**FINAL EXAMINATION** **SET 1**

**MODEL ANSWERS** **TERM – JUNE 2023**

**PAPER – 20C**

# ENTREPRENEURSHIP AND STARTUP

**Time Allowed: 3 Hours** **Full Marks: 100**

The figures in the margin on the right side indicate full marks.

Where considered necessary, suitable assumptions may be made and clearly indicated in the answer.

Answer Question No. 1 and 8 are compulsory; Answer any four from Question No. 2, 3, 4, 5, 6 & 7.

## SECTION – A

**1. (a)**

| Sl. No. | Answer | Justification |
|---|---|---|
| (i) | (a) | This startup creates, constructs and implements state of art imaging and sensor technology for defense. |
| (ii) | (c) | Vedantu is India's leading Online and On-Site tutoring company which enables personalized learning. |
| (iii) | (a) | A difference in the threshold limits for MSMEs in the manufacturing and service sectors often created confusion, especially for businesses that operated in both sectors. Streamlining the limits in the new definition has enhanced its simplicity and has made it relatively easier to identify businesses that qualify for the MSME status. Moreover, an inclusion of the retail and wholesale sectors in the new definition, has created a level-playing field for businesses across sectors. This will potentially increase the number of businesses that can qualify as micro, small, and medium enterprises. |
| (iv) | (b) | Insurance companies rely on the law of large numbers to help estimate the value and frequency of future claims they will pay to policyholders and not on law of large sampling. |
| (v) | (a) | Bootstrapping is founding and running a company using only personal finances or operating revenue. This form of financing |

| | | |
|---|---|---|
| | | allows the entrepreneur to maintain more control, but it also can increase financial strain. |
| (vi) | (d) | The rich variety of data that enterprises generate contains valuable insights, and data analytics is the way to unlock them. Data analytics can help an organization with everything from personalizing a marketing pitch for an individual customer to identifying and mitigating risks to its business. |
| (vii) | (a) | Data analytics is the discipline of combining heterogeneous data from various sources, inferring relationships, and forecasting outcomes to promote innovation, acquire a competitive edge in the corporate world, and support strategic decision-making. |
| (viii) | (a) | Product positioning is a form of marketing that presents the benefits of the product to a particular target audience. |
| (ix) | (d) | The Oslo Manual designed by OECD defines four types of innovation: product innovation, process innovation, marketing innovation and organizational innovation. On the other hand, price innovation highlights the entrepreneurial process of defining a product and a price level such that the product can be acceptable to the market. |
| (x) | (d) | Beta is a measure used in fundamental analysis to determine the volatility of an asset or portfolio in relation to the overall market. The overall market has a beta of 1.0, and individual stocks are ranked according to how much they deviate from the market. $$\text{Beta} = r_{(Z,M)} \times \sigma_Z / \sigma_M = 0.72 \times 12\% / 9\% = 0.96$$ |

## SECTION – B

2. (a) Marketers are now able to filter their audience and reach out to a targeted segment with the new age marketing rather than the huge spill overs of the traditional ways. The ways are discussed below:

**(i) A proper understanding of customers and their needs**

This is an important marketing concept that many businesses often ignore. An entrepreneur can address the needs of their customers if they don't know them in the first place. The first step in any marketing strategy is to know your customers well.

It is only by understanding your customers that you will be able to address their needs and offer them the best products and services. Knowledge about your customers is your greatest asset when it comes to marketing.

**(ii) Building a strong online presence**

Technology has transformed how businesses implement their marketing strategies. In the past, businesses largely relied on print and electronic media to advertise their goods and services. But with the advent of the internet, social media platforms such as Facebook and Twitter have proved to be the most effective marketing tools.

Any business should understand what a strong online presence means to its growth. It is a fact that many customers today use the internet to search for information about particular products before purchasing them. This means that the stronger your online presence, the higher your chances of growth.

**(iii) Providing value**

The basic principle for every business should be to offer value to its customers. As long as you are putting their interest first, they will always depend on you. Your marketing strategy should therefore be tailor-made to the needs of your customers. Marketing is about giving the public a sneak preview of what you are offering.

**(iv) Social media marketing**

When considering a marketing strategy, you would want to reach as many people as possible. There's no point in advertising on platforms that have fewer people. Social media platforms command a huge following and you should take advantage of that by being active on every social media platform.

**(v) Multi-channel marketing**

If you want to grab the attention of customers, then you need to get right in front of them. To achieve that and shine from the crowd, you will have to market via multiple channels.

(b) Some strategies for facing the disruptions are given below:

a) Should keep eyes and ears open to any technological revolution that is taking place. It may be in some unrelated industry. Absorption and adoption of digital transformation

b) Check the moves of your competitors especially the innovations they are bringing in

c) Be ready to disrupt rather than waiting to be disrupted.

d) Buy the disruptor if possible.

e) Customers' tastes and preferences may change quickly. Keep an eye on changing customer preferences and change accordingly. If required, diversify or refocus the business.

f) Should be aggressive and not passive in approach.

g) Adopt agile approach.

Many successful companies self-disrupt themselves as a part of their strategy. Apple's iPhone disrupted its own iPod sales. The increase in revenue from iPhone far exceed the reduction in sales of iPod in 2013. Apple benefited by going for self-disruption in 2013.

Companies should continuously try to innovate and keep pace with the changing customer demands. If a company fails to innovate and does not match up to the demand of the customers, then the products of those companies lose relevance. Apple is coming up with newer versions of iPhones to keep pace with changing customer demands. Not just Apple, all smartphone vendors are continuously innovating to make their devices smarter with new features.

3. (a) Important benefits of maintaining receivables are as follows:

**(i) Increase in sales:** Except a few monopolistic firms, most of the firms are required to sell goods on credit, either because of trade customers or other conditions. The sales can further be increased by liberalizing the credit terms. This will attract more customers to the firm resulting in higher sales and growth of the firm.

**(ii) Increase in profits:** Increase in sales will help the firm (a) to easily recover the fixed expenses and attaining the break-even level, and (b) increase the operating profit of the firm. In a normal situation, there is a positive relation between the sales volume and the profit.

**(iii) Extra profit:** Sometimes, the firms make the credit sales at a price which is higher than the usual cash selling price. This brings an opportunity to the firm to make extra profit over and above the normal profit.

**(iv)** **Factors affecting the size of receivables:** The size of accounts receivable is determined by a number of factors. Some of the important factors are as follows:

**(v)** **Level of sales:** This is the most important factor in determining the size of accounts receivable. Generally, in the same industry, a firm having a large volume of sales will be having a larger level of receivables as compared to a firm with a small volume of sales.

**(vi)** **Credit policies:** A firm's credit policy, as a matter of fact, determines the amount of risk the firm is willing to undertake in its sales activities. If a firm has a lenient or a relatively liberal credit policy, it will experience a higher level of receivables as compared to a firm with a more rigid or stringent credit policy.

**(vii)** **Terms of trade:** The size of the receivables is also affected by terms of trade (or credit terms) offered by the firm. The two important components of the credit terms are (i) Credit period and (ii) Cash discount.

(b) A project report is an operating document. So that what information and how much information it contains depends upon the size of the enterprise, as well as nature of production.

Project formulation divides the process of project development into eight distinct and sequential stages as below:

- General information
- Project description
- Market potential
- Capital costs and sources of finance
- Assessment of working capital requirements
- Other financial aspects
- Economic and social variables
- Project implementation

The nature of information to be collected and furnished under each of these stages has been given below:

**1. General Information**

The information of general nature given in the project report includes the following:

**Bio-data of promoter:** Name and address, qualifications, experience and other capabilities of the entrepreneur. Similar information of each partner if any.

**Industry profile:** A reference analysis of industry to which the project belongs, e.g., past experience; present status, its organization, its problem etc. The constitution and organization structure of the enterprises; in case of partnership form its registration with registration of firms, certificate from the directorate of industries.

**Product Details:** Product utility, product range, product design, advantage to be offered by the product over its substitutes if any.

2. **Project description**

A brief description of the project covering the following aspects should be made in the project report.

**Site:** Location of the unit; owned, rented or leasehold land; industrial area; no objection certificate from municipal authorities if the enterprise location falls in the residential area.

**Raw Material:** Requirement of raw material, whether inland or imported, sources of raw material supply.

**Skilled Labour:** Availability of skilled labour in the area i.e., arrangements for training laborers in various skills.

**Utilities:** These include –Power, Fuel, Water, Pollution Control, Communication and transportation facility, Production Process, Machinery and Equipment, Capacity of the Plant, Technology Selected, Other Common Facilities, Research and Development

3. **Market Potential**

While preparing a project report, the following aspects relating to market potential of the product of the product should be stated in the report.

- Demand and Supply position
- Expected Price
- Marketing Strategy
- After Sales Service

Depending upon the nature of the product, provisions made for after-sales should normally in the project report.

4. **Capital Costs and Sources of Finance**

An estimate of the various components of capital items like land and buildings, plant and machinery, installation costs, preliminary expenses, margin of working capital should be given in the project report.

**5. Assessment of Working Capital Requirements**

The requirement for working capital and its sources of supply should clearly be mentioned. It is preferred to prepare working capital requirements in the prescribed formats designed by limits of requirements.

It will reduce the objections from Banker's side.

**6. Other Financial Aspects**

To adjudge the profitability of the project to be set up, a projected profit and loss amount indicating likely sales revenue, cost of production, allied cost and profit should be prepared.

A projected balance sheet and cash flow statement should also be prepared to indicate the financial position and requirements at various stages of the project.

**7. Economic and Social Variables**

Every enterprise has social responsibility. In view of the social responsibility of business, the abatement costs, i.e., the costs for controlling the environmental damage should be stated in the project.

In addition, the following socio-economic benefits should also be stated in the report.

- Employment Generation
- Import Substitution
- Exports
- Local Resource Utilization
- Development of the Area

**8. Project Implementation**

Every entrepreneur should draw an implementation scheme or a time-table for his project to the timely completion of all activities involved in setting up an enterprise. If there is delay in implementation project cost overrun. On the other words, delay in project implementation jeopardizes the financial viability of the project.

An entrepreneur should always prepare ideal project report to avoid loss and always the above facts should be kept in mind while making the project report. Otherwise there is a lot of chance that the projects will failure.

4. (a) Different popular methods or alternatives of financing to startups are discussed below:

**1. Self-funding:**

Self-funding, also known as bootstrapping, is an effective way of startup financing, specially when you are just starting your business. Self-funding or bootstrapping should be considered as a first funding option. First-time entrepreneurs often have trouble getting funding without first showing some traction and a plan for potential success. You can invest from your own savings or can get your family and friends to contribute. This will be easy to raise due to less formalities/compliances, plus less costs of raising. In most situations, family and friends are flexible with the interest rate. Different methods of self-financing are Trade credit, Factoring, Leasing etc.

2. **Crowdfunding:**

Crowdfunding is one of the newer ways of funding a startup that has been gaining lot of popularity lately. It's like taking a loan, pre-order, contribution or investments from more than one person at the same time.

This is how Crowdfunding works – An entrepreneur will put up a detailed description of his business on a Crowdfunding platform. He will mention the goals of his business, plans for making a profit, how much funding he needs and for what reasons, etc. and then consumers can read about the business and give money if they like the idea. Those giving money will make online pledges with the promise of pre-buying the product or giving a donation. Anyone can contribute money toward helping a business that they really believe in.

3. **Angel Financing:**

Angel investors are individuals with surplus cash and a keen interest to invest in upcoming startups. They also work in groups of networks to collectively screen the proposals before investing. They can also offer mentoring or advice alongside capital. Angel investors have helped to start up many prominent companies, including Google, Yahoo and Alibaba. This alternative form of investing generally occurs in a company's early stages of growth, with investors expecting a up to 30% equity. They prefer to take more risks in investment for higher returns. Some of popular Angel Investors in India are Indian Angel Network, Mumbai Angels, Hyderabad Angels etc. Angel Investment as a funding option has its shortcomings too. Angel investors invest lesser amounts than venture capitalists (covered in next point).

4. **Small Business Credit Cards:**

A number of credit card issuers specifically cater to the small business market, and many come with special benefits: cash back rewards, airline mileage points, and other perks. Some issuers require that the card be tied to the owner's personal credit score and credit history and a guarantee from the owner. This would mean, of course, that any defaults or late payments on the business credit card would affect your personal credit rating.

5. **Family and Friends' Circle:**
In startups, often small amount of fund is required. Funds from family members, relatives and friends may be used as source of finance in startups.

6. **Venture Capital:**
Venture capitals are professionally managed funds who invest in companies that have huge potential. They usually invest in a business against equity and exit when there is an IPO or an acquisition. VCs provide expertise, mentorship and acts as a litmus test of where the organisation is going, evaluating the business from the sustainability and scalability point of view. A venture capital investment may be appropriate for small businesses that are beyond the startup phase and already generating revenues.

7. **Funding From Business Incubators and Accelerators:**
Early-stage businesses can consider Incubator and Accelerator programs as a funding option. Found in almost every major city, these programs assist hundreds of startup businesses every year. Though used interchangeably, there are few fundamental differences between the two terms. Incubators are like a parent to a child, who nurtures the business providing shelter tools and training and network to a business. Accelerators so more or less the same thing, but an incubator helps/assists/nurtures a business to walk, while accelerator helps to run/take a giant leap.
These programs normally run for 4-8 months and require time commitment from the business owners. You will also be able to make good connections with mentors, investors and other fellow startups using this platform. In India, popular names of incubators and accelerators are Amity Innovation Incubator, AngelPrime, CIIE, IAN Business Incubator, Villgro, Startup Village and TLabs.

8. **Funds by Winning Contests:**
An increase in the number of contests has tremendously helped to maximize the opportunities for fund raising. It encourages entrepreneurs with business ideas to set up their own businesses. In such competitions, you either have to build a product or prepare a business plan.

9. **Bank Loans:**
Normally, banks are the first place that entrepreneurs go when thinking about funding. The bank provides two kinds of financing for businesses. One is working capital loan, and other is funding. Working Capital loan is the loan required to run one complete cycle of revenue generating operations, and the limit is usually decided by hypothecating stocks and debtors. Funding from bank would involve the usual process of sharing the business planand the

valuation details, along with the project report, based on which the loan is sanctioned.

10. **Loans from Microfinance Providers or NBFCs:**
What do you do when you can't qualify for a bank loan? There is still an option. Microfinance is basically access of financial services to those who would not have access to conventional banking services. It is increasingly becoming popular for those whose requirements are limited and credit ratings not favoured by bank. Similarly, NBFCs are Non-Banking Financial Corporations are corporations that provide Banking services without meeting legal requirements of a bank.

11. **Government's Assistance:**
The Government of India launched 10,000 crore Startup Fund in Union budget 2014-15 to improve startup ecosystem in India. The Government of India has been maintaining the trend of investing in order to boost innovative startups.

12. **Product Pre-sale:**
Selling of products before launching is an often-overlooked but it is highly effective way to raise the finance for startups.

13. **Selling Assets:**
In case of startup financing, selling of existing assets can help to meet the short-term fund requirements. After overcoming the crisis situation, the startup can again buy back the assets.

14. **Credit Cards:**
Business credit cards are among the most readily available ways to finance a startup and can be a quick way to get instant money. If you are a new business and do not have a sufficient money, you can use a credit card. However, keep in mind that the interest rates and costs on the cards can build very quickly, and carrying that debt can be detrimental to a business owner's credit.

As an entrepreneur, I think that crowdfunding is the best method at present days because it is like taking a loan, pre-order, contribution or investments from more than one person at the same time.

An entrepreneur will put up a detailed description of his business on a Crowdfunding platform. He will mention the goals of his business, plans for making a profit, how much funding he needs and for what reasons, etc. and then consumers can read about the business and give money if they like the idea. Those giving money will make online pledges with the promise of pre-buying the product or giving a donation. Anyone can contribute money toward helping a business that they really believe in.

(b) (i) **Crowdfunding**

Crowdfunding is a collaborative funding model that lets you collect small contributions from many individuals (the crowd). There are two main types of Crowdfunding. The donation model is what most people think of when Crowdfunding is mentioned. Funders donate money to a cause in exchange for products, special pricing on items, or rewards. Beyond the perks, donation funders do not have the opportunity to get anything in return for their money. Kickstarter and Indiegogo are examples of donation crowdfunding. A more recent model is investment Crowdfunding. Businesses sell ownership stakes in the form or equity or debt so funders (more accurately, investors) become shareholders in a sense, and they have the potential for financial return.

Some of the popular Crowdfunding sites in India are Indiegogo, Wishberry, Ketto, Fundlined and Catapooolt. In US, Kickstarter, RocketHub, Dream funded, Onevest, DonorBox and GoFundMe are popular Crowdfunding platforms.

**Process Innovation**

It is innovation in an existing business process or development of a new process that either increases the value of the final product or reduces operational cost considerably. Important examples of process innovations are development of new system of stock recording, development of new production process, development of new HR schemes, etc.

Process innovation is about designing and implementation new and significantly improved business processes. Whether in the production process or delivery process its focus is on improving the process, productivity and reducing waste. An improved process on how a company carries out certain processes. PI involves the use of new methods or tools to help enterprises satisfy consumer needs. Innovating processes requires a combination of skills, facilities and technologies to boost efficiency. When done right, it leads to cost and time savings without compromising the quality of products or services. Process innovations strive to increase performance. They occur internally and, therefore, are invisible to the customer. However, the outcomes are tangible and reflect how well an enterprise executed the innovation strategy.

**Business Scalability**

Business scalability refers to a business or other entity's capacity to grow to meet increased demand. A business that can scale up successfully should also benefit from economies of scale, where production costs are spread across more units, resulting in higher profit margins. In the context of business, scalability describes the ability of a business to cope with challenges efficiently and maintain or increase profits as it grows, in the simplest terms. So, in a way, it refers to the meaningful growth of a company, in which profits go up as the expenses go down. If the opposite is what you are dealing with right now, you might want to keep reading.

(ii) A lean startup is a strategy used to initiate a new company or launch a new product on behalf of a present entrepreneur. In other words, lean startup is an approach to building new businesses based on the belief that entrepreneurs must investigate, experiment, test and iterate as they develop products. The concept of lean startup originated in the early 2000s and evolved into a methodology around 2010. However, lean startup stages are:


Stages of Lean Startups

A lean startup attempts to solve this problem scientifically by using specific principles and processes. The idea of a lean startup comes from Eric Ries, who has written extensively on it in a book and a website. According to him, there are five main principles for creating lean startups. These five principles of lean startups are -

Entrepreneurs are everywhere: There are many types of entrepreneurs and startups. Tons of opportunities exist that entrepreneurs can take advantage of to build a successful business.

**Entrepreneurship is related to management:** Startups need management just like any company. However, lean startups have a unique type. Having flexible, learning oriented management makes for a successful lean startup.

**Validation of learning:** Lean startups primarily serve customers with their products. They adapt to the needs of the target market by learning exactly what it is that customers want. Through experimentation, they find what works best.

**Innovation:** Lean startups keep detailed records of tests and analysis to figure out what works best. They gauge progress on the amount learned about the innovation rather than the amount of new work created.

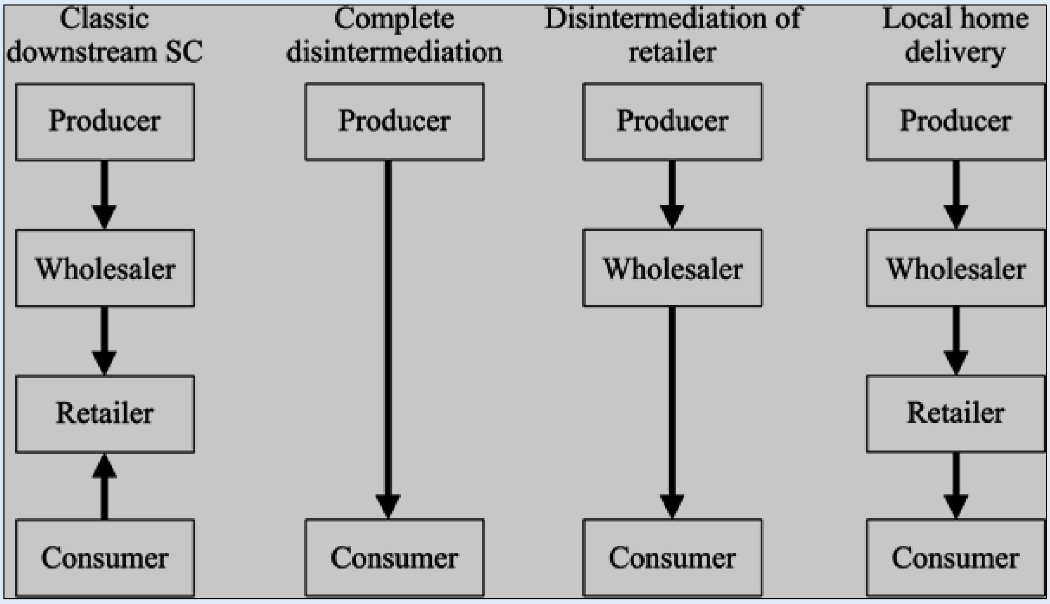
Feedback Evaluation: Lean startups hit the ground running by building the simplest product that does what it should, called the Minimum Viable Product (MVP). This goes through rigorous evaluation through tests and user feedback to collect data on how targeted users accept the product. If it works, then they learn from the feedback and make it better in an iterative process.

5. (a) **Disintermediation Model**

The term disintermediation refers to the process of cutting out the financial intermediary in a transaction. It may allow a consumer to buy directly from a wholesaler rather than through an intermediary such as a retailer or enable a business to order directly from a manufacturer rather than from a distributor.

This model is used by wholesalers and by manufacturers, businesses that deals with direct sales. The problem of intermediation by middleman can be mitigated by this type of operation. The lowering of the cost to the end-user is the main benefit of this type of business model. In retail business, manufacturers can ship their goods directly to the distribution house and no intermediation will require. This model is ideal for new start-ups for cost management and building customer relationships.

**Examples** – Dell, Apple etc.



(b) An elevator pitch is a short, convincing and previously prepared speech that an entrepreneur uses to arouse the interest of others. This approach is characterized by not normally exceeding 30 seconds while transmitting important information. For example, what makes the product, services, company or the entrepreneur unique.

An elevator pitch is one of the most basic and essential tools in any successful salesperson's repertoire. A great pitch is short, straight to the point and can be a key factor for landing a sales opportunity. Typically, an elevator pitch is no longer than two minutes. It concisely describes your product, its benefits, and how you're different from the competition. Here are five elements to include:

1. Relate to their problem
2. Explain the solution
3. Detail why your product is unique
4. Personalize the message
5. Craft a compelling call-to-action

6. (a) There are various ways a team can be motivated. Some of the ways to motivate a team are given below:

**a.** **Providing a pleasant work culture:** A positive workplace culture is created by positive attitudes and positive deeds. Encourage cooperation and communication to foster a healthy atmosphere at work, leadership and management must model collaboration and promote honest, open communication. It's critical to realise that workplace culture encompasses both employee behaviour and the values held by the firm. It is the way employees behave and engage with one another at a workplace when no one is looking.

**b.** **Making them feel valued:** People are frequently happier, more productive, and less prone to search for other job possibilities when they feel appreciated at work. There are various methods to demonstrate employees how much you respect them, from cash rewards and recognition schemes to little acts like paying attention to their comments and acting on it. A good business culture may be developed by understanding the worth of valued personnel and how to express appreciation.

c. **Offering a good salary package:** Greater job satisfaction, or workers who are pleased in their positions and are less inclined to change occupations, can be the result of fair salary and benefits. This not only lowers the incidence of employee turnover, but it may also give some jobs in the office a better reputation among workers. greater compensation for better performance Companies that reward well performing employees with increases will encourage those individuals to keep working at a high level and offer others something to aspire to. A well-paid employee is often a highly motivated employee.

d. **Providing opportunities for self-development:** Most businesses enable staff members to determine professional objectives and then work toward achieving those goals. However, workers should be self-driven to make their own personal objectives. These objectives may also be discussed at the time of the performance evaluation. By demonstrating to your staff that their management cares about them as autonomous individuals, not simply as employees to the firm, it will inspire them and make them feel appreciated.

e. **Providing constructive feedback:** Constructive feedback is supportive feedback given to individuals to help identify solutions to areas of weakness they may have. Therefore, it comes with positive intentions and is used as a supportive communication tool to address specific issues or concerns.

f. **Provide clear goals:** Employees want to see how their work contributes to larger corporate objectives, and setting the right targets makes this connection explicit for them, and for you, as their manager. Goal-setting is particularly important as a mechanism for providing on-going and year-end feedback. By establishing and monitoring targets, you can give your employees real-time input on their performance while motivating them to achieve more.

g. **Fostering the team spirit:** Team spirit is when a group of people really feel invested in reaching a goal together and are there to support each other. Embodying a sense of team spirit at work helps employees to bond with their colleagues and impress their managers. Team spirit isn’t just limited to interacting with other employees. It also extends to dealing with customers, partners and vendors.

**(b)**

**Statement of working capital**

(₹ In lakhs)

| | ₹ | |
|---|---|---|
| Current Assets: | | |
| Material $(\frac{48}{12} \times 3)$ | 12.00 | |
| Work-in-progress: | | |
| Material $(\frac{48}{1} \times 12)$ | 4.00 | |
| Expenses $(\frac{24}{12} \times \frac{3}{2})$ | 3.00 | |
| Finished goods $(\frac{84}{12} \times 1)$ | 7.00 | |
| Debtors $(\frac{120}{12} \times 3)$ | 30.00 | 56.00 |
| Less: Current Liabilities: | | |
| Creditors $(\frac{48}{12} \times \frac{3}{2})$ | | 6.00 |
| **Working Capital Required** | | **50.00** |
| **As per Bank norms working capital** | | |
| Current Assets: | | |
| Raw Material (2 ½ months) | 10.00 | |
| Work in progress (1 Month) | 6.00 | |
| Finished goods (1 month) | 7.00 | |
| Debtors : ( 1 ½ month) | 15.00 | |
| Total | | 38.00 |
| Less : Current liabilities creditors (2 ½ month) | | 10.00 |
| **Working capital as per bank** | | **28.00** |

Considering 25% of Current Assets as margin money i.e., ₹9.50 lakh, the permissible Bank Borrowing works out to ₹ 18.50 lacs.

**7. (a)** Every business does not necessarily require an Audit. There are some parameters which necessitate a financial audit for an organization, which are different depending on the nature of the business and type of company. For a Startup, an Audit may be required in several situations, some of which are listed below:

**(i)** **Lenders/Investors:** In respect to Lenders and Investors, there can be two main circumstances when a financial audit may be required, which are explained as follows:

**(ii)** **For Existing Lenders and Investors:** A financial audit provides a comprehensive view of company's business and current state of affairs.

Entities investing in a business may call for its Audit to receive an overview of company's financial records. An audit provides additional assurance to management's assertions regarding the financial situation of the business.

**(iii)** **For interested Lenders and Investors:** When an organization is properly audited, Lenders and Investors who are interested in investing in the business get an overview. Additionally, they may call for an Audit to know the company's pre-revenue circumstances and to accumulate possibilities of Gains and Losses.

**(iv)** **Pre IPO (Initial Public Offering):** When an organization desires to list its small business as a public company to sell company's shares to the public in general, in such situation an Audit may be required. As before public offering it is important to list company's financial state with verified records.

**(v)** **Selling-off:** There may be circumstances in which an organization may want to sell of their business. In such situation, having properly audited records will help the buyers in analysing the risk factors, is any, in acquiring the business.

**(vi)** **Compulsory Audit:** In case of a Limited liability Partnership, if the turnover exceeds ₹40,00,000/- or the contribution exceeds ₹ 25,00,000/- in any year, an Audit is compulsory.

While on the other hand, for a Private Company, the accounts have to be compulsorily audited every financial year. A Private Limited Company has to appoint an Auditor within 30 days of its incorporation. The shareholders need to be informed if an Auditor is not appointed within 30 days of its incorporation. They require to appoint an Auditor within 90 days of its incorporation.

(b) Apart from several clarifications with the financial records and its compliance with statutory requirements, there are several benefits of getting the books of accounts of a business Audited. Some of which are as follows:

- Early identification of errors,
- Prevention in the occurrence of fraud,
- Independent evaluation provides credibility to business,
- Confirms accuracy of the financial statements of the business,
- Helpful for the business owners in planning budgeting, capital expenditure etc.,
- Ensures business's regulatory requirement compliances,
- Provides recommendations, expert and unbiased notes for improvements by tracking down loopholes in management etc.

Thus, in a nutshell an Audit provides the organization with sufficient opportunities to fix any errors, maintain a transparency, assure the concerned authorities with the state of affairs and regulate the books of accounts. (https:// www.cagmc.com/audit-for-startups/)

In general, the reasons for Start-up audit:

Firstly, the reason a start-up gets an Audit, if investors ask for it. If a Start-up has a quality bookkeeper and a good finance team, then investors may not ask for audit.

Secondly, if the start-up is going for IPO then it will need an audit.

Thirdly, if a bank loan is needed and a line of credit is coming from the bank then the bank may need an audit report. So, the start-up must have solid bookkeeping.

The fourth reason is, that when the start-up is going to sell to the government then there may be the need for an audit.

Lastly, if the board is asking for book records and financial shenanigans then a start-up needs an audit.

The audit is a financial term. There are three types of financial services:

1. Audit
2. Review and
3. Compilation

The audit report must be certified for legal purposes as a private setup Start-up is not essentially required to do an annual audit. An early-stage Startup usually does an audit when they are asked by their investor. Venture capitalists do not usually ask for an Audit.

**SECTION – C**

8. (a) Agriculture technology or Agri Tech is the use of technology in agriculture, aquaculture and horticulture. Use of technology in agriculture increases productivity and efficiency. Agriculture technology can be products or services. Agri-tech is the use of technology for farming that is developed to improve efficiency and profitability. While most commonly used in horticulture and agriculture, agri-tech is also found in forestry, aquaculture and viticulture.

Agri-tech aims to improve farming through information monitoring and analysis of weather, pests, soil and air temperature. Agri-tech also includes the use of automation, such as controlling heaters and irrigation and employing pest control through aerosol pheromone dispersal. Technologies and applications in agri-tech include:

- Drones
- Satellite photography and sensors
- IoT-based sensor networks
- Phase tracking
- Weather forecasts
- Automated irrigation
- Light and heat control
- Intelligent software analysis for pest and disease prediction, soil management and other involved analytical tasks

Backed by increased digitization, government initiatives, and investors interest, the Agritech industry in India is growing at a rate of 25% per year. And as India's startup ecosystem is expanding, entrepreneurs are actively playing their role in generating more business in the agricultural industry. Market players and many new startups are now leveraging technology such as data digitization, data analytics, machine learning, artificial intelligence, SaaS, and IoT to make the agriculture industry more efficient.

The agritech sector is also witnessing increased fund availability over recent years. Despite weak economic conditions because of the COVID-19 pandemic, the Indian agritech ecosystem received investments of around $300-350 million in 2020. Many industry experts now believe the number will soon reach $1 billion.

Technology played an important role in the agriculture sector. There have been many agricultural revolutions which resulted in transformation of the sector. Industrial revolution introduced agricultural machinery. In the 20th century, major advances in agricultural productivity could be noticed new agricultural machinery and also insecticides and pesticides. Information technology has been applied to agriculture in the 21st century which resulted in agricultural robots, agricultural drones and driverless tractors.

**Challenges Faced by the Agritech Industry in India**

Like every industry, the agritech industry in India is also facing its own set of challenges. And for the agritech sector to remain on its growth trajectory, agritech ecosystem stakeholders must come up with innovative solutions.

1. **Lack of Financial services:** Lack of adequate data prevents the adoption of financial services, such as credit and insurance. In a study conducted by ThinkAg, a platform for Agri and food innovation, it was revealed that only 30% of the farmers get access to finance from formal sources, while about 50% of the small and marginal farmers are unable to borrow from any source.

2. **Less use of Digital infrastructure:** There is limited digital infrastructure data and digital records of transactions across the agriculture value chain. So, to make the value chain more efficient, the sector agritech needs more advanced digital infrastructure.
3. **Issues in Market linkage:** Farmers are unable to get fair price due to limited sales channels. So, issues in market linkage must be solved to strengthen the economic sustainability of farmers.

Agritech startups use technology to solve the problems of the farmers. It uses technological innovations to improve productivity, efficiency and profitability of the agricultural sector. According to NASSCOM, India has 450agritechstart-ups and the number is growing at a rate of 25%.

A brief description of one such agritech company is given below:

1. **Nutrifresh :** It is an agri-tech startup which focusses on chemical free produce. It brings in hydroponic farming based on Internet of Things (IoT). The startup was founded by Sanket Mehta and Ganesh Nikam. It attracted a pre-series funding of 5 million USD.
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3. **CropInTechnology**: CropIn is an AI-led agritech startup that is focused on helping the world's agritech ecosystem players to sustainably "maximize their per-acre value" by combining pixel-level data derived from satellite imagery in combination with IoT and field intelligence. Started by Krishna Kumar, the agritech startup has digitized over 13 million acres of farmland, enriched the lives of nearly 4 million farmers, and gathered data on 388 crops and over 9,500 crop varieties. As per the startup, it has a 92% score on adaptability and over 98% client retention rate.
4. **Bijak:** Founded in April 2019 by Daya Rai, Jitender Bedwal, Mahesh Jakhotia, Nikhil Tripathi, NukulUpadhye, Bijak is a B2B marketplace for suppliers and buyers across India's Agri value chain. Bijak aims to bridge the information asymmetry and lack of accountability in agricultural commodities trading. Since its launch, Bijak has expanded across 22 states, 400 regions, and 80+ commodities.
5. **Stellapps:** Stellapps is an IIT-Madras incubated end-to-end dairy technology solutions startup founded by Jinesh Shah, Praveen Nale, Ramakrishna

Adukuri, Ranjith Mukundan, Ravishankar Shiroor, and Venkatesh Seshasayee. It produces and procures comprehensive farm optimization and monitoring support, which helps dairy farmers and cooperatives maximize profits while minimizing effort. Sellapps leverages internet of things (IoT), big data, cloud, mobility, and data analytics to improve agri-dairy supply chain parameters, including milk production, milk procurement, cold chain, animal insurance and farmer payments.

6. **Aibono :** Started by Vivek Rajkumar in 2014, Aibono claims to be India's first AI-powered fresh food aggregator, pioneering the Seed-to-plate™ platform.Seed-to-plate is a next-generation disruption that synchronizes real-time production with real-time consumption of super perishable fruits & vegetables by using predictive analytics, precision farming, and just-in-time harvests.

(b) One of the most important efforts that many firms have started or are starting is digital transformation (DX). The perfect storm of numerous technologies, including SaaS, Mobile, Robotics, IoT (Internet of things), Virtual Reality (VR), etc., is significantly influencing how businesses are undergoing digital transformation. However, we think that Machine Learning (ML) and Artificial Intelligence (AI) will be the two main technologies that drive enterprises through the Digital Transformation. AI is transforming society and people's lives, and it is increasingly acting as an economic and organisational growth catalyst.

Digital transformation is impacting how business is conducted now a days. Big data impacted marketing activities of many companies. Firms who have done better data analytics seemed to have performed well. Buying behaviour of the customers have also been impacted by digital transformation. It has changed the way information is shared by the customers thereby creating opportunities for the companies.

Some of the advantages of digital transformation is given below:

a. Better management of resource
b. Better experience for the customer
c. Customer insights based on data
d. Improved productivity
e. Increased efficiency