



Question 26. Give one example each of bulky items with low value and high value items with low volume.

Answer:

1. Bulky items with low value - straw for use in paper mill.
2. High value items with low volume — Diamond.

Question 27. Give four examples of items which are hazardous in nature and special precautions have to be taken in their storage.

Answer: Gasoline, other combustible items, some hazardous chemicals, etc.

Question 28. Give four examples of items are hazardous in nature and special precautions have to be taken in their manufacturing.

Answer: In a factory manufacturing safety matches, phosphorous and potassium chlorate are not stored in the same or even adjoining areas, for fear of accidental mix up.

Question 29. What do you mean by shelf-life? Give two examples.

Answer: The length of time a product may be stored without becoming unsuitable for use or consumption. Items like vegetables, fruits, flowers and fish are perishable in nature. This calls for special storage conditions and equipments - cold storage, freezers, etc. These have financial implications. Similarly some of the manufactured food or medicinal products have expiry dates - beyond which they are not fit for consumption. This imposes certain constraints on inventory management.

Question 30. Give one difference between amortisation and depreciation.

Answer: Depreciation is applicable for tangible assets (Building, Machinery) and amortisation is available for intangible assets (Goodwill, Patent, Trademark). Depreciation may write off slow but amortisation may write off fast.

Question 31. What is meant by 'financial management'? [CBSE Sample Paper 2016]

Answer: The financial management is the process of procurement, allocation and control of financial resources of a concern.

## II. SHORT ANSWER TYPE QUESTIONS

Question 1. Why is working capital called as circulating capital?

Answer: Working capital is called the changing or "circulating capital", since the money circulates in various forms of current assets in a continued manner.

For example: Funds once tied up in the form of raw materials are later converted into the form of finished goods which are not ultimately sold.

Question 2. Write down the formula for calculating the weighted-average contribution margin per unit for the sales mix.

Answer: Suppose a manufacturing unit produces three products A, B, and C. Then the following formula is used:

Product A CM (contribution mix) per unit x Product a sales mix percentage + Product B CM per unit x Product B sales mix percentage + Product C CM per unit x Product C sales mix percentage = Weighted average unit contribution margin

Question 3. Give some examples of Carrying Cost.

Answer: Examples of Carrying Cost are:

1. Money tied up in inventory
2. Storage on inventories
3. Taxes on inventories
4. Obsolescence cost
  - (a) Handling and transfer
5. Deterioration of quality
6. Cost of maintaining inventory records.

Question 4. What is an Inventory?

Answer: Inventory means detailed list of items used in the business. It refers to stock of goods in the form of raw materials, work in progress and finished goods, a firm can make up the product and kept for sale in ordinary course of business. Thus, inventories make a linkage between production and sale of goods.

Question 5. When an entrepreneur's business is expanding, his business outflows can be more than his business inflows. Do you agree. How?

Answer: Yes, when an entrepreneur's business is expanding, his business outflows can be more than his business inflows. It is so because there is always a lag between your spending (on raw materials, labour, etc.) and receiving the sales revenue. Receipt of sales revenue may be delayed because he might have given credit or you have produced ahead of the sales (to cater to the high demand during festive season) and are temporarily holding finished goods stock.

Question 6. Write Unit of Sale in each case.

<b>Business</b>	<b>Items being Sold/Service</b>	<b>Unit of Sale</b>
Garment Shop	T-Shirt	?
Textile Shop	Fabric	?
Restaurant	Cake	?

Answer:

<b>Business</b>	<b>Items being Sold/Service</b>	<b>Unit of Sale</b>
Garment Shop	T-Shirt and other readymade items	Customers
Textile Shop	Dress materials	Customers
Restaurant	Different food items	Diner

Question 7. What do you mean by Reorder Point? How it is calculated?

Answer: 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:  $\text{Reorder Point} = \text{Usage Rate} \times \text{Lead Time}$

Example: Suppose a company uses 15 units of an item per day (usage rate, and the order lead time is 10 days, a new order must be placed when the inventory level reaches 150 units ( $\text{Reorder Point } 150 = \text{Usage Rate } 15 \times \text{Lead Time } 10$ ) so that inventory is replenished

before a stock out occurs.

Question 8. Why financial control is considered as an important activity?

Answer: Financial control is a critically important activity to help the business ensure that the business is meeting its objectives.

It also addresses following points like:

1. Efficient usage of all business assets
2. Security of all business assets.
3. Taking interest of all shareholders of the company and going in accordance with business rules.

Question 9. What are Order Processing Costs?

Answer: The cost is associated with the placement of an order for the acquisition of inventories. It is determined on the basis of expenses incurred in the purchase department. Some of the components of cost are:

1. Finding the sources of supply
2. Obtaining quotations
3. Transportation cost
4. Expenses and follow up of an order (stationery, stamp)
5. Forgone discounts
6. Loss of sales and customer goodwill.

Question 10. What do you mean by financial management?

Answer: Financial management is the part of management which deals with planning, organizing and controlling financial activities of an entrepreneur or the activity undertaken by the entrepreneur,

1. For acquiring and maintaining fund.
2. For fulfilling the financial requirements of the objectives of the enterprise.
3. And for attaining the goals and objectives of the enterprise.

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