MEFA MID – 2 IMPORTANT QUESTIONS

UNIT-3

1) Define pricing , explain the pricing methods of demand oriented , competition based.?

PRICING:

a)the process of exchanging price for a good or service is called pricing. Pricing as an important tool of the firm because it generates revenue to the firm.

b) Pricing is deciding the price of a product

keeping is view to get profit or cost….etc.

DEMAND ORIENTED PRICING:

- The higher the demand, the higher can be the price. Cost is not the consideration here. The key to pricing here is the value as perceived by the consumer. This is a relatively modern marketing concept.

Price discrimination:

price discrimination refer to the practice of charging different prices to customers for the same good. The firm uses its discretion to charge differently the different customer. It is also called differential pricing. Customers of different profile can be separated in various ways, such as by different consumer requirement by nature of product itself , by geographical areas, by income group and so on.

Perceived value pricing: perceived value pricing refers to where the price is fixed on the basis of the perception of the buyer of the value of the product.

COMPETITION – ORIENTED PRICING:

Some commodities are priced according to the competition in their markets. Thus we have the going rate method of price and the sealed bid pricing technique. Under the former a firm prices its new product according to the prevailing prices of comparable products in the market.

Sealed bid pricing: this method is more popular in tenders and contracts. Each contracting firm quotes its price in a sealed cover called tender. All the tenders are opened on a scheduled date and the person who quotes the lowest prices, other things remaining the same, is awarded the contract.

Going rate pricing:

here the price charged by the firm is in tune with the price charged in the industry as a whole. In other words, the prevailing market price at a given point of time is the guiding factor. When one wants to buy or sell gold, the prevailing market rate at a given point of time is taken as the basis to determine the price, normally the market leaders keep announcing the prevailing prices at a given point of time based on demand and supply positions.

2)Write the features and advantages of sole trader & partnership?

SOLE TRADER:

The sole trader is the simplest, oldest and natural form of business organization. It is also called sole proprietorship. 'Sole' means one. 'Sole trader' implies that there is only one trader who is the owner of the business.

Features of sole proprietorship

- It is easy to start a business under this form and also easy to close.
- He introduces his own capital. Sometimes, he may borrow, if necessary

- He enjoys all the profits and in case of loss, he lone suffers.
- He has unlimited liability which implies that his liability extends to his personal properties in case of loss.
- He has a high degree of flexibility to shift from one business to the other.
- Business secretes can be guarded well

Advantages of sole proprietorship

Easy to start and easy to close: Formation of a sole trader from of organization is relatively easy even closing the business is easy.

Personal contact with customers directly: Based on the tastes and preferences of the customers the stocks can be maintained.

Prompt decision-making: To improve the quality of services to the customers, he can take any decision and implement the same promptly. He is the boss and he is responsible for his business Decisions relating to growth or expansion can be made promptly.

High degree of flexibility: Based on the profitability, the trader can decide to continue or change the business, if need be.

PARTNERSHIP:

" Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all."

- **FEATURES OF PARTNERSHIP**

Relationship: Partnership is a relationship among persons. It is relationship resulting out of an agreement.

Two or more persons: There should be two or more number of persons.

There should be a business: Business should be conducted.

Agreement: Persons should agree to share the profits/losses of the business

Carried on by all or any one of them acting for all: The business can be carried on by all or any one of the persons acting for all. This means that the business can be carried on by one person who is the agent for all other persons. Every partner is both an agent and a principal. Agent for other partners and principal for himself. All the partners are agents and the 'partnership' is their principal.

- **Advantages Of Partnership**

1)Easy to form: Once there is a group of like-minded persons and good business proposal, it is easy to start and register a partnership.

2)Availability of larger amount of capital: More amount of capital can be raised from more number of partners.

3) **Division of labour:** The different partners come with varied backgrounds and skills. This facilities division of labour.

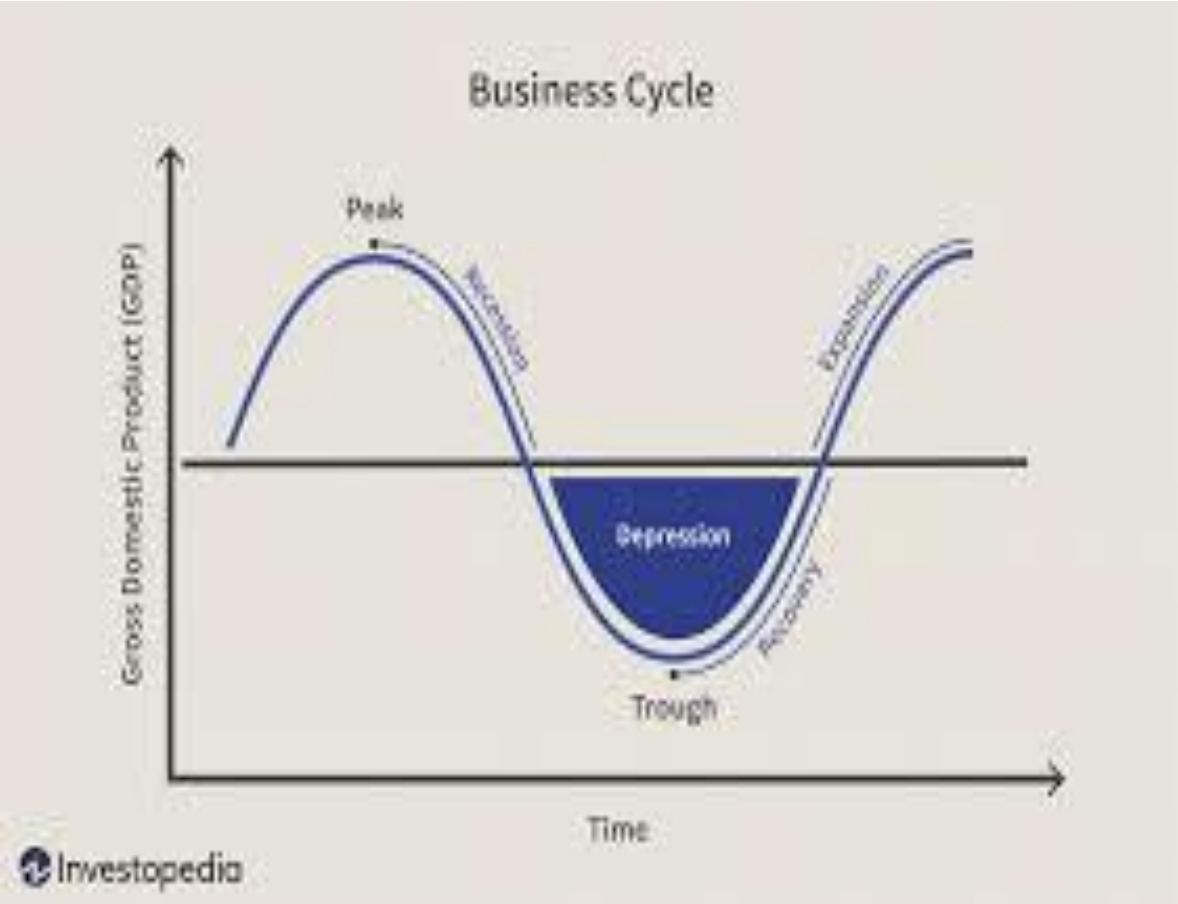
4) Flexibility: The partners are free to change their decisions, add or drop a particular product or start a new business or close the present one and so on.

3)Explain business cycle phases?

DEFINITION

The term "business cycle" (or economic cycle or boom-bust cycle) refers to economy-wide fluctuations in production, trade, and general economic activity.

Business cycles are identified as having Six distinct phases:



Expansion

The first stage in the business cycle is expansion. In this stage, there is an increase in positive economic indicators such as employment, income, output, wages, profits, demand, and supply of goods and services. Debtors are generally paying their debts on time, the velocity of the money supply is high, and investment is high. This process continues as long as economic conditions are favorable for expansion.

Peak

The economy then reaches a saturation point, or peak, which is the second stage of the business cycle. The maximum limit of growth is attained. The economic indicators do not grow further and are at their highest. Prices are at their peak. This stage marks the reversal point in the trend of economic growth. Consumers tend to restructure their budgets at this point.

Recession

The recession is the stage that follows the peak phase. The demand for goods and services starts declining rapidly and steadily in this phase. Producers do not notice the decrease in demand instantly and go on producing, which creates a situation of excess supply in the market. Prices tend to fall. All positive economic indicators such as income, output, wages, etc., consequently start to fall.

Depression

There is a commensurate rise in unemployment. The growth in the economy continues to decline, and as this falls below the steady growth line, the stage is called depression.

Trough

In the depression stage, the economy's growth rate becomes negative. There is further decline until the prices of factors, as well as the demand and supply of goods and services, reach their lowest point. The economy eventually reaches the trough. It is the negative saturation point for an economy. There is extensive depletion of national income and expenditure.

Recovery

After this stage, the economy comes to the stage of recovery. In this phase, there is a turnaround from the trough and the economy starts recovering from the negative growth rate. Demand starts to pick up due to the lowest prices and, consequently, supply starts reacting, too. The economy develops a positive attitude towards investment and employment and production starts increasing.

UNIT – 4

1) Define Accounting & what are the accounting concept and conventions?

Accounting:

Accounting as the process of identifying , measuring , and communicating economic information to permit informed judgments and decisions by the users of the information The users may be internal or external. -The American accounting association

Accounting concepts

1.BUSINESS ENTITY CONEPT: In this concept “Business is treated as separate from the proprietor”. All the Transactions recorded in the book of Business and not in the books of proprietor. The proprietor is also treated as a creditor for the Business.

2. GOING CONCERN CONCEPT: This concept relates with the long life of Business. The assumption is that business will continue to exist for unlimited period unless it is dissolved due to some reasons or the other.

3. MONEY MEASUREMENT CONCEPT: In this concept “Only those transactions are recorded in accounting which can be expressed in terms of money, those transactions which cannot be expressed in terms of money are not recorded in the books of accounting”.

4. COST CONCEPT: According to this concept, an asset is recorded at its cost in the books of account. i.e., price, which is paid at the time of acquiring it. In balance sheet, these assets appear not at cost price every year, but depreciation is deducted and they appear at the amount, which is cost, less classification

Accounting conventions

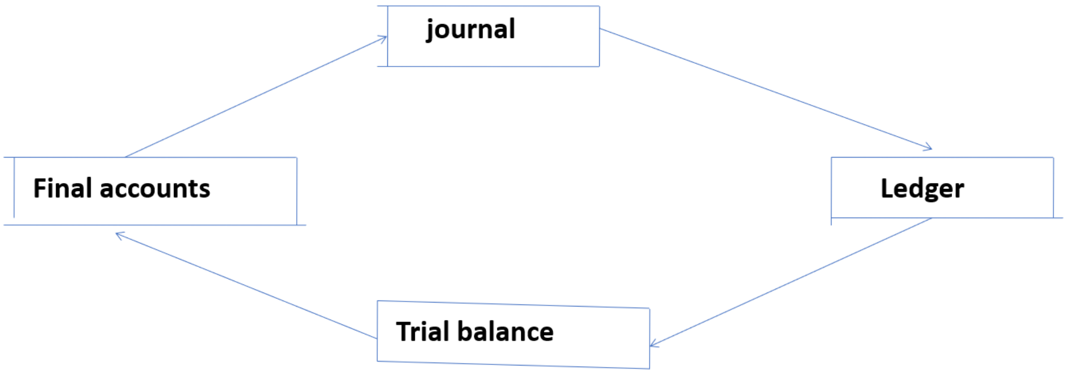
1. FULL DISCLOSURE: According to this convention accounting reports should disclose fully and fairly the information. They purport to represent. They should be prepared honestly and sufficiently disclose

information which is if material interest to proprietors, present and potential creditors and investors. The companies ACT, 1956 makes it compulsory to provide all the information in the prescribed form.

2. MATERIALITY: Under this convention the trader records important factor about the commercial activities. In the form of financial statements if any unimportant information is to be given for the sake of clarity it will be given as footnotes.
3. CONSISTENCY: It means that accounting method adopted should not be changed from year to year. It means that there should be consistent in the methods or principles followed. Or else the results of a year cannot be conveniently compared with that of another.
4. CONSERVATISM: This convention warns the trader not to take unrealized income in to account. That is why the practice of valuing stock at cost or market price, whichever is lower is in vague. This is the policy of “playing safe”; it takes in to consideration all prospective losses but leaves all prospective profits.

2)Explain the accounting cycle in detail?

Accounting cycle



Journal

Meaning of a Journal: o According to M.J. Keeler, “A Journal is a chronological record of financial transactions of a business.”

Characteristics:

- It is a chronological record of financial transactions of a business.
- It is a book of original entry which records all the details of transactions from various source documents.
- It records both the aspects of a transaction i.e., debit and credit using Double Entry System of Book Keeping.

- It gives complete details of a transaction in one entry.
- It forms the base for recording or transferring the journalised transactions to the individual accounts known as Ledger Accounts.
- Since, all the transactions are recorded for the first time in a Journal, it is correctly known as a Book of Original Entry

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Format:

Journal entries format

Form of Journal

Date	Particulars	Ledger Folio(LF)	Debit Amount	Credit Amount

Ledger

- Ledger is a book that contains several accounts. The process of preparation of accounts from Journal into ledger is called posting in the ledger

Trail balance

- Trial balance is a statement containing debit and credit balances of Various accounts taken out from ledger books as on a Particular date

Particulars	Debit	Credit
profits account ▪sales account ▪ purchase returns account		XXX XXX XXX
▪debtors accounts ▪creditors account	XXX	 XXX
▪ asset accounts ▪liabilities account	XXX	 XXX
▪expenses accounts incomes account	XXX	 XXX
▪Losses accounts ▪ gains account	XXX	 XXX
▪purchases accounts ▪Bank over draft account	XXX	 XXX
drawings account	XXX	
▪Sales returns account	XXX	

Final accounts

- 1.Trading account
- 2.Profit or loss Account
- 3.Balance sheet

Trading Account

(For the year ended…)

Dr. | Cr.

Particulars		Amount	Particulars		Amount
To Opening stock		Xxx	By Sales	xxx	
To Purchases	xxx		Less: Return Inwards	(xxx)	Xxx
Less: Return Outwards	(xxx)	Xxx	By Closing stock		Xxx
To Wages		Xxx	By Gross Loss		Xxx
To Carriage Inwards		Xxx			
To Freight Inwards/cartage		Xxx			
To Gross Profit c/d		Xxx			
		xxx			xxx

Aman Enterprise Ltd.

Profit and Loss Account as on March 31, 2018

Dr. | Cr.

Particulars	Amounts	Particulars	Amounts
To Trading A/c – (G.L.)	50,000	By Commission received	35,000
To Salaries	94,000	By Rent Received	50,000
To Interest charges by bank	2,000	By Gain on sale of Furniture	2,500
To Freight outwards	15,000	By Capital A/c *(Balancing Figure represent Net Loss)*	1,27,100
To Printing & Stationary	7,000		
To Interest on loan	5,500		
To Travelling Expenses	10,000		
To Advertisement Expenses	10,200		
To Legal Charges	5,000		
To Postage and telegram	3,000		
To Insurance	2,200		
To Loss on sale of Machinery	10,000		
To Depreciation on Fixed Assets	700		
	2,14,600		2,14,600

HORIZONTAL FORM OF BALANCE SHEET (In order of Permanence)

BALANCE SHEET

as at ....

Liabilities	₹	Assets	₹
Capital Account	xxx	Goodwill	xxx
Reserves & Surplus	xxx	Patents	xxx
Loan on Mortgages	xxx	Copy Rights	xxx
Bank Loans		Trade Marks	xxx
Income Recieved in Advance		Land & Buildings	xxx
Outstanding Expenses	xxx	Plant & Machinery	xxx
Bills Payable	xxx	Furniture & fittings	xxx
Sundry Creditors	xxx	Investments	xxx
		Stock	xxx
		Sundry Debtors	xxx
		Bills Receivable	xxx
		Cash at Bank	xxx
		Cash in Hand	xxx
	xxx		xxx

3)Write the advantages of double entry book keeping?

Benefits of Double entry bookkeeping

Accuracy

One reason that Double entry bookkeeping is so accurate is that it implements the “matching principle”. The matching principle makes sure that expenses relate to revenue. Recording both means you’re accurately calculating profit and loss.

Prevent Errors

Human error can distort a company’s financial position. But Double entry bookkeeping reduces the chance of that as it provides checks and balances. Errors are easily caught with Double entry bookkeeping because the debit and credit amounts are equal. Although errors are greatly reduced, it does not entirely prevent error.

Leaves an Audit Trail

Double entry bookkeeping reduces fraud by leaving an adult trail. Audit trails allow you to trace transactions that were posted to the general ledger. For example, if your cash balance seems too high on your balance sheet, you can trace back the transactions made to the cash account and see if they're accurate.

Financial Statement Preparation

Financial statements are easy to prepare in companies that use Double entry bookkeeping because info is gathered directly from the Double entry bookkeeping transactions. It's important for companies to produce accurate financial statements quickly and efficiently. Management depend on financial statements to see how the companies performing financially and to create budgets. External users, like investors, depend on financial statements to view a company's creditworthiness.

UNIT -5

1) Write meaning and definition of capital budgeting?

MEANING OF CAPITAL BUDGETING

Capital budgeting is the process of making investment decision in long-term assets or courses of action. Capital expenditure incurred today is expected to bring its benefits over a period of time. These expenditures are related to the acquisition & improvement of fixed assets.

DEFINITION OF CAPITAL BUDGETING

A)Large investment in plant or equipment

with returns over a period of time.

B)Investment may take place over a period of time

C) A Strategic Investment Decision

2)Explain the process of capital budgeting?

Process of Capital Budgeting

The process of Capital Budgeting involves the following points:

Identifying and generating projects

Investment proposals are the first step in capital budgeting. Taking up investments in a business can be motivated by a number of reasons. There could be the addition or expansion of a product line. An increase in production or a decrease in production costs could also be suggested.

Evaluating the project

It mainly consists of selecting all criteria necessary for judging the need for a proposal. In order to maximize market value, it has to match the company's mission. It is crucial to consider the time value of money here.

Selecting a Project

Since there is no ‘one-size-fits-all’ factor, there is no defined technique for selecting a project. Every business has diverse requirements and therefore, the approval over a project comes based on the objectives of the organization

Implementation

Once the project is implemented, now come the other critical elements such as completing it in the stipulated time frame or reduction of costs. Hereafter, the management takes charge of monitoring the impact of implementing the project.

Performance Review

This involves the process of analyzing and assessing the actual results over the estimated outcomes. This step helps the management identify the flaws and eliminate them for future proposals.

3)Write the methods / techniques of capital budgeting?

PAYBACK METHOD

Payback period=cost of the project/annual cash inflows

Merits

1. It is one of the earliest methods of evaluating the investment projects.

2.It is simple to understand and to compute.

3.It dose not involve any cost for computation of the payback period

4.It is one of the widely used methods in small scale industry sector

Demerits

1.This method fails to take into account the cash flows received by the company after the pay back period.

2.It doesn't take into account the interest factor involved in an investment outlay.

3.It doesn't take into account the interest factor involved in an investment outlay.

ARR METHOD

Average net income after taxes

ARR= ------------------------------------ x100

Average Investment

Total Income after Taxes

Average net income after taxes = ----------------------

No. Of Years

Total Investment

Average investment = ----------------------

2

Merits:

1. It is very simple to understand and calculate.
2. It can be readily computed with the help of the available accounting data.
3. It uses the entire stream of earning to calculate the ARR.

Demerits:

1.It is not based on cash flows generated by a project.

2.This method does not consider the objective of wealth maximization

3.IT ignores the length of the projects useful life.

4.It does not take into account the fact that the profits can be re-invested.

NPV METHOD

NPV= Present value of cash inflows – investment

Merits:

It recognizes the time value of money.

It is based on the entire cash flows generated during the useful life of the asset.

Demerits:

1. It is different to understand and use.
2. The NPV is calculated by using the cost of capital as a discount rate. But the concept of cost of capital. If self is difficult to understood and determine.

IRR METHOD

$$IRR = L + \frac{P1 - Q}{P1 - P2} \times D$$

L- Lower discount rate

P1 - Present value of cash inflows at lower rate.

P2 - Present value of cash inflows at higher rate.

Q- Actual investment

D- Difference in Discount rates.

Merits:

It consider the time value of money

It takes into account the cash flows over the entire useful life of the asset.

It has a psychological appear to the user because when the highest rate of return projects are selected, it satisfies the investors in terms of the rate of return an capital

Demerits:

It is very difficult to understand and use.

It involves a very complicated computational work.

It may not give unique answer in all situations.