Question 11. “The Budget period for all the business are same”. Do you agree? Comment. Answer. No, I don’t agree with the statement. The budget period will depend upon the type and size of business enterprise and control aspect.

1. For seasonal enterprise (food and clothing) short period generally should cover one season.
2. For heavy industries with heavy capital expenditure (heavy engineering works/automobile industries) the budget period is generally long.

Question 12. What are the assumptions to be made for sales mix, for the calculation of break even point?
Answer: Following assumptions are made:

1. The proportion of sales mix must be predetermined.
2. The sales mix must not change within the relevant time period.
3. All cost can be categorized as variable or fixed.
4. Sales price per unit, variable cost per unit and total fixed cost are constant.
5. All units produced are sold.

Question 13.Why is Return on Investment deemed as a yardstick for the performance of an enterprise?
Answer: Return on Investment is a relationship between profit before interest and tax and capital employed. It is deemed as a yardstick for the performance of an enterprise because it measures the overall profitability and efficiency of the enterprise in relationship to investment made by an entrepreneur in business. Higher the ratio, higher the overall profitability of the business. The ratio is compared with earlier years ratio and important conclusions are drawn from such comparison. As a yardstick it also shows how efficiently the resources are used in the business.

Question 14. What is B.E.P? Why an entrepreneur should know about it?
Answer: The business to break even when its value is equal to its total cost. 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 amongst cost of production, volume of production, profit and the sales value. The entrepreneur should know B.E.P as:

1. He can forecast about profit accurately.
2. He can ascertain costs, sales and profits at different levels of activity.
3. For taking decision regarding price policy.

Question 15. Explain the various categories of inventory.
Answer: In a manufacturing firm inventories work as a link between production and sale. The three categories of inventories are as follows:

1. Raw materials: Those materials which have purchased and stored in a godown at a particular time for future production.
2. Work in progress: These are the goods in the course of

manufacture. It means goods which are likely to be in various stages but not reached to the final stage. It consist of material, labour and factory expenses applied to the unit up to the last stage. In these the goods are in semi-finished stage.

3. Finished goods: These are the goods reached at the final stage of production process. These goods are ready for sale. The size of three types of inventories depends upon varying nature of their business.

Question 16. Why is inventory control essential for an enterprise?
Answer: The process of inventory control gives direction to the entrepreneur to take important decision about the various activities like production line and use of material in the business. It is very essential for the enterprise:

1. To ensure efficient, effective and optimum use of raw materials.
2. To know the availability of resources for production.
3. To ensure and make efforts to purchase raw materials in bulk to get quantity discounts.
4. To ensure that delivery of finished materials to customers are prompt and not being delayed.
5. To stabilize the fluctuation of demands. Thus we can say that it is an important tool in the hand of enterprise.

Question 17. What factors should be kept in mind for ordering an inventory?
Answer: Inventory means list of materials used in a business. An entrepreneur must be very careful and wise while deciding about the level of inventory. An entrepreneur must avoid overstocking and under-stocking of each item of the inventory.
The factors that influence the decision on such orders are:

1. Order lead time
2. Usage rate or rate of consumption
3. Reorder-point or minimum quantity of the item to be kept. An entrepreneur must maintain the supply line in a proper manner so that at any time he may have adequate flexibility to change the process of production according to customer's requirement.

Question 18: Differentiate between Unit Cost and Unit Price.
Answer: The following are the differences between Unit Cost and Unit Price.

Basis	Unit Cost	Unit Price
Meaning	Unit Cost 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 costs like raw materials, packing materials, sales commission, freight, etc.	

Question 19. What is the need of financial management?
Answer: Financial management is needed for:

1. Ensuring availability of funds in the right amount at the right time.
2. Ensuring the safety of funds.
3. Ensuring efficient utilization of the available fund.
4. Ensuring the desired level of income and profit.

Question 20. Explain trading on equity with the help of a suitable example.
Answer: Trading on equity relates to a situation when the debt component is likely to provide higher rate of return on share capital. Debt and equity are the two sources of finances. Both have their own merits and demerits.But when a mix of both is used wisely, the rate of return equity can increase. This is because the interest paid on the loan is deductible from earning before tax payment. The payment of dividend is only made after realizing the interest.

Question 21. Distinguish between Fixed Capital and Working Capital.
Answer. The following are the differences between fixed capital and working capital.

S.No.	Basis	Fixed Capital	Working Capital
1.	Need	It is needed for meeting long term requirement of the enterprise.	It is needed for short term requirement of the enterprise.
2.	Examples	It is needed for acquiring fixed assets like land, building, etc.	It is needed for acquiring current assets like wages of workers, power, transportation, etc.
3.	Flexibility	It is flexible only up to the point when the investment is not made.	It is flexible as it can be increased or decreased as per the requirements.

Question 22. Distinguish between Budget and Budgeting.
Answer:

S.No.	Budget	Budgeting
1.	A business plan.	Budgeting creates a comprehensive picture of the future and makes both opportunities and barriers conscious. This knowledge then helps guide day-to-day activities.
2.	A budget is a document for recording actual and projected income and expenditures over time.	Budgeting is the collective process of setting financial goals, forecasting future financial resources and needs, monitoring and controlling income and expenditures, and evaluating progress towards achieving the financial goals.
3.	It is prepared by top management.	It is followed by middle and lower level management.
4.	The common denominator in money and the vehicle is budget.	The common denominator in money and the vehicle is budget, which is the result of budgeting process.

Question 23. Name and explain the chief cost of budget process.
Answer: The chief cost of the budget process is time. In some corporations the process takes on a life of its own and becomes a convoluted exercise of excessive complexity which, moreover, prevents unit managers from doing any thinking: their time is consumed in efforts to comply with a vast array of requirements dictated from above.
Much of the negative attitude that has developed concerning this activity has its roots in unnecessary bureaucratic impositions on the one hand and unreliability because of the rapid change, a few months out.

Question 24. What do you understand by sales mix? State the assumptions made for the calculation of break even point for sales mix.
Answer: Sales mix is the proportion in which two or more products are sold.
For the calculation of break even point for sales mix, following assumptions are made:

1. The proportion of sales mix must be predetermined.
2. The sales mix must not change within the relevant time period.
3. All cost can be categorized as variable or fixed.
4. Sales price per unit, variable cost per unit and total fixed cost are constant.
5. All units produced are sold.

Question 25. Explain the concept of ROI (Return on Investment).
Answer:
Meaning: It is the ratio of net profit before interest and tax and total investment.
Significance: The significance of computing this ratio is to find out how efficiently the long term funds supplied by the outsiders or creditors and owners are being used.

It gives an indication of how the total money is being used.
Example: If an entrepreneur spends X 100,000 to open a grocery shop and makes a net profit of Rs. 20,000 in one year, your annual ROI equals (20,000/100,000) x 100 = 20 per cent.
When calculating ROI, the investment will include not only what the investor spent out of his/her pocket, but also all borrowed funds.

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