Legal duration of working hours
 - Overtime payment
 - Annual leave
 - Sick leave
 - Social security
 - Workplace accommodations for employees with disabilities
- This enumeration shows that staff costs are not only salaries or wages.
- The additional costs that come on top of the salaries are often calculated as a percentage of the salary.

2. Material costs

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- All materials that are used for the manufacturing of a product, or to provide a service, fall under the category “materials”.
- Materials that are not used for a product, but are necessary for the functioning of the business, such as office supplies or detergents for office cleaning, are also counted as material costs.
- In production, a distinction is made among different kinds of materials:
 - Raw materials, e.g. plywood, metal bars, metal sheets, leather, wool, woven fabrics, plastics, flour, butter, etc.
 - Standard materials, e.g. nails, screws, bolts, nuts, fittings, electrical appliances, spare parts, buttons, zippers, etc.
 - Auxiliary materials, e.g. glue, paint, welding electrodes, welding gas, saw blades, grinding paper, yarn, threads, etc.
- In wholesale and retail business the costs for acquiring finished goods for reselling are classed as material costs.

3. Other costs

- All expenditures for items and services that do not fall under the above-mentioned categories are put into the category “other costs”.
- These costs are mainly for electricity, water, telephone, internet, insurance, rent, publicity, administrative fees, etc.

4. Capital costs

- A businessperson, who contracts a loan, has to pay interest for the duration of the loan.
- Interest is also due for an overdraft on the entrepreneur’s current account.
 - ✓ These payments are called capital costs.
- There is a very particular kind of capital cost that is called depreciation.
- Depreciation is the loss of value of machines, equipment or cars that are operating in an enterprise.
- This loss of value is a process that can last several years.
- The duration of this process depends on the type of machine.
- At the end of this process the machine, truck or vehicle needs to be replaced.
- The annual loss is considered as capital cost that allows the money that was paid for the new machine to be recuperated in order to replace it.

- How is depreciation calculated?
 - Quite simply, the price of the newly bought machine, car or whatever it may be is divided by the expected lifespan of the machine.
 - For example, a new delivery pick-up is purchased for 12,000 Birr and its calculated lifespan is five years.
 - Its annual depreciation = $12,000 \text{ Birr} / 5 = 2,400 \text{ Birr/year}$.

Information Sheet 2

Cost of An Enterprise