

# Business Finance and Arithmetic

## TEXTBOOK QUESTIONS SOLVED.

**Question 1. Answer the following in about 15 words:**

**(i) What do you mean by Unit of Sale?**

**(ii) What do you mean by Gross Profit?**

**(iii) When you sell your product but the buyer does not pay your money immediately, it is known as?**

**Answer:** (i) Unit of sales can be defined as the measure of what products are sold.

(ii) Excess of Unit Price over Unit Cost is known as the Unit Gross Profit or Unit Gross Margin.

This represents the business's profit from selling a product or providing service before deducting fixed expenses such as salaries, rent, and other expenses.

Gross Profit = Unit Price – Unit Cost.

(iii) Credit Transaction/Selling on credit.

**Question 2. Answer the following in about 50 words:**

**(i) Give four examples of Fixed Costs.**

**(ii) Give two examples of Start-up Cost.**

**(iii) Give four examples of Inflow and Outflow of Cash.**

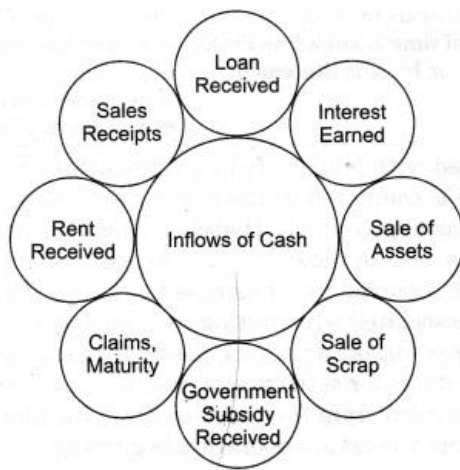
**(iv) What do you mean by Cash Inflow and Cash Outflow?**

**Answer:** (i) The following is a list of some of the items on which expenses will remain fixed in nature: Consultancy charges, travel, salary, wages, rent, maintenance, minimum rent of telephone.

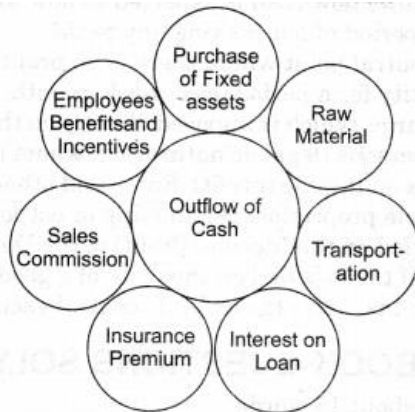
(ii) (a) Expenses incurred on purchase of assets.

(b) Cost of inaugural ceremony.

(iii)(a) Few examples of inflows of cash in business:



(b) Few examples of outflows of cash from business:



(iv) All receipts of money is known as cash inflow like rent received and loan received, and payments made in money is known as cash outflow, example: insurance premium and transportation charges.

**Question 3. Answer the following in about 75 words:**

(i) Give one difference between Direct Tax and Indirect Tax.

(ii) Why motive of business is to earn profit and not loss?

(iii) Give one difference between Cash flow Statement and Income statement.

(iv) What do you mean by Non Cash Expenses?

(v) What do you mean by Start-up Cost?

(vi) Explain Cost, Expenses and Expenditure.

(vii) What is a Cash Register? Why is it important for any business?

**Answer:** (i)

Basis	Direct Tax	Indirect Tax
Shifts	A direct tax is one that cannot be shifted by a taxpayer to someone else.	An indirect tax is one that can be shifted by a taxpayer to someone else, or it can be included as a cost element in computation.

(ii) The purpose and objective of every business is to earn maximum profit, it means getting back more than what you have spent or invested.

(iii)

Income Statement	Cash Flow Statement
Statement that enables us to determine the profit over a period of time is known as Profit and Loss Statement or Income Statement.	The historical Cash Flow Statement shows how cash has flowed in and out of a business. Or It describes the cash inflow and outflow that has occurred in the past.

(iv) When items are used with longer life in business (furniture, machinery, etc), a part of its original value is computed as the cost for a given period – say a month, a year, etc. This is

known as depreciation. However, money is not paid for depreciation. So depreciation is not a cash outflow. It is a non-cash expenditure.

(v) It is an initial cost incurred by a business for setting up a business before starting a business. It is associated with setting up a business.

- **It includes expenses for:** (a) acquiring assets (b) for acquiring initial raw material and other related items for setting up a business.
- All these expenses incur from the time you start the planning and preparation, i.e. many months before the actual operation beginning.
- It is also known as non-recurring cost or preliminary expenses or pre-operating expenses. Examples are : Accountant's fees, legal fees, registration charges, advertising\* (through newspapers, pamphlets, hoardings boards, local news channel, workshops) promotional activities, and employee training.

**(vi) Cost:** A cost is a derived value of money consumed to produce a current or future outcome; hence, costs provide management a decision supporting view to improve business economics. Costs are expressed as a value measured in relationship to a causal volume of consumption.

**Example:**

Expenditure is the outflow of money for the purpose of making various payments. Expenditure is a payment for the purchase of an asset like buying machinery, paying dues for items bought on credit, a distribution to the owners, buying raw material, paying for advertising, salaries, etc. In simple terms, expenditure can be equated to outflow of money can be either in cash or cheque.

Expenses are a subset of expenditures or payments made specifically for consuming goods and services, while expenditure includes payments made to buy assets. Examples: advertising, salaries, interest, commissions, rent, etc.

For instance, when a business acquires a machine, it would be called expenditure, while when the business pays for electricity for running the machine, this would be called an expense.

(vii) The importance of cash (money) in business is similar to that of blood in the human or any other living being. In business, all transactions are made by paying or receiving money. Cash register records all cash register transactions related to business. It means inflow and outflow of cash in the business are recorded in the cash register. Maintaining a cash book or register is very essential for every business.

- By recording all the entries it will be easy for further analysis of expenses, costs, revenues, profit, etc. can be made.
  - The entrepreneur or other stakeholders can easily know the cash balance and bank balance at the any time.
  - It also provides the information for daily receipts, payments and cash balance and bank balance at the end of each day.
  - Recording of cash and bank transactions will be helpful for an entrepreneur about shortage or surplus at the end of the day so that he can take further decision.
  - It helps keep an accurate count of inventory (Stock/merchandise) and sale record of business.
  - It helps check the misappropriations of the cash in the business.
- Hence, maintaining a cash book is very critical for the success of a business.

**Question 4. Answer the following in about 150 words.**

**(i) Why do we pay taxes?**

**(ii) What do you mean by Break Even Point?**

**(iii) How much profit can we earn? Is there any policy of the Government for maximum profit**

earning?

(iv) Company makes a product with a selling price of Rs 20 per unit and variable costs of Rs 12 per unit. The fixed costs for the period are Rs 40,000. What is the required output level to make a target profit of Rs 0,000?

(v) Identify the following items as inflow/outflow and also give reasons for your choice.

(a) raw material (b) depreciation

(c) machinery purchased (d) loan from bank

(e) equity shares issued (f) excise duty paid

(g) profit on sale of asset (h) interest received on investments

(vi) What is a 'Startup Cost'? Identify the areas for requirement of Startup Cost.

**Answer:** (i) Our tax system is based on our "ability to pay." The more money we earn, the more taxes we pay or if we earn a small income, we pay less taxes.

Tax payment is also required by the law. The government needs money to operate, and taxes are a way for it to get this money.

Money goes to fund many different types of programs. It may be used to fix roads and bridges. It may be used to pay for the military. It may be used to help your own education.

It means taxes are paid to help the government to sustain itself.

(ii) Break-Even Point: Break-even point is a neutral point at which the company neither makes a profit nor suffers a loss. Calculating the break-even point is a powerful quantitative tool for managers.

In its simplest form, breakeven analysis provides insight into whether or not revenue from a product or service has the ability to cover the relevant costs of production of that product or service.

Entrepreneurs can use this information in making a wide range of business decisions, including setting prices, preparing competitive bids, and applying for loans. It also helps in Profit Planning and Goal setting.

**At the break-even level, Total Revenue = Total Expenses**

**The formula for calculating break-even level is:**

$$\text{Break-even Volume} = \frac{\text{Fixed cost}}{\text{Gross margin}}$$

(iii) There is no limit on the profit that a firm can earn. But whatever profit is earned by the firm is liable for the tax. Corporation tax is to be paid on the profit earned by the enterprises. This is mandatory for the firms. Also the rate of taxes keep on changing and new policies related to profit taxes and other taxes. These changes are done through the Budget and through the amendment or bills.

$$(vi) \text{ Break-even Volume} = \frac{\text{Fixed cost}}{\text{Gross margin}}$$

$$\text{Gross Margin} = \text{Selling Price} - \text{Variable Cost}$$

$$\text{Break-even Point (in units)} = \frac{40,000}{20 - 12} = \frac{40,000}{8} = 5,000 \text{ units}$$

$$\text{Break-even Point (in Sales)} = \frac{\text{Fixed cost}}{\text{Gross margin}} \times \text{Sale Price} = \frac{40,000}{20 - 12} \times 20$$

$$\text{Break-even Sales} = \frac{40,000}{8} \times 20 = ₹ 1,00,000.$$

(v)	Items	Inflow/Outflow	Reasons
(a)	Raw material	Outflow	Raw material comes in and cash goes out.
(b)	Depreciation	No inflow nor an outflow	It is an expense, charged on asset not an inflow nor outflow of cash.
(c)	Machinery purchased	Outflow	Machinery comes in the business and cash goes out.
(d)	Loan from bank	Inflow	Loan amount comes in and cash goes out.
	Equity shares issued	Inflow	It is an investment of outsiders, cash comes in the business.
(f)	Excise duty paid	Outflow	It is an expense, cash goes out.
(g)	Profit on sale of asset	Inflow	On sale of asset, surplus amount received is an inflow.
(h)	Interest received on investments	Inflow	Money coming in the form of interest on the deposits made in the bank is a surplus.

(vi) This term really relates those expenses incurred prior to the business starting to trade. Start-up cost is the cost which is incurred initially a business is started. It consists of expenses for (a) acquiring assets as well as (b) for acquiring initial raw material and other related items of initial expenses, till such time the cash flow (i.e money coming in and money going out) from the business can provide for these.

This part of the start-up expenses is known as working capital. All these expenses occur from the time you start the planning and preparation (i.e. many months before the actual operation beginning). Examples would be the initial stock, membership of a trade organisation, purchase of a patent, company registration, or purchase of equipment needed to start.

The following is a list of some of the items to be bought to start your business:

Land: Acquiring land to set up your business.

Building: Constructing building to start your business.

Computers: Purchasing computers.

Equipments: Investing money in purchasing equipments.

Machinery: Buying and installing machine.

Vehicles: Buying vehicles used for transportation purposes.

Vessels: The vessels which will be used in case of catering business.

Software: The software needed to be installed in computer.

Registration: For registering the company, inauguration ceremony.

Raw Materials: Purchasing raw materials for a manufacturing business

Salary: During initial period.

Rent Advance: Money to be paid as advance to the landlord.

**Question 5. Answer the following in about 250 words :**

**(i) Define the term 'break-even'.**

**(ii) Explain why break-even analysis is of reduced value to a multi-product firm. Analyse the factors that any business should take into consideration before using break-even analysis as a basis for decision-making.**

**Answer:** (i) Break-even point can be defined as the point where the total cost of the firm is exactly

equal to its total revenue. At this point the firm earns zero economic profits.

The Break-even Point (B.E.P) is the sales volume at which there is neither profit nor loss, cost being equal to revenue. Break-even Point is a neutral point. Sales below this point show loss and sales excess of this point show profit. It is the relationship among cost of production, volume of production, profit and the sales value.

Basis	Direct Tax	Indirect Tax
Meaning	A Direct tax is a kind of charge, which is imposed directly on the taxpayer and paid directly to the government by the persons (legal or natural) on whom it is imposed.	If tax is levied on the price of goods or service, then it is called an indirect tax and collected by an intermediary (such as a retail store) from the person who bears the ultimate economic burden of the tax (such as the customer).
Shifts	A direct tax is one that cannot be shifted by the taxpayer to someone else.	An indirect tax is one that can be shifted by the taxpayer to someone else or it can be included as a cost element in computation.
Levied on	Direct taxes are levied directly on income, capital value, wealth, corporate assets.	It is levied on goods and services like service tax, sales tax or VAT, central excise tax, custom duty, etc.

(ii) Break-even analysis is a technique widely used in the manufacturing unit by the production manager. It is based on categorising production costs between two types of cost (i) Fixed Cost and (ii) Variable Cost.

Total variable and fixed costs are compared with sales revenue in order to determine the level of sales volume (in Units), sales value (in Rs) as it is a level of a point at which the business makes neither a profit nor a loss which is also called as the "break-even point".

Let us take an example, there are three companies each producing different commodities like:



ABC Co. — Plastic Bottles

LMN Co. — Computers (one type)

XYZ Co. — Leather Coats

The above examples show that there are three firms and all three are producing single product, single selling price and single variable cost.

Businesses dealing with multiple products must reduce all the selling prices down to one selling price, and bring down to one variable cost. This is accomplished by calculating a weighted average selling price and a weighted average product cost (variable cost). Further, when the weighted average selling price and weighted average variable cost are calculated, only then can a business, selling multiple products, determine their break-even point. Moreover, businesses selling multiple products will determine their break-even point using the following break-even formula: Break-even in Units

$$= \frac{\text{Fixed}}{\text{Weighted Average Selling Price} - \text{Weighted Average Variable Costs}}$$

As you can see, the break-even point formula for businesses selling multiple products is similar to the formula used by businesses selling a single product. The only difference is the term "weighted average" placed in front of the selling price and variable cost. It is important to understand the concept of weighted averages.

- Calculating the break-even point (through break-even analysis) can provide a simple, yet powerful quantitative tool for managers.  
The analysis provides insight into whether or not revenue from a product or service has the ability to cover the relevant costs of production of that product or service.  
Entrepreneurs can use this information in making a wide range of business decisions, including setting prices, preparing competitive bids, and applying for loans.
- It also helps in Profit Planning and Goal setting.

#### Question 6. High Order Thinking Skills (Hots)

(i) The following information relates to a company, which produces a single product.

Direct labour per unit Rs 22

Direct materials per unit Rs 12

Variable overheads per unit Rs 6

Fixed costs Rs 4,00,000

Selling price per unit Rs 60

Use the figures above to show the minimum number of units that must be sold for the company to break-even.

(ii) Distinguish between:

(i) Unit Cost and Unit Price

(ii) Expenses and Expenditure

(iii) Fixed Cost and Variable Cost


(iv) 'Profit is not to be considered as in flow'. Comment with apt person.

Answer:

$$(i) \text{ Break-even point} = \text{B.E.P} = \frac{\text{Fixed cost}}{\text{Contribution per unit}}$$

Fixed Cost	4,00,000
Variable cost per unit	Direct labour per unit + Direct materials per unit + Variable overheads per unit ₹ 22 + ₹ 12 + ₹ 6 = ₹ 40 per unit.
Selling Price per unit :	₹ 60 per unit
Break-even Point (in Units )	$= \frac{4,00,000}{60 - 40} = \frac{4,00,000}{20} = 20,000 \text{ units}$
Break-even Point (in ₹)	₹ 20,000 × 60 = ₹ 12,00,000.

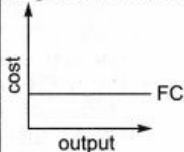
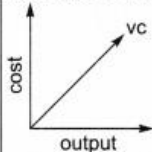
(ii) (i) Unit Cost Vs Unit Price

Basis	Unit Cost	Unit Price																						
Meaning	Cost of unit can be defined as the cost incurred by a company to produce, store and sell one unit of sale of a particular product or service.	Unit price is the price at which one unit of sale is sold.																						
Examples	Variable cost like raw material, packing material, sales commission, freight, etc.	<div><p>Global Cuisine Lunch Buffet @ 345/-* MON TO SAT</p></div> <p>TAWA PARANTHAS...</p> <table><tr><td>1. ALOO PARANTHA....</td><td>25.00</td></tr><tr><td>2. METHI PARANTHA....</td><td>25.00</td></tr><tr><td>3. ONION PARANTHA....</td><td>25.00</td></tr><tr><td>4. GOBI PARANTHA....</td><td>25.00</td></tr><tr><td>5. CAPSICUM PARANTHA....</td><td>25.00</td></tr><tr><td>6. MIX PARANTHA....</td><td>25.00</td></tr><tr><td>7. GARLIC PARANTHA....</td><td>25.00</td></tr><tr><td>8. PANEER PARANTHA....</td><td>25.00</td></tr><tr><td colspan="2">(1 Paranthas will be accompanied by Chutni and Sauce)</td></tr><tr><td>10. LACCHA PARANTHA....</td><td>50.00</td></tr><tr><td colspan="2">(2 Paranthas with Chole Masala)</td></tr></table>	1. ALOO PARANTHA....	25.00	2. METHI PARANTHA....	25.00	3. ONION PARANTHA....	25.00	4. GOBI PARANTHA....	25.00	5. CAPSICUM PARANTHA....	25.00	6. MIX PARANTHA....	25.00	7. GARLIC PARANTHA....	25.00	8. PANEER PARANTHA....	25.00	(1 Paranthas will be accompanied by Chutni and Sauce)		10. LACCHA PARANTHA....	50.00	(2 Paranthas with Chole Masala)	
1. ALOO PARANTHA....	25.00																							
2. METHI PARANTHA....	25.00																							
3. ONION PARANTHA....	25.00																							
4. GOBI PARANTHA....	25.00																							
5. CAPSICUM PARANTHA....	25.00																							
6. MIX PARANTHA....	25.00																							
7. GARLIC PARANTHA....	25.00																							
8. PANEER PARANTHA....	25.00																							
(1 Paranthas will be accompanied by Chutni and Sauce)																								
10. LACCHA PARANTHA....	50.00																							
(2 Paranthas with Chole Masala)																								

(ii)

Basis	Expenses	Expenditure
Meaning	An expense is the value of the resource that was used up, or was necessary in order to earn the revenues during the time period. payments.	Expenditure is the outflow of money for the purpose of making various payments.
Examples	<p>(a) The cost of the goods that were sold during the period are considered to be expenses along with other items such as advertising, salaries, interest, commissions, rent.</p> <p>(b) A company makes an expenditure of ₹ 5,00,000/- (five lakhs) to purchase equipment. The expenditure occurs on a single day and the equipment is placed in service. The equipment will be used for ten years; part of the original expenditure in buying the equipment will be reported as depreciation expense of ₹ 50,000 per year for the next 10 years.</p> <ul style="list-style-type: none"> <li>The expenses of ₹ 50,000 is known as depreciation.</li> </ul>	<p>A company purchases an equipment and makes an <i>expenditure</i> of ₹ 5,00,000/- (five lakhs) to purchase equipment. The expenditure occurs on a single day and the equipment is placed in service.</p> <ul style="list-style-type: none"> <li>Cost of machine is i.e. expenditure is ₹ 5,00,000.</li> </ul>

(iii)

Basis	Fixed Cost	Variable Cost
Meaning	Fixed cost is one which does not vary in total when the level of output by the business does vary. In other words, if the sales level within a business increases or decreases, fixed costs in total, would not increase nor decreases.	Variable cost is that which varies in direct proportion to changes in the level of output by the business. In other words, if the sales level within a business increases or decreases, variable cost also increases or decreases respectively.
Examples	Fixed cost for a business is the cost associated with the rent or ownership of premises, insurance, and costs associated with the ownership of equipment.	The costs corresponding to variable factors are described as variable costs. These costs are incurred on raw materials, ordinary labour, transport, power, fuel, water, etc. which directly vary in the short runs. An example of a variable cost for a bakery would be the cost of flour.
Dependent	As fixed costs are not dependent upon the level of output (sales) and it is unavoidable cost.	It is totally dependent upon the level of output.
Expressed	It is always expressed as being per period of time, like Annual sales, Weekly Sales or Monthly Sales.	It should be able to be expressed per item of output or sales.
Formula	$\text{Fixed Cost} = \text{Total Cost} - \text{Variable Cost}$	$\text{Variable Cost} = \text{Total Cost} - \text{Fixed Cost}$
Curve	Fixed cost curve is a horizontal straight line parallel to X-axis signifying that when output increases fixed cost remain constant. 	Variable cost curve is upward sloping showing that as output increases variable cost also increases. 

## MORE QUESTIONS SOLVED

### I. Very Short Answer Type Questions [1 Marks]

**Question 1. Name the book in which all cash transactions are recorded.**

**Answer:** All cash transactions are to be recorded in a book called a cash book or cash register.

**Question 2. In accounting language, give another name used for cash book.**

**Answer:** In accounting language, the cash book is a book of original entry.

**Question 3. What do you understand by entry?**

**Answer:** The term entry simply means making a note/ record of the cash received or given.

**Question 4. Why maintaining a cash book or register is very essential for every business?**

**Answer:** Maintaining a cash book or register is very essential for every business. Because without the entries in the Cash Book, no further analysis of expenses, costs, revenues, profit, etc. can be made.

**Question 5. What do you understand by unit cost/variable cost/cost of goods sold?**

**Answer:** Cost of unit can be defined as the cost incurred by a company to produce, store and sell one unit of sale of a particular product or service.

**Question 6. Give some examples of variable cost/unit cost.**

**Answer:** The unit cost refers to the variable cost like raw-material, packing material, sales commission, freight, etc.

**Question 7. What do you understand by contra transaction?**

**Answer:** When a single transaction affects both cash and a bank column with same amount then it is called as contra transaction.

**Question 8. What do you understand by contra-entry?**



**Answer:** If any transaction requires entries on both the debit and the credit sides simultaneously, it is called 'contra entry'.

**Question 9. What do you mean by buying on credit?**

**Answer:** Buying on credit means that the buyer will purchase a product/goods from a seller/supplier and not pay the due amount immediately to seller. The buyer makes the payment at a later date.

**Question 10. How do credit transactions (whether given or taken) will be entered in the cash book?**

**Answer:** All credit transactions (whether given or taken) do not get entered in the cash book.

**Question 11. What is the treatment of money withdrawn from ATM for business enterprise?**

**Answer:** Money being withdrawn from ATM is like cheque issued and there will be two entries —

- (i) Cheque issued (outflow from bank)
- (ii) Same amount received as cash (inflow into the Cash Book)

**Question 12. Name the type of tax which can be included as a cost element in computation.**

**Answer:** An indirect tax is one that can be included as a cost element in computation.

**Question 13. What do you understand by the term cash flow projection?**

**Answer:** Cash Flow Projection shows how cash is expected to flow in and flow out of your business.

**Question 14. Where cash register is used?**

**Answer:** Cash Registers is used in a grocery store, departmental store, clothing store, or other profitable retail business.

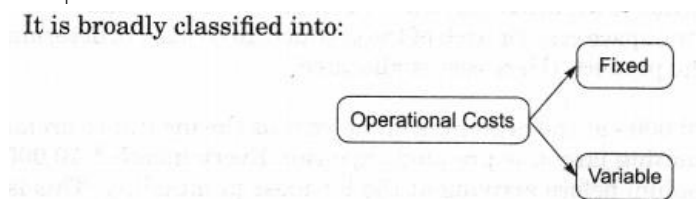
**Question 15. Name the Latin word for 'Tax'.**

**Answer:** The word 'Tax' has its origin in the Latin word 'taxo' meaning "I estimate".

**Question 16. What do you understand by operational cost and how will you categorise it?**

**Answer:** Operational cost are for carrying out the day-to-day operations of the business or enterprise.

It is broadly classified into:



**II. Short Answer Type Questions [2/3 Marks]**

**Question 1. Difference between cash flow statement and cash flow projection.**

**Answer:**

Cash Flow Projections	Cash Flow Statement
The Cash Flow Projection shows the cash that is anticipated to be generated or expended over a chosen period of time in the future.	The historical Cash Flow Statement shows how cash has flowed in and out of a business. Or It describes the cash inflow and outflow that has occurred in the past.
The figures in the form of inflow and outflow can be normative likely to be changed.	The figures in the form of inflow and outflow is positive it will not change.

**Question 2. How will cash flow projections help an entrepreneur?**

**Answer:**

- For an entrepreneur it is an important tool for cash management.
- He will be able to verify when his outlays/outflows are too high or when you might want to arrange short term investments to deal with a cash surplus.
- A Cash Flow Projection will give a much better idea of how much capital investment a business idea needs.

**Question 3. Distinguish between cost and expenses.**

**Answer:**

Basis	Cost	Expenses
Meaning	A cost is a derived value of money consumed to produce a current or future outcome; hence, costs provide management a decision supporting view to improve business economics. Costs are expressed as a value measured in relationship to a causal volume of consumption.	Technically, an expense is a specific accounting event related to the outflow of cash. Expense simply records the event and is used to understand what happened from an accounting perspective.
	Costs are derived.	Expenses are incurred.

**Question 4. Measurement is essential to analyse performance of any business. Given below are some businesses and items being sold/serviced by them. Write unit of sale in each case.**

Business	Items Being Sold/Serviced	Unit of Sale
Garment shop	T-Shirt	?
Coaching class	Tuition	?
Textile shop	Fabric	?
Baker	Cake	?

**Answer:**

Business	Items Being Sold/Serviced	Unit of Sale
Garment Shop	T-Shirt	Piece or Number
Coaching class	Tuition	Time: Hour
Textile Shop	Fabric	Meter (of fixed width)
Baker	Cake	Kilogram/Pound

**Question 5. Write down the difference between cost and expense with the help of an examples.**

**Answer: Example 1.**

In a factory there are three products being manufactured. Production unit of each is separate – occupying 50%, 30% and 20% space respectively. The rent of Rs 50,000/- per month being paid for the factory is an expense. This amount is then allocated between the three products in proportion to the area occupied— Rs 25,000/-, Rs 15,000/- and Rs 10,000/-. These amounts represent the space cost for each of the products to be used in determining what it costs to produce the product. (Here cost is allocated).

**Example 2.**

A businessman pays Rs 1,20,000/- at the beginning of the year as the insurance premium. This is an expense. (Accounting jargon is pre-paid expense). Every month Rs 10,000/- is charged as insurance premium before arriving at the business profitability. This is the cost of insurance per month. (Cost is derived)

**Question 6. 'Profit is not to be considered as inflow'. Comment with apt reason.**

**Answer:** Yes, it is correct profit is not to be considered as inflow. Nobody gives money as – profit. It is always generated in the business. Hence, profit is not to be included as –inflow.

**Question 7. "Telephone bill may vary slightly month to month, depending on the usage." According to you it will fall under which category fixed or variable.**

**Answer:** Variation in telephone bill from month to month depending on the usage is not linked to the sales volume directly. Therefore, it fall under the category of fixed cost.

**Question 8. "Expenses can be variable or fixed". Through examples show how an expense can fall in both the categories.**

**Answer:**

- Telephone bill is generally a fixed expense, but if the expenses are related to a Call Center then it will be considered as a variable cost.
- Paper bill in an office or shop would be fixed but in a printing business it would be variable cost (like raw material).
- Water in the office is fixed, water used in a soft drink factory is variable.
- Stationary in a coaching class is variable, because more students mean more but stationary in an office is fixed.

**Question 9. Classify the following into fixed cost and variable cost.**

- (a) Rent of a godown  
 (b) Minimum telephone bill  
 (c) Interest on capital invested by an entrepreneur  
 (d) Salary to permanent staff  
 (e) Cost of raw-material payment of transportation of goods. if) Daily wages of sweepers  
 (g) Telephone charges beyond the minimum.

**Answer:**

S.No.	Items	-----	Fixed/Variable Cost
(a)	Rent of a Godown	-----	Fixed Cost
(b)	Minimum telephone bill	-----	Fixed Cost
(c)	Interest on capital invested by an entrepreneur	-----	Fixed Cost
(d)	Salary to permanent staff	-----	Fixed Cost
(e)	Cost of raw-material	-----	Variable Cost
(f)	Payment of transportation of goods	-----	Variable Cost
(g)	Daily wages of sweepers	-----	Variable Cost
(h)	Telephone charges beyond the minimum	-----	Variable Cost

### III. Questions on Numerical's

**Question 1. From, the following information prepare a Cash Register:**

- (a) Ms. Keerti commenced business with Rs 5,00,000.  
 (b) Bought furniture worth Rs 2,00,000 and paid freight of Rs 5,600.  
 (c) Sold to us by Mr. Martin for cash :  
 • 5 coloured TV @10,000 each.  
 • 5 LED @ 18,000 each.  
 (d) Sold to M/s Nehal for cash: 2 colour TV @ 20,000 each.  
 (e) Returned 1 LED TV to Mr. Martin as it was defective and received payment. (f)  
 Received commission of Rs 3,000  
 (g) Paid 3 months rent Rs 30,000.  
 (h) Paid salary to Mohan Rs 2000.  
 (i) Sold to Neerja for cash :  
 • 3 colour TV for 20,000  
 • 3 LED Rs 18,000 each for Rs 25,000.  
 (j) Paid electricity bill of Rs 800.  
 (k) Depreciation charged on furniture @ 5% p.a.  
 (l) Paid income tax of Rs 3,000 and Sales Tax of Rs 2000.

**Answer:** CASH REGISTER (For the month of )

Date	Description	Ref. No.	Bill/Cash Received (in ₹)	Cash Paid (in ₹)	Cash Balance (in ₹)
(a)	Capital amount		5,00,000		5,00,000
(b)	Purchased Furniture (₹ 2,00,000 + ₹ 5,600)			2,056,00	2,94,400
(c)	Purchases: 5 coloured TV @10,000 each. 5 LED @ 18,000 each			1,40,000	1,54,400
(d)	Sales 2 colour TV @ 20,000 each		40,000		1,94,400
(e)	Purchases Returned 1 LED TV to Mr. Shantanu		18,000		2,12,400
(f)	Commission Received		3,000		2,15,400
(g)	Rent Paid		30,000		1,85,400
(h)	Salary Paid to Mohan ₹ 2000			2,000	1,83,400
(i)	Sales 3 colour TV for ₹ 20,000 3 LED of 18,000 each for ₹ 25,000.		1,35,000		3,18,400
(j)	Electricity bill paid			800	3,17,600
(l)	Tax Paid income tax of ₹ 3,000 + and Sales Tax of ₹ 2000)			5,000	3,12,600

**Note:** Depreciation on furniture will not be taken into account because it is a non-cash expenditure.

The Cash Balance and Bank at the end of January month is :

Cash Balance Rs 3,12,600.

**Question 2. Mr. Varun started an enterprise of shoes and other footwear, with an Cash balance of are one lakh rupees and a bank balance of fifty thousand rupees.**

- (i) On 4th December, 2013, he purchased shoes and sandles worth Rs 15,000.
- (ii) 8th December, 2013 Adda Enterprises paid a cheque of Rs 12,000 for buying stock on a large extend in the previous month.
- (iii) On 12th December, 2013 bought cabinet and extra furniture worth Rs 20,000.
- (iv) On 13th December, 2013 sold shoes worth Rs 30,000.
- (v) On 14th December, 2013 sold sandles worth Rs 10,000.
- (vi) On 16th December, 2013 sold sleepers worth Rs 10,000 and cheque received.
- (vii) On 18th December, 2013 purchased slippers and sandles from Bombay Shoes co. worth Rs 20,000.
- (viii) On 19th December, 2013 paid carriage Rs 300.
- (ix) On 28th December, 2013 paid rent Rs 15,000 (by cheque).
- (x) On 29th December, 2013 paid salary to workers of Rs 7,000.
- (xi) On 30th December, 2013 half amount paid through cheque to Bombay Shoes co.
- (xi) On 30th December, 2013 Deposited in bank Rs 5000.

**Answer:** CASH REGISTER

For the month of December 2013

Date	Description	Ref. No.	Bill/Cash Received (in ₹)	Cash Paid (in ₹)	Cash Balance (in ₹)	Cheque Received (in ₹)	Cheque Issued (in ₹)	Bank Balance (in ₹)
	Cash and Bank Balance				1,00,000			50,000
2013 4 <sup>th</sup> Dec.	Purchased shoes			15,000	85,000			50,000
8 <sup>th</sup> Dec.	Cheque received from Adda Enterprises				85,000	12,000		62,000
12 <sup>th</sup> Dec.	Purchased cabinet and furniture			20,000		65,000		62,000
13 <sup>th</sup> Dec.	Sales: Shoes		30,000		95,000			62,000
14 <sup>th</sup> Dec.	Sales: Sandles		10,000		1,05,000			
16 <sup>th</sup> Dec.	Sales: Sleepers					10,000		72,000
18 <sup>th</sup> Dec.	Purchases: Bombay Shoes Co.			20,000	85,000			72,000
19 <sup>th</sup> Dec.	Paid Carriage			300	84,700			72,000
28 <sup>th</sup> Dec.	Paid Rent				84,700		15,000	57,000
29 <sup>th</sup> Dec.	Paid Salary			7,000	77,700			57,000
30 <sup>th</sup> Dec.	Cheque paid to Bombay Shoes Co. (half amount)						10,000	47,000
30 <sup>th</sup> Dec.	Deposited in Bank			5,000	72,700	5,000		52,000

The Cash Balance and Bank at the end of January month are :

Cash Balance Rs 72,700

Bank Balance Rs 52,000

**Question 3. Ms. Neerja, who runs a computer stationery store, has the following transactions. Please**

**help her with the cashbook for her operations.**

(i) On 1st of January, 2014, she has Rs 22,500/- in cash and Rs 40,000 in bank account.

(ii) On 5th January, 2014, she makes a cash sale of Rs 19,500.

(iii) On 7th January, 2014, she receives a cheque for 16,000 from Excel Company for sales made in December.

(iv) On 9th January, 2014, she buys CDs and pendrives and makes a cheque payment of Rs 5,000

(v) On 12th January, 2014, she makes cash payment of Rs 25,000 for various stationery purchased.

(vi) On 17th January, 2014, she withdraws cash of Rs 15,000 from her checking account.

(vii) On 18th January, 2014, she pays salary of Rs 25,000 to her sales staff.

(viii) On 24th January, 2014, she pays the monthly rent of Rs 12,500 by cheque.

(ix) On 29th January, 2014, she deposits Rs 25,000 in her bank account.

**Answer: CASH REGISTER**

**For the month of January 2014**



Date	Description	Ref. No.	Bill/Cash Received (in ₹)	Cash Paid (in ₹)	Cash Balance (in ₹)	Cheque Received (in ₹)	Cheque Issued (in ₹)	Bank Balance (in ₹)
2014 1 <sup>st</sup> Jan.	Cash and Bank Balance				22,500			40,000
5 <sup>th</sup> Jan.	On, she makes a cash sale of ₹		19, 500		42,000			40,000
7 <sup>th</sup> Jan.	Cheque Received Excel Company				42,000	16,000		56,000
9 <sup>th</sup> Jan.	Cash Purchases (CDs and Pendrives)			5,000	37,000			56,000
12 <sup>th</sup> Jan.	Purchases Stationery			25,000	12,000			56,000
17 <sup>th</sup> Jan.	Cash Withdrawal from bank		15,000		27,000		15,000	41,000
18 <sup>th</sup> Jan.	Paid Salary			15,000	12,000			41,000
24 <sup>th</sup> Jan.	Paid Rent						12,500	28,500
29 <sup>th</sup> Jan.	Cash Deposited		5,000	7,000	5,000			33,500

The Cash Balance and Bank at the end of January month are:

- (ii) Cash Balance Rs 7,000
- (iii) Bank Balance Rs 33,500