TEXT BOOK QUESTIONS SOLVED

A. VERY SHORT ANSWER TYPE QUESTIONS

Question 1. Explain the following terms with proper example:

1. SKU
2. Cash flow
3. Cash inflow
4. Cash outflow
5. Re-order point
6. Cash flow projection
7. Cash conversion cycle

Answer:

1. SKU: Stock Keeping Unit (SKU) code
   (a) All items in the inventory is to be identified with a unique code which signifies certain aspects of the item.
   (b) It can be colour, size, weight or any other characteristics that is of importance in its use.
   (c) The SKU code can be a combination of alpha and numeric.
   (d) SKU is the very basic unit for data collection and further manipulation for deriving meaningful statistics and decision making.
   (e) Bar Codes and RFID (Radio Frequency Identification tags are used in tracking etc. using SKU.
2. Cash flow: Cash flow refers to the movement of money in and out of a business during a specific period of time.
   Example: Loan Received, Sales Receipts, Sale of Assets.
3. Cash inflow: All receipts of money in the business is known as cash inflow like rent received and loan received.
4. Cash outflow: It is defined as the movement of money out of a business.
   Example: Furniture and Fixtures, Interior Decoration, Tools, Computers, Raw Material.
   (a) Re-order point: It is a level at which a new order must be placed so that the inventory is renewed before the stock reaches zero level.
   It is estimated by using the formula Reorder Point = Usage Rate x Lead Time.
5. Cash flow projection: Cash flow projection shows how cash is expected to flow in and out of your business.
6. Cash conversion cycle: (CCC or Operating Cycle) is the length of time between a firm’s purchase of inventory and the receipt of cash from accounts receivable. It is the time required for a business to turn purchases into cash receipts from customers.
   CCC represents the number of days a firm’s cash remains tied up within the operations of the business.

Question 2. Pareto’s Law formed the basis for a technique. Name it.
Answer: The principle is named for Vilfredo Pareto, an Italian economist who studied land ownership in Italy in the early 1900’s and found that roughly 20 per cent of the population held title to about
80 per cent of the land. Pareto’s law has applications throughout

science as well as business, including inventory control, where it forms the basis for a technique called ABC analysis.

B. SHORT ANSWER TYPE QUESTIONS-I
Question 1. What is ABC analysis?
Answer: ABC analysis is an inventory categorization method which consists in dividing items into three categories (A, B, C):

1. A being the most valuable items.
2. B-items are the inter class items, with a medium consumption value.
3. C being the least valuable ones.
   This method aims to draw managers' attention on the critical few (A-items) not on the trivial many (C-items).

Question 2. What is Pareto's Principle?
Answer: In 1906, Italian economist Vilfredo Pareto noted that 80% of Italy's land was owned by 20% of the people. Pareto principle is a prediction that 80% of effects come from 20% of causes. The 80:20 ratio of cause-to-effect became known as the Pareto Principle. He became somewhat obsessed with this ratio, seeing it in everything. For example, he observed that 80% of the peas in his garden came from 20% of his pea plants.

Question 3. Differentiate between cash flow projection and cash flow statement.
Answer:

Basis	Cash Flow Projection	Cash Flow Statement
Period	The Cash Flow Projection shows the cash that is anticipated to be generated or expended over a chosen period of time in the future.	Cash Flow Statement, like Balance Sheet and Income Statement, deals with the past.
Tool	Cash Flow Projection is a very critical management tool for the successful operation of the business.	The Cash Flow Statement shows how cash has flowed in and out of your business. In other words, it describes the cash flow that has occurred in the past.
Importance	It does help in managing the current, day-to-day requirement.	It does not help in managing the current, day-to-day requirement.

Question 4. What is financial management? What is the main objective of financial management?
Answer.

1. Financial management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise.
2. It is an activity which is concerned with acquisition and conservation of capital funds in meeting financial need an overall objectives of business organisation.
3. It means applying general management principles to financial resources of the enterprise.

The main objectives of financial management is wealth maximization of shareholder's wealth.

1. To ensure regular and adequate supply of funds to the concern.
2. To ensure adequate returns to the shareholders.
3. To ensure optimum funds utilization. Once the funds are procured, they should be utilized in maximum possible way at least cost.

C. SHORT ANSWER TYPE QUESTIONS-II
Question 1. There are three key elements in the process of financial management. Explain them.
Answer:

1. Financial planning: Management need to ensure that enough funding is available at the right time to meet the needs of the

business.
(a) The short term funding may be needed to invest in equipment and stocks, pay employees and fund sales made on credit.
(b) The medium and long term funding may be required for significant additions to the productive capacity of the business or to make acquisitions.

2. Financial control: It ensures that the business is meeting its goals and objectives. Financial control addresses questions such as:
(a) Are assets being used efficiently?
(b) Are the business assets secure?
(c) Does management act in the best interest of shareholders and in accordance with business rules?
3. Financial decision-making: The key aspects of financial decision-making relate to investment, financing and dividends. For example, it is possible to raise finance from selling new shares, borrowing from banks or taking credit from suppliers.
(a) A key financing decision is whether profits earned by the business should be retained or distributed to share¬holders through dividends.
(b) If dividends are too high, the business may be starved of funding to reinvest in growing revenues and profits further.

Question 2. What are the key aspects of financial decision-making?
Answer: The key aspects of financial decision-making relate to investment, financing and dividends. Investments must be financed in some way however there are always financing alternatives that can be considered.
For example, it is possible to raise finance from selling new shares, borrowing from banks or taking credit from suppliers:

1. A key financing decision is whether profits earned by the business should be retained rather than distributed to shareholders via dividends.
2. If dividends are too high, the business may be starved of funding to reinvest in growing revenues and profits further.

Question 3. What is a budget? What are the essentials of a budget?
Answer: For any business, a budget is a quantitative expression of a plan for a defined period of time. It may include planned sales volumes and revenues, resource quantities, costs and expenses, etc.
Essentials of budget include:

1. To control resources
2. To communicate plans to various responsibility center managers.
3. To motivate managers to strive to achieve budget goals.
4. To evaluate the performance of managers.
5. For accountability.

Question 4. Explain Inventory Control and state its objectives.
Answer: Inventory Control is a systematic and detail record of purchase of materials, their storage capacity, quantity in order to supply quantity order for large discounts, handling delivery of materials etc. It is a process which facilitates an entrepreneur in smooth production operation and to take important decisions in a production line.
The objectives of inventory management are:

1. To ensure that the supply of raw materials and finished goods will remain continuous so that production process is not halted and demands of customers are duly met.
2. To minimise carrying cost of inventory.
3. To keep investment in inventory at optimum level.
4. To reduce the losses of theft, obsolescence and wastage, etc.

(a) To make arrangement for sale of slow moving items.

5. To minimise inventory ordering costs.

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