Section - A

Qus.1

(i) A Budget is a written plan covering projected activities of a firm for a definite period of time. In fact a budget is a tool of management for carrying out its functions of planning, coordinating and controlling operations.

(ii) In Accounting the Inventory turnover is a measure of the number of times inventory is sold or used in a time period such as a year. It is used to measure the firm inventory management and also known as stock turnover ratio.

\[
\text{Inventory turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Average Inventory}}
\]

(iii) Errors of Principles

(iv) A petty cash book is a record of small value purchases before they are later transferred to the ledger and final accounts; it is maintained by a petty or junior cashier. This type of cash book usually uses the imprest system a certain amount of money is provided to the petty cashier by the senior cashier. This money is to cater for minor expenditures (hospitality, minor stationery, casual postage and so on) and is reimbursed periodically on satisfactory explanation of how it was spent.

(v) The working capital is required by a business for the purchase of raw materials and for meeting day to day expenses such as wages, salaries, rents, taxes, interest etc. the working capital is also known as the revolving or circulating capital.

(vi) Sales promotion includes those marketing activities, other than purchasing and dealer effectiveness such as window display, shows, and exposition, demonstrations etc.

(vii) Scrutiny of application

Preliminary interview
Selection test
Selection interview
Physical examination
Reference check
Final selection and placement
(viii) In a drug store, VED analysis is very useful in controlling and maintaining the stock of various type of formulation of a particular group of drugs. The best way to classify the different brands of drug formulation into any one of the following categories:
V = vital item
E = Essential item
D = Desirable item

(ix) Schedule C and C1 drug
Schedule X drugs.
All drug other than those specified in schedule C and C1 and schedule x.

(x) Separate licences are required for the retail sales of
Schedule C and C1 drug
Schedule X drugs.
All drug other than those specified in schedule C and C1 and schedule x.

(xi) Commerce is that aspect of business activity which is concerned with the distribution of goods and services produced by industry. Commerce serves as a valuable link between the producer and the consumer.

(xii) A company governed by company Act and it has to follow various provision of the Act. Joint Stock Company is a better method of mobilizing financial resources. It attracts a wide range of investors and able to collect a large amount of capital.
Section - B

2.(a) Joint Hindu Family business

According to Mitakshara School of Hindu Law, the property which is inherited by a Hindu from his father, grandfather and great grandfather is ancestral property. Likewise, a son, his son and his son’s son become members of the joint Hindu family with co-owner of co-parcenary interests by virtue of being born in the family. The business is considered as part of the heritable property, the co-parcenary interests are also involved in the family business. A business which belongs to a single Hindu family and conducts it as a family business is called joint Hindu family business. The management and control of the family business is generally in the hands of the senior most male member of the family who is known as the karta. No legal formalities are required to convert a business into a joint family business. It automatically becomes so since on the death of the karta, his legal male heirs inherit it.

Salient features of Joint Hindu family business:

1. The membership of the family business is as a result of status arising from birth in the family.
2. The share of each member of the family keeps on fluctuating. It increases on the death of any one of the existing co-parcener and decreases by birth of a new co-parcener.
3. The co-parcener can claim for its share or ask for the partition of the business, If they are not satisfied with the functioning of the joint Hindu family firm.

Advantages

1. Every co-parcener get share in the profits of the business, irrespective of his contribution in successful running of the business.

Disadvantages

1. The resources of the joint family business are limited in comparison to other business organization.
2. The continuity of the joint Hindu family business depends upon the continuity of the joint Hindu family itself.

2 (b) corporative organizations is a voluntary association of persons who are financially strong.

Salient features of cooperative society

1. A cooperative society is a voluntary organization made by association of persons and not of capital. There is no discrimination as regards the membership of the society. A member can withdraw from society after giving due notice to that effect.
2. The management of the affairs of society is in the hands of the managing committee which is elected by the members. Each member is entitled to s single vote, irrespective of number of shares held
3. The capital of a cooperative society is contributed by its members through purchase of shares. A cooperative society can also add to their capital resources by loans from the central and state cooperative banks.
4. The shares of the society cannot be transferred by members to others.
5. A cooperative society conducts business on cash basis and does not allow credit facility.
6. A cooperative society is required to be registered under the cooperative society’s act 1912.
7. A portion of the balance is utilized for the general benefit of the members.

Advantages

1. A cooperative society is a voluntary association that may be formed by any 10 adults persons. Only a few legal formalities are required.
2. The balance of the surplus earned in any can be utilized for the growth and development as well as expansion of a cooperative society.
3. Facility of loans at much lower rate of interest.
4. The membership of cooperative society is open to everybody.

Disadvantages

1. There is always shortage of capital for a cooperative society.
2. A cooperative is managed by a managing committee which lacks technical knowledge.

2 (c) Danger level is generally below the minimum stock level. Normal stock level should level never be allowed to fall below the minimum level. If it reaches the danger level at any point of time, urgent action must be taken to prevent stock out.

In some concerns danger level is fixed above the minimum level but below the re-order level. In case the order has been placed for materials on reaching the re-order level, the only significance of such a level is to check up with the purchase department that materials will be received in time. Thus fixation of danger level below the minimum level is meant for taking corrective action, while its fixation above the minimum level is an indicator for preventive action.

2 (d) Input-output ratio is the relation between quantity of material charged to the production process and the quantity of material in the final output.

For example – 2 kg of material A is put in production process and the content of this material in the final product is 1.6 kg.

Input-output Ratio = \( \frac{2}{1.6} \times 100 = 125\% \).

Advantages

1. It determines the efficiency of the manufacturing department.
2. It helps in the comparison of actual consumption of material with the standard consumption. It indicates whether the use of material is favorable or unfavorable.

3. The cost of raw material in the finished product can be find out by multiplying the cost of raw material per unit by the input-output ratio.

For example: A drug and pharmaceutical company uses chemical ‘A’ as a raw material @ Rs 10/- per kg. The I-O ratio is 125%. Due to non availability of this raw material two substitute are available as per the following information. Recommended which of the material to be used

<table>
<thead>
<tr>
<th>Material</th>
<th>Rate per kg</th>
<th>I-O Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>A₁</td>
<td>Rs 15/-</td>
<td>110%</td>
</tr>
<tr>
<td>A₂</td>
<td>Rs 12/-</td>
<td>140%</td>
</tr>
</tbody>
</table>

Solution: Since the rate per kg and I-O ratio vary in case of both the substitutes, the final decision depends on the cost of each of the substitutes in the finished product per unit.

The cost of the material = input/output × rates per unit in the finished product

The cost of the raw material

A₁ = 110/100 × 15 = Rs 16.50 per kg

A₂ = 140/100 × 12 = Rs 16.80 per kg

Taking into consideration the cost of raw material chemical A₁ is recommended because it is more economical.

3(a) Retailer renders a number of services to the producers/ wholesalers and consumers.

Services to the Producer/wholesaler

1. Retailer studies the tastes, likes and dislikes of the customers and through the wholesaler, communicates it to the manufacturer to enable him to improve his products according.

2. They help the wholesaler and manufacturer by doing the job of advertisement by displaying goods in show windows or on counter or by any other means.

3. The retailer helps the manufacturers and wholesalers in meeting the various requirements of consumers living in every nook and corner of the country.

Services to the consumers

1. They maintain a ready stock of goods to meet the demand of consumers.

2. They provide free home delivery service to the consumers.

3. The retailer offers free expert advice to his customers about the merits and uses of each product and also about the availability of a better substitute.
4. They provide credit facilities to consumers.
5. The retailers keep themselves well-stocked with different varieties of goods manufactured by different producers. In this way, they provide an opportunity to the customer to choose the best out of available products.
6. They maintain a regular contact with the customers so as to provide an opportunity to them to make a complaint regarding a substandard product, replacement of defective product etc.
7. A retailer displays the new products in show window and on counter for the information of the would-be consumers.

3(b) Profitability ratio: These are designed to highlight the end results of business activities. So these ratios are useful to measure the operating efficiency of the company. The various ratios covered under these are:

(i) Gross profit ratio
(ii) Net profit ratio
(iii) Return on investment

Gross profit ratio: Gross profit means sales minus cost of goods sold

\[ \text{Gross profit ratio} = \frac{\text{gross profit}}{\text{net sales}} \times 100 \]

Gross profit depends upon the selling price, sales volume and cost. A high gross profit is a sign of good management and indicates that the cost of sales is relatively low. It may also indicate that the selling price of goods has increased without a corresponding increase in the cost of goods sold. The other possibility is that the cost of goods sold might have declined without a corresponding decline in the selling price of the goods. A low gross profit ratio is due to increase in cost of goods sold or decline in selling price due to inferior quality of the product or lack of demand etc.

Net profit ratio: The ratio is also known as net profit margin. It measures the relationship between net profit and net sales.

\[ \text{Net profit ratio} = \frac{\text{net profit}}{\text{total sales}} \times 100 \]

Where net profit means gross profit minus operating expenses. Net profit ratio is helpful in determining the efficiency with which the operation of the firm are being managed.

Return on investment: The overall profitability of an enterprise can be measured by relating its net profit to its investment. There are three different concepts of investments which are given below:

Return on assets = \( \frac{\text{net profit after taxes}}{\text{total assets}} \times 100 \)

Return on capital employed = \( \frac{\text{net profit after taxes}}{\text{capital employed}} \times 100 \)
Capital employed means the long-term funds supplied by the creditors and shareholders of the company.

Return holders equity = net profit after taxes/equity share capital × 100 + preference share capital + retained earning

Return on investment is a useful measure for judging the overall efficiency of an enterprise. It indicates as to what degree the long-term funds of the business have been properly utilized.

Liquidity ratio: These ratios constitute ratio analysis of the short term financial position, are used to measure the ability of the firm to meet its current obligation. The following two ratios come under the head:

(i) Current ratios
(ii) Quick ratios

Current ratio (CR): It is also called Working Capital Ratio and is most widely used of all analytical devices based on the Balance sheet. It matches the current assets of the firm to its current liabilities.

Current ratio = current assets/current liabilities

Generally a current ratio of 2 is considered satisfactory. A current ratio of two means for every one rupee of current liabilities, two rupees of current assets are available to pay them. A satisfactory current ratio enables a firm to meet its short-term obligations and thereby ensures smooth operation of business.

Quick ratio: It is also called acid Test Ratio. It is used to measure the ability of the firm to convert its current assets quickly into cash in order to meet its current liabilities.

Quick ratio = quick assets/current liabilities

Quick assets means current assets which can be converted into cash immediately or on a short notice without decrease in value. Quick assets include cash and bank balances, securities and debtors.

Quick ratio is more useful than the current ratio as it provides a more rigorous test of a firm’s liquidity. Generally, a quick ratio of 1 is considered satisfactory.

4(a) The medicines which are purchased from the market are stored in drug store to provide a uniform supply of drugs to the patients. The medicines are stocked in containers, such as drums and boxes and on flexible racks and shelves.

It must be ensured that the medicines which are stored in a drug store remain preserved during their storage. There should not be any damage due to high temperature or exposure to sunlight. The drugs are to be stored as per the prescribed conditions of their storage. The drugs stored in a drug store be
arranged in such a way that they are easily traceable as and when required. For this purpose the drugs are stored by any one of the following methods:

According to manufacturers: The drugs are arranged in a drug store manufacturer wise. For example, the drugs manufactured by Glaxo (India) Ltd are placed at one place i.e. one cupboard.

According to pharmacological action: In this method, the medicines are divided according to their pharmacological action and drugs of one group are placed. For example, all analgesic drugs are placed in one cupboard. Likewise similar drugs of other groups are placed together on a separate shelf or in a separate cupboard.

Alphabetically: In this method, the drugs are placed alphabetically. The drugs with first letter ‘A’ are placed in one cupboard.

Out of the above methods the storing of drugs manufacturer-wise is most popular and convenient method. The drugs are stored in such a way that the older stock must be sold first. The drugs having date of expiry may be arranged in such a way that these can be sold before their date of expiry. This can be achieved by placing the old stock in the front and the fresh stock on the backside of it.

4 (b) A successful budgeting programme can be carried out only when certain fundamental conditions and attitudes exist. The following are the requirements of a good budgeting system:

1. Cooperation of top management: Budgeting must have the complete cooperation of the top management. This requires commitment of the top management to the budget idea as well as to the principles and policies underlying it.
2. Clearly defined organization: In order to carry out budgeting in a manner that will provide maximum benefits, a good organization within the business has to be developed.
3. Accurate accounting system: The accounting system in the business should be such as to hold each of the organization to its responsibilities.
4. Unambiguous policy: A budget programme is always based on certain fundamentals the collection of which is called the ‘policy’ of the business. So no programme can be prepared without the knowledge of the business policy to be adopted during the period covered by the budget.
5. Preparation by responsible executives: The responsibility for the preparation of the budget estimates should rest on those executives who are responsible for performance of the budget. Such an approach would guarantee to a certain extent the proper implementation of the programme contained in the budget.
6. Constant vigilance: An effective system of budgetary control requires a constant vigilance at all levels. A provision must be made for comparison of budgeted and actual results achieved at frequently intervals. As soon as unfavorable trends are detected, immediately remedial action must be taken.
7. Budget committee: A budget committee has to be established consisting of a budget director, chief executive officer and executives of various departments of the organization for successful implementation of the budget.

8. Cost of operation: The budget system should not cost more to operate than it is worth. It implies a caution against expensive refinements unless their value clearly justifies them.

9. Reasonably attainable goals: Budget figures should be realistic and represent reasonably attainable goals to gain maximum profit.

10. Continuous budget education: In order to achieve success of budgeting, it is important that budget education should be provided to those who are engaged in preparing the budget proposals. Budget education means briefing the employees of the undertaking on the objectives, potentials and techniques of budget as well as making them understand its uses and limitations.

5 (a) This is one of the medium of advertisement and sales promotion. The goods are exhibited in artistically laid-out window in front of the shops or at important busy centers like railway station, bus stops. Big business firms set up large showrooms to display their products. The retail chemists exhibit their products in the show windows of their shops.

The main aim of window display is to attract customers and thus to promote sales. It creates a good impression about the retail pharmacy. The following principles of window display should be kept in mind:

1. It should reflect the character of pharmacy.
2. It should display seasonal items.
3. It should show the price of the item.
4. The window display should be well-lit during night.
5. It should include certain moving objects if it is compatible with the display.
6. There should be decorative background of the display which can be made by using colored wallpapers, thermacol, flowers of good quality, satin cloth etc.

Color plays an important role in window display. It helps in arresting the attention of passers-by and creates a pleasing impression.

Advantages of window display

1. Window display acts as a silent salesman for promoting sales.
2. It makes a drug store more decorative and attractive.
3. It is good method of advertisement.
4. It attracts the customers or passers-by.
5. It creates good impression on the customer when he enters the drug store.

5 (b) In the olden days salesmanship was considered a very important method for getting orders by fair or foul means for factory produced items, without having any consideration for the satisfaction of the customers. But nowadays this concept has changed. Salesmanship is the art of convincing and
persuading the would-be customers to buy goods or services which will give them satisfaction. A great emphasis is laid on winning the confidence of buyers. It will give the satisfaction to the customers. It will win a permanent goodwill for the seller.

Personal selling or salesmanship is the oldest and most effective technique of selling. It helps in understanding the needs, motives, and behavior of the people. It is also useful in knowing the habits, tastes and attitudes of customers. Such information is useful to manufacturers in designing better products and also improving the existing ones.

5 (C) Advertisement is an art, used to familiarizes public with the product by informing of its description, uses, its superiority over other brands, sources of its availability and price etc.

Objectives

1. To create a demand for a new product by explaining its utility.
2. To increase its sales by attracting the customers.
3. To assist the salesmen in their selling efforts.
4. To enhance goodwill of the firm.

Advantages

1. It helps in the introduction of new products in the market.
2. It promotes the sale of goods and services.
3. It helps in creating a demand and hence a regular production.
4. It enables a firm to face completion in the market for its survival.
5. It enables a firm to improve its reputation by highlighting its achievements to the public.
6. It provides information and also educates the consumers to buy better quality goods at lower prices.
7. It leads to increase in production, which in turn reduces the overhead expenses.

Disadvantages

1. It increases the cost of the production.
2. It involves a huge wasteful expenditure because the majorities of advertisements either escapes the attention of the people or are ignored by them.

Parts of advertisement

1. Heading: Heading or caption is used to attract the attention of the people.
2. Theme: Theme gives the basic idea about the product and highlights its distinctive advantage.
3. Picture: It enables the customers to recognize or identity of the product.
4. Arguments: Purpose of giving the argument is to convince the customers about the utility of the product.
5. Closing part: Closing part of an advertising-copy is very often repeats in brief the contents of the advertisement. In some cases the name and address of the drug store where the product is available are given in this part.

5(d) Error of posting – these error occurs if posting is done to a wrong account though with correct amount and on correct side. For example, if a debit of say, Rs 5000 to one Ram Govind is wrongly posted to the debit of Ram Gopal’s account, the trial balance will remain unaffected despite a wrong entry having been made.

5(e) These error occurs due to wrong posting (either of an amount or on the wrong side of an account, or in the wrong account), wrong totaling, wrong balancing or wrong recording of an amount in the books of original entry etc.

For example, one Ram Lal receives say Rs 10,000 as payment for the material supplied. While this has been correctly recorded in the cash book, as regards entry in the ledger, Ram Lal account has been debited with Rs. 1000 only. This is called an error of commission. The majority of error of commission is reflected in the trial balance.

6(a) there is two method of raising capital for any business

1. Owend capital
2. Loan capital

Owend capital it is contributed by the owner i.e. sole proprietor, partners, shareholders etc. it remains invested in the business so long as the business continues to exist.

Lone capital it may be raised from individual bank or financial institution.

The source of finance can be classified into three parts on the basis of duration for which it is required by the business.

Source of finance

1. Long term finance

Issue of shares

Issue of debentures

Loan from specialized industrial financial institutions

Plouging back of finance

2. Medium term finance

Issue of preference shares

Issue of debentures
Public deposits
Bank loan
Assistance from special financial institution

3. Short term finance
Trade credit
Bank credit
Instalment credit
Customer’s advances

6(b) financial accounting – it is mainly concerned with record keeping directed towards the preparation of profit and loss account and balance sheet. The main purpose of financial accounting is:
To prepare the necessary account and balance sheet
To record the transaction which concern or affect the business
To apprise the owners of the business about the financial state of the business.
To record business transaction in the books of account in such a way that operating results for a particular period and financial condition on a particular date can be known for the information of the various groups of person.

Cost Accounting- it is the process of accounting for costs. It is a systematic procedure for determining the unit cost of output produced or service rendered. The main function of cost accounting is to find out the cost of product and to help the management in controlling its cost. It reflect to the collection, classification, ascertainment of cost and its accounting and cost control relating the various element of cost, i. e. materials, labour, and overheads.


<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Amount Rs</th>
<th>Assets</th>
<th>Amount Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank overdraft</td>
<td>60,000.00</td>
<td>Cash in hand</td>
<td>2,000.00</td>
</tr>
<tr>
<td>Creditors</td>
<td>25,000.00</td>
<td>Investments</td>
<td>6,000.00</td>
</tr>
<tr>
<td>Capital</td>
<td>90,000.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Add Net Profit</td>
<td>45,000.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,35,000.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less Drawing</td>
<td>10,000.00</td>
<td>1,25,000.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,10,000.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Motor vehicle</td>
<td>14,000.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Plant &amp; Machinery</td>
<td>42,000.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Land &amp; building</td>
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</tr>
<tr>
<td></td>
<td></td>
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<td>2,10,000.00</td>
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