

ENTREPRENEURSHIP XII

ANSWER KEY

SECTION A

1. The _____ is the Unit of Sale for multi-product business.
 - Answer: b. Customer
2. Which amongst the following values would help an entrepreneur to determine the Return on Investment?
 - Answer: b. 1, 4 (Net profit and Total capital invested)
3. At BEP, which of the conditions is to be fulfilled:
 - Answer: c. Total revenue = Total cost
4. After assuming the future demand, every company needs to determine when to place an order for stock and how much to order. This can be calculated by using the _____ formula.
 - Answer: d. Economic Order Quantity

SECTION B

5. Why is it important for an entrepreneur to do break-even analysis?
 - Answer: Break-even analysis helps entrepreneurs understand the minimum sales needed to avoid losses. It enables them to assess risk, set sales targets, make pricing decisions, and evaluate the potential profitability of their business.
6. Explain the concept EOQ with formula.
 - Answer: The Economic Order Quantity (EOQ) is a formula used to determine the optimal order quantity that minimizes total inventory costs, including ordering and carrying costs. The EOQ formula is:
$$EOQ = \sqrt{\frac{2DS}{H}}$$
Where:
 - D = Demand rate (units/year)
 - S = Ordering cost per order
 - H = Holding or carrying cost per unit per year
7. Raghav sells an air purifier for Rs. 2,100. If the purchase price of the product is 80% of its selling price, calculate the gross profit earned by Raghav.
 - Answer:
 - Selling Price (SP) = Rs. 2,100
 - Purchase Price (PP) = 80% of SP = $0.8 \times 2,100 = \text{Rs. } 1,680$
 - Gross Profit = SP - PP = $2,100 - 1,680 = \text{Rs. } 420$
8. Aditya Bearings Ltd. requires 900 kg of wrought iron. The cost of placing each order is 50 and carrying cost is 100. Calculate Economic Order Quantity.
 - Answer:
 - D = 900 (annual demand)
 - S = 50 (ordering cost per order)
 - H = 100 (carrying cost per unit per year)
 - $EOQ = \sqrt{\frac{2DS}{H}} = \sqrt{\frac{2 \times 900 \times 50}{100}} = \sqrt{900} = 30 \text{ kg}$

SECTION C

9. (a) What is the 'Unit of Sale' and 'Unit Price' in this case?

- **Answer:** The 'Unit of Sale' is the service or product sold (e.g., a room night in the hotel), and the 'Unit Price' is the average billing per guest.

(b) If the cost of goods sold or variable cost is 60% of the sales price, calculate the 'unit cost' and the 'gross profit'.

- **Answer:**
- Assuming the average billing is X, the unit cost = 60% of X = 0.6X.
- Gross Profit = Unit Price - Unit Cost = X - 0.6X = 0.4X.

10. Happy Hands Ltd. calculates the total weighted average contribution margin.

- **Answer:**
- To calculate the total weighted average contribution margin, you need the contribution margin for each product and its proportion to total sales.
- **Assuming:**
 - Total contribution margin = Total Revenue - Total Variable Costs
 - Variable costs need to be known for each product to calculate this accurately.