Question 26. Explain the concept of ROE (Return on Equity).
Answer:
Meaning: It is the ratio of net profit after interest and tax and owner's investment.
Significance: The significance of computing this ratio is to find out how efficiently the owners funds supplied by the shareholders/owners are being used. Example, if Sushmita the owner of a grocery shop has an equity stake of Rs 70,000 in the business, she has borrowed Rs 30,000 (rate of interest is 10%).
This will attract an interest of 3,000 @ 10% per annum.
If the Net Profit is Rs 14,000 then:
ROE=Rs 14,000/Rs 70,000 x 100 =20%

Question 27. Is 'Break-even Analysis' useful to achieve the target level of profit?
Answer: Yes, organisation's identify those products, which yield the highest contribution. 'Break even Analysis' helps the firm in selecting and ranking those products, based on contribution, to achieve the targeted level of profit.

Question 28. Make a SKU form for "Shirts" for the given number, classify them in Style, colour, date, month, year, size: 01234- 021-R-Ma 31-10-40 M.
Answer: Style: 01234-021, Colour: R-Red, Month: Ma-May, Date: 31st, Year: 2010, Size: 40 Medium.

Question 29. Name the commonly used tags for tracking while using SKU.
Answer: Bar Codes and RFID (Radio Frequency Identification) tags are used in tracking containing electronically stored information.

Question 30. Name few different system of inventory control.
Answer:

1. ABC Analysis
2. Economic Order Quantity
3. Just-in- time (JIT),
4. Perpetual inventory, etc.

Question 31. What is RFID?
Answer: Radio-Frequency Identification (RFID) is the wireless use of electromagnetic fields to transfer data, for the purposes of automatically identifying and tracking tags attached to objects. The tags contain electronically stored information.

III. LONG ANSWER TYPE QUESTIONS
Question 1. What is the procedure to prepare a cash flow projection?
Or
How to develop a cash flow projection?
Or
What steps are to be taken to develop a cash flow projection?
Answer:
Step 1: Every enterprise has different guidelines and rules and regulations. It is based on the business charateristics, decides on the frequency and period (day, week or month) as well as horizon

(month, 13 weeks or 6 months).
Step 2: Develop the format, with items appropriate for your business, which will be used for developing the projection. You may take help from the formats attached here as sample.
Step 3: A projected cash flow begins with the existing cash balance for the business. It then lists the sources of inflow and the anticipated payment dates.
Step 4: For example, if you supply goods on credit, you will know at the start of February that you will receive a certain amount during the month covering sales from January - based on credit terms. You may have other inflows interest on your deposits, sale of scrap, rent from space sub-let etc. In this manner, you add up all your inflows.
Step 5: The statement then looks at forthcoming expenditure. Some of this will be a fixed, regular sum such as staff costs. Other expenses will be known but only payable at certain times, such as taxes. There will also be variable costs such as buying stock or materials.
Step 6: Where payment dates are variable, it is usually safest to work on the basis that you will pay suppliers as soon as possible but not receive payment from customers until the last possible date.
Step 7: In short, be conservative in assumptions.

1. Adding all outflows enables you arrive at the surplus or deficit for the period.
2. Combined with the opening balance, leads to deriving the closing balance.
3. It becomes opening balance for the next period.

Question 2. What is EOQ? How it is calculated?
Answer: Economic Order Quantity (EOQ) is an important tool in the purchase of raw materials and storage of finished goods. Generally to determine the optimal order of quantity of a particular item of inventory to be purchased at a particular time, which gives maximum economy to an entrepreneur, is called "EOQ".
It is calculated on the basis of the given formula:
EOQ=$\sqrt{}$2DP/C
Where D= the annual usage (or demand) of the item in units P = the cost of place on order C = inventory carrying cost per unit (This may be derived by multiplying the unit price of the item by carrying cost expressed as % of the unit price.)
The above formula minimizes the total cost of managing inventory consisting of ordering cost and carrying cost of inventory. The two costs are inversely related, when the one increases the : other decreases with the change in the purchase quantity of inventory. It is a balance between the two opposing cost-carrying cost and order processing cost, can be achieved by computing the economic order quantity.

Question 3. Give the formula of EOQ and write down its assumptions.
Answer:
EOQ=$\sqrt{}$2DP/C
where D = the annual usage (or demand) of the item in units
P = the cost of place on order
C = annual carrying cost per unit
The above formula is based on following assumptions:

1. Ordering cost is constant i.e. it is independent of size of the order.
2. The cost of carrying the additional inventory is constant.
3. There are no quantity and discounts available.
4. The consumption is in a steady rate.

Question 4. Why is inventory control essential for an enterprise?
Answer: Inventory control is essential for an enterprise because:

1. It ensures the availability of materials in the production process whenever it is needed.
2. To ensure efficient and effective utilization of raw materials.
3. It helps in removing all bottlenecks.
4. To ensures prompt and regular delivery of materials to consumers.
5. To examine quantity discount for large and lump sum order to stabilize the fluctuation of demand side.

Question 5. Explain ABC Analysis of Inventory Control.
Or
Which items of inventory claim bulk of the values?
Answer: A firm maintains several types of inventories. To control them properly the firm adopts a selective approach which is called ABC Analysis. In this the firm classifies all items according to values so that the most valuable items may be paid highly, more attention is given regarding their safety and care as compared to other items. It has been observed that out of a long list of inventory,
A category list are small in number say 5-10 per cent of the total value but they are quite valuable of total value. The value being 70-75 per cent of the total value of stocks.
B category is in between A and C categories having 15 to 20 per cent of the number of items and 15 to 20% of the total value.
C category items are 70-75% in numbers but carrying little value ranging from 5-10%.
We can see following categorization:

Category	Value	No. of items
A	70	10
B	20	20
C	10	70

The above three categories vary from product to product and organization to organization. Great care and control is to be exercised on items of "A" list, as any loss or breakage or wastage of any item of this list may prove to be very costly, proper care is to be taken on "B" list items and comparative list control is needed for "C" list items.

Question 6. What do you mean by Break Even Point? Explain its importance.
Answer: 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, break even 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:
Break Even Volume=Fixed cost/Gross margin
Gross Margin Per Unit = Unit Price (Selling price) - Marginal Cost (Variable cost)
Contribution per unit = Selling price per unit - Variable cost per unit
Or
Contribution Ratio = Selling price - Marginal cost
Marginal Cost = Total variable cost Or = Total cost - Fixed cost
Or = Direct material+Direct
labour + Direct expenses + Variable overhead

The ‘Break-even Point’ is that volume of sales at which total revenue is equal to total costs, with zero profit. ‘Break-even point’ is a situation where the firm is neither in profit nor loss. In other words, this is a ‘no-profit, no-loss situation’. When the organisation is not able to earn profits, the best alternative for the firm is, at least, not to incur loss. So, organisation would like to know at what level of production and sales, the organisation would be able to achieve no-loss, no-profit situation. This is the greatest contribution of ‘Break-even Point’.

Question 7. State the advantages of‘cost plus’ method of pricing. [All India 2015]
Answer:
Advantages of Cost Plus method of pricing:

1. Easy: This method of pricing is very simple method. It can easily be used for determining the price.
2. Flexible: Any changes in the cost of production or the margin of profit change the price in the same direction. It automatically gets adjusted to the change.
3. Visible profit margin: Profit margin is not to be calculated. It is already fixed. Thus by multiplying the profit per unit with the volume of the product, the total profit can be determined.
4. Increases efficiency: Any upward rise in cost is easily visible. This provides an idea to the entrepreneur to adjust his production for keeping the cost as low as possible.
5. Less calculation: Comparatively less calculations are involved. Which makes the implementation of this method simple,
6. Easy implementation: This method can easily be implemented because of its simplicity to understand and easy calculations.

Question 8. Explain the following features of a cooperative society: [CBSE Sample Paper 2016]

1. Democratic management
2. Capital and return thereon
3. Distribution of surplus

Answer:
Features of Co-operative societies:

1. Democratic management: The management of a co-operative organisation is vested in the hands of the managing committee elected by the members on the basis of ’one member-one vote'. Democracy is, thus, the keynote of the management of a co-operative society.
2. Capital and return thereon:The capital is procured from its members in the form of share capital. A member can subscribe subject to a maximum of 10% of the total share capital or Rs 1,000 whichever is higher. Shares cannot be transferred but surrendered to the organisation. The rate of dividends paid to the members/ shareholders is restricted to 9% as per the Co-operative Societies Act, 1912.
3. Distribution of surplus: After giving dividends to the members, the surplus of profits, if any, is distributed among the members on the basis of goods purchased by each member from the society.

IV. VERY LONG ANSWER TYPE QUESTIONS
Question 1. 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 helps in managing the current, day to day requirement.	It does not help in managing the current, day to day requirement.
Flexibility	Flexibility is there to the extent.	No chance of flexibility.
Decision making	New decisions and policy can be implemented for future growth.	Helpful to take further decision.
Value points	Self-control, national awareness, faithful justice, awareness of responsibility of entrepreneurs, initiative, self-confidence	Team work, awareness of responsibility of employees, service to others

Question 2. Identify the following items as inflow/outflow. Also give reasons for your choice.
(i) Raw material,
(ii) Depreciation,
(iii) Machinery purchased,
(iv) Loan from bank,
(v) Equity shares issued
(vi) Excise duty paid,
(vii) Profit on sale of asset,
(viii) Interest received on investments
Answer:

Items	Inflow/Outflow	Reasons
Raw material	Outflow	Raw material comes in and cash goes out.
Depreciation	Not inflow or an outflow	It is an expenses, charged on asset not on inflow or outflow of cash.
Machinery purchased	Outflow	Machinery comes in the business and cash goes out.
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.
Excise duty paid	Outflow	It is an expenses, cash goes out.
Profit on sale of asset	Inflow	On sale of asset, surplus amount received is an inflow.
Interest received on investments	Inflow	Money coming in the form of interest on the deposits made in the bank is a surplus.

Question 3. Why there is a need for cash flow projection?
Answer: The following are the need of cash flow projection:

1. Every business must want to manage its affairs in a very efficient manner.
2. It means it must pay its suppliers as per agreed terms, pay the employees their wages on stipulated dates, pay government levies, etc. as per rules, procure services and pay for the same, pay utility bills and rent etc., on time.
3. It must collect what is due to it also in a timely manner and should strive to sell more so it can collect more.
4. Very often, when business is expanding, your outflows can be more than in your inflows. This is so because there is always a lag between your spending (on raw materials, labour, etc.) and your receiving the sales revenue.
5. Receipt of sales revenue may be delayed because you 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.
6. In such situations, you should be equipped with sufficient information to be able to arrange for needed funds.
7. The nature of any business is uncertainty. You base your calculations on certain (hopefully realistic) assumptions.
8. It plans the funds required using these assumptions.
9. However, your actual performance, say of sales, could be higher or lower than your plan. It will rarely be exactly per

plan.

10. Or your collection from credit customers has lagged and you are running short of funds. There could be many other reasons as to why your well laid out funding plan has gone for a loss,
11. To avoid such situations and be on top of things, reviewing your projections periodically and recasting the future based on the current status (and not assumptions of the past) and what is likely to happen in the near future is very crucial.
12. Cash flow projections is not a static document. It must be used as a dynamic tool.

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