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# DRUG STORE & BUSINESS MANAGEMENT

## SYLLABUS

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3. Channels of distribution
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6. Objectives of purchasing
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**TRADE, INDUSTRY AND COMMERCE**

**Q.1 Define the following terms**

**Answer-**

- A. Trade:** Trade means buying and selling of goods. A trader purchases goods from producers or whole salers and sells them to consumers.
- B. Industry:** It is a part of business activities concerned with growing, extraction, production, conversion and processing or fabrication of goods.
- C. Commerce:** Commerce is a part of business activity which deals with the buying and selling of goods, exchange of commodities and distribution of finished products.
- D. Economics:** Economics is scientific study of economics activities. The primary goal of economics is to attain maximum profit, increasing productivity and growth through expansion and modernization.
- E. Management:** Management may be defined as the process of conducting and managing various business activities. When the practice of management is applied to pharmaceutical industry and drug stores, it is called as pharmaceutical management.
- F. Transaction:** It is a process to perform, to carry out, to conduct or to manage business in some way. It is an external event that affects assets, liabilities or capital.

**Q.2 Define & classify trade**

**Answer-**

Trade means buying and selling of goods. A trader purchases goods from producers or whole salers and sell them to consumers.

**Classification:**

- A. Internal trade or Home Trade
- B. External trade

**A. Internal trade:** It refers to buying and selling of goods within the boundaries of one country. Payments of such sale are made in National currency directly or through the banking system.

**Internal trade may be subdivided into Whole Sale trade & Retail trade.**

**Wholesale trade:** It involves the sale of goods in larger quantities to the retailers who are in direct contact with the consumers. Wholesale trade serves as a link between the producers and the retail traders.

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**Retail sale:** It involves the sale of goods in smaller quantities to the consumers. Retail trade serves as a link between the whole sales and the consumers.

**B. External trade or foreign trade:** It refers to buying and selling of goods between countries of the world. When goods are moved from one country to another country, payments have to be converted into the currency of the concerned country. Such trade is conducted mostly on whole sale basis. It is subdivided into

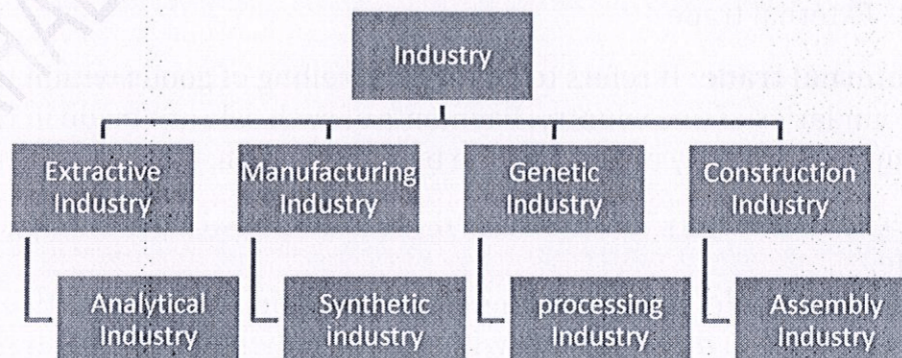
- i) **Import trade:** It means purchasing goods from foreign countries.
- ii) **Export trade:** It means selling goods to foreign countries.
- iii) **Entrepot trade:** It means exchange of goods, between foreign producer and foreign consumers.

### Q.3 What is industry? Write the classification of industry

**Answer -**

Industry is the part of business activity, which produces goods. The goods produced by the industry are used by the consumers or used by the producers for further production. Goods produced by the industry for the use of consumers are said to be consumer's goods. Goods produced by the industry for the use of further production are said to be producer's goods. **Ex:** Production of cloth, tooth paste are considered as consumer's goods and production of machine tools and machinery are considered as producers goods because these products will be used by factories for the production of certain other products.

Classification of Industry: Industry can be classified as follows



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### **Q.4 Define economics & Explain in brief the various branches of economics:**

**Answer** - Economics is a scientific study of economic activities. The primary goal of economic is to attain maximum profit, increasing productivity and growth through expansion and modernization.

**Branches of economics:** There are three main branches of economics, they are

- i) **Descriptive economics:** It describes the relevant facts about an economic field such as agriculture, industry, foreign trade.
- ii) **Theoretic economics:** It explains the functioning of an economic system. For example, it explains as to how prices of products and productive services are determined.
- iii) **Applied economics:** Economic analysis is made with a view to find out the cause and significance of economic events. Applied economics explained as to how for the economic theories can be applied in formatting the economic policies.

### **Q.5 Define management & describe in brief the various function of pharmaceutical management.**

**Answer** - It is defined as the process of conducting and managing various business activities. When the practice of management is to pharmaceutical industry and drug stores, it is called as pharmaceutical management.

**Functions:** The following are the main functions of management.

1. **Planning:** Planning is the systematic thinking and deciding in advance, what to do when to do, where to do, how to do & to make the business in success.

For example before starting a pharmaceutical industry, the following points to be planned, namely – selection of a proper site, Items to be manufactured, obtaining the required licence, Arranging finance for starting the business etc.

2. **Organizing:** The management has to employ sufficient staff and allocate the work to each staff. The management has to provide sufficient money, materials, machines and equipments to do their job. For example- In pharmaceutical industry, there are various activities such as purchasing, production, quality control, stores, distribution; marketing should be allocated to each staff. So that work is carried out as planned.

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3. **Staffing:** A right person should be selected for right type of job. The various activities such as selection, communication, participation, training, promotion, transfer and dismissal come under it. Hard working and honest staff should be appreciated for his efficient work. He should be given suitable reward or compensation.
4. **Direction:** Direction is the responsibility of the management to motivate its sub-ordinates to work & co-operate with zeal, confidence & enthusiasm to achieve development of the company.
5. **Co-ordination:** - All the staff members in the different departments should work in co-ordination for the achievement of the desired result. It is essential that everybody in the organization understands the main objectives of the business and work in the co-ordination with others for the development of the organization.
6. **Controlling:** It means steps taken to check whether proper progress is going on as per the plan or not. There should be an adequate control, So that preplanned objectives are achieved.
7. **Communication:** The exchange of facts, ideas and opinions by two or more persons are known as communication. In business organization, communication helps for proper planning & executing the business policies.
8. **Decision-making:** Correct decision always helps in the smooth running organizations.
9. **Innovation:** Innovation means research and development. All big business organization should have research and development department to know upto-date modern techniques.

### Q.6 Define commerce and write the importance of commerce

**Answer** - Commerce is a part of business activity, which deals with the buying and selling of goods, the exchange of commodities and the distribution of the products. Commerce is an organized system for the exchange of goods between the members of the industrial world. Commerce links between producers & consumers.

#### Importance

1. Commerce covers the transportation which is needed to help the movement of goods from production centers to consumption centres
2. Commerce covers insurance which is required to cover the risks because goods are exposed during transposition.

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3. Commerce covers warehousing facilities which are needed to bridge the time gap between production and consumption of goods.
4. Commerce covers the banking facilities, which are necessary to settle trade transactions.

### Q.7 Write a note on Aids to Trade.

**Answer** - There are several hindrances came during buying & selling of goods. Activities which help in overcoming these hindrances & difficulties are known as 'Aids to Trade'. These aids such as transport, ware housing, insurance, banking & advertisement & publicity are essential for the growth of trade.

- **Transport** - Various means of transport such as rail, road, river, sea and air removes the distance hindrance by establishing a link between the points of production & points of consumption.
- **Ware housing:** - Ware housing removes the hindrance of time lag by facilitating storage of commodities or goods so that they can be made available as & when demanded by the consumers.
- **Insurance:** - Goods are subjected to several types of risk during transportation & storage. They may be stolen or damaged. Insurance removes this hindrance of risk by covering the risk of loss or damage of goods while in transportation or storage.
- **Banking:** - Large scale production or sale of goods requires safety and easiness in payment of price of goods sold. Banking removes this hindrance by providing cash credit, finance, loans & overdrafts.
- **Advertisement & Publicity** removes the hindrance of knowledge about products by providing the necessary information about the availability & utility of the goods.

### Forms of business organization

**Q.1 Explain the term business & write about the various forms of business organization?**

**Answer -**

Business is an activity by which one can earn money and acquire wealth through production and exchange of goods.

A business organization is a company or enterprises which buys and sells goods and is managed by one person or group of persons.

**Type of business organization**

**a) Individual concerns**

- a) Sole proprietorship Sole Trade
- b) Partnership
- c) Joint Hindu family business
- d) Joint venture
- e) Joint stock company
- f) Co-operative society

**b) Government Concerns**

- a) Departmental Undertaking
- b) Public Corporation
- c) Government Company
- d) Board Organization

**Q.2 What are the objectives of business organization?**

**Answer: -** The following are important objectives of business organization.

- a) **Profit motive:** - The main objective of business organization is to earn profit to run the business effectively and to expand the development of the business.
- b) **Service motive:** - Service to the public is another objective of the business organization.
- c) **To get economic production:** - To produce maximum possible goods (both quantity and quality) at minimum possible cost is another objective.
- d) **Economy in time and efforts:** - A businessman tries to share time and efforts to develop his business through business organization
- e) **Developing spirit of co-operation among the employees and providing satisfaction to the employees.**

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### Q.3 What is a private, public and Government company?

#### Answer

#### Private company:

- a) A company which is run by maximum of 50 members
- b) It does not allow public subscription to its shares
- c) It also restricts the transfer of its share

#### Public company:

- a) A company which can be formed by a minimum of seven persons, having no maximum limit on its members.
- b) It offers its shares to the public with a view to finance its products
- c) It does not restrict the right of its members to transfer their shares freely.

#### Government Company:

This organization is established under the companies act. The whole or majority of the capital at least 50% of its share capital is held by the central government or jointly by the state and central government.

Ex: Hindustan tools, Hindustan cables.

### Q.4 Define a joint stock company & Write its feature

**Answer:** - Joint Stock Company is an association of persons registered under Company act for carrying out some business and in this form of business organization, large scale business is conducted.

Characteristic features: The main features of a joint stock company are as follows:

- a) The joint stock company is formed by registration under company act.
- b) The joint stock company is formed by a minimum of 7 people with no upper limits.
- c) The capital required for starting business is divided into number of shares.  
Ex: Each share may Rs.1000/- or Rs.5000/-
- d) The huge amount of money can be raised by floating shares in the market
- e) The members or share holders are the owners of the company
- f) The business is run by the board of directions, elected by members of the company
- g) The share holder is always free to with draw from the membership of a company by transferring his shares.
- h) The life of the company does not depend on the life of its members
- i) The audit of the company's account is compulsory

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### Advantages:

- a) The joint stock company is able to collect a large amount of capital from public. So it can organize large scale.
- b) The share of the company can be easily transferred
- c) The risk of each member is less because the capital is invested by number of persons
- d) The liability of the member of a company is limited
- e) It is not affected by death or retirement of its members

### Disadvantages:

- a) The formation of company is difficult and costly
- b) The company is not management by its share holders. It is managed by directors and other officials
- c) The company cannot take decisions immediately because policy matters should be decided in the board meeting
- d) The secrecy of the business affairs cannot be maintained
- e) It involves excessive regulation by law.

### Q.5 Give the characteristics of sole trader ship

**Answer** - It is known as one man business. In this form of business organization, a single individual invests his own capital. He develops his business by his own ability and knowledge. The sole trader bears all the risks. Sole trading is appropriate for small business only.

### Advantages:

- a) The secrecy of business can be maintained.
- b) The proprietor can change the pattern of business any time.
- c) Capital can be maintained.
- d) Legal formalities not necessary to set up trading.
- e) It ensures quickness of decisions.
- f) Due to limited capital, risk involved in this is less as compared to general partnership.

### Disadvantages:

- a) The business may end with the death of the proprietor.
- b) Due to limited resources, sole proprietor cannot expect big profits.
- c) It is difficult to expand his business due to lack of financial resources.
- d) It is very difficult for a single person to look every aspect of the business.

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### Q.6 What is partnership? Write the advantages and disadvantages of partnership.

**Answer:** - The persons who have entered into partnership are individually known as partners and collectively known as a partnership. The business organization runs as partnership is called a 'firm'. The profits of a business can be shared between the partners.

#### Salient features of partnership

- a) Two or more persons up to a maximum of 20 can join together to run the business.
- b) Partnership is formed on the basis of agreement between the concerned persons. The partnership agreement may be oral or written. The document containing the agreement is called the "partnership deed".
- c) Any profit made by the partnership must be distributed among the partners in the agreed ratio.
- d) A partner cannot transfer his share to an outsider without the consent of the other partner.
- e) The business is managed and controlled by the partners.
- f) The liability for business debts is un-limited but it is shared by all the partners.
- g) The secrecy of the business is shared between the partners which are generally not disclosed to the public.

#### Advantages:

- a) It is easy to look aspect of the business since the business is conducted by two or more persons.
- b) The business can be expanded by investing huge sum of money by two or more person.
- c) A partnership firm has a longer existence because it is not dependent on any one person.
- d) Any loss occurred by the firm is shared by all the partners so it reduces risk to the business as a whole.

#### Disadvantages:

- a) It is difficult to maintain mutual understanding and harmony among the partners.
- b) The partnership is dissolved when any one of the partnership dies or retires.

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### Q.7 Write in brief about various types of partners

Answer - The different types of partners are:

**Active partner or working partner:** The active partner may invest moiré capitals and he takes an active part in the management of the company's business. He bears the unexpected debts of the firm more.

**Inactive or Silent partner:** They have no voice in management but they share profit and loss of the firm.

**Nominal partner:** Nominal partners are not a partner in the firm. He does not share profit or loss of the firm. Only in the eyes of others he is considered as a partner.

**Minor Partner:** - A partner below the age of 18 is considered as minor partner. He neither contributes any capital nor takes part in any of the company's activity.

### Q. 8 Comparison between sole proprietorship & partnership:

Sl. no	Sole proprietorship business	Partnership business
1.	This type of business is run by single person.	Two or more person, up to maximum of 20 can join together to run the business.
2.	The business is managed and controlled by the proprietor	The business is managed and controlled by the partners.
3.	The capital investment is managed by the proprietor.	The capital is invested by the partners in agreed ratio.
4.	The capital is un-stable; it ends with the death of the proprietor.	The business is relatively more stable.
5.	The liability for business debt is unlimited.	The liability for business debts is unlimited but it is shared by all the partners.
6.	The profit earned in the business is entirely belongs to the proprietor.	The profit earned in the business is shared between partners in agreed ratio.
7.	The sole proprietor is free to change the pattern of business.	It depends up on the consent of the partners.

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### Q.9 What is co-operative society? What are advantages and disadvantages of co-operative society?

**Answer** - Number of individual's joint together and form an organization with the aim of selling goods at cheap rates to the consumers, such type of organization is known as co-operative society.

**Characteristic features:** The features of a co-operative society are

- a) Co-operative society is a voluntary organization formed by association of persons.
- b) Co-operative society is registered under the co-operative society's act 1912.
- c) The capital of a co-operative society is raised by its members through purchase of shares.
- d) Co-operative society can get loans from the central and state Co-operative banks to function effectively and to expand its business activities.
- e) The members of the society cannot transfer their shares to others.
- f) Co-operative society is always formed with the some economic motives.

Ex: - providing consumer goods at cheap, arrangement of cheap credit facilities.

#### **Advantages:**

- a) Formation of co-operative society is easy as compared to the formation of a company.
- b) Co-operative society is a voluntary organization and so it does not require long and complicated legal formalities at the time of formation.
- c) The life the co-operative society is not affected by the dearth or conviction of a member.

#### **Disadvantages:**

- a) The members of the co-operative society do not have business experience so there is generally in efficiency in the administration of the society.
- b) There is always shortage of capital because it has poor or lower middle class persons as its members.
- c) The affairs of co-operative are generally so much exposed to members that it becomes difficult for them to maintain the business secrecy.

## Channels of distribution

### Q.1 Define & classify channels of distribution

**Answer** - The route by which goods move from the place of production to the place of consumption is termed as channel of distribution.

**Classification of channels of distribution:** - There are two types of channels of distributions namely

- a) Distribution of consumer goods.
- b) Distribution of industrial goods.

**Distribution of consumer goods:** It is broadly classified into two types, namely

**a) Direct Selling:** - Producer  $\longrightarrow$  Consumer

The producer sells his goods directly to the consumers. This is the shortest and simplest channel of distribution of consumer products without involving a middleman in between.

**b) Indirect Selling:** - In this case, there are one or two or more middle man in between the producer & consumer. For example

**i) Producer  $\longrightarrow$  Retailer  $\longrightarrow$  Consumer**

Many large retailers buy directly from manufactures and sell to consumers. Some manufactures have established their own retail stores. Ex: Bata shoe company.

**ii) Producer  $\longrightarrow$  Whole sale  $\longrightarrow$  Retailer  $\longrightarrow$  Consumer**

This is traditional channels for consumer's goods. This channel is the only economically feasible choice for the manufactures to sell their goods. The wholesalers buy the goods from the manufactures in large quantities, stores the goods and then sells them in small quantities to a large number of retailers.

**iii) Producer  $\longrightarrow$  Agent  $\longrightarrow$  Retailer  $\longrightarrow$  Consumer**

Instead of using wholesalers, many producers prefer to use the manufacturer's agent or brokers to sell their goods to the retailer.

**iv) Producer  $\longrightarrow$  Agent  $\longrightarrow$  Whole sealer  $\longrightarrow$  Retailer  $\longrightarrow$  Consumer**

The producers very often use agents or middle men who in turn go to wholesalers who sell to retailers or to small stores.

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**Distribution of industrial goods:** - These channels are widely used in distribution of industrial goods, they are

**a) Producer** —————→ **Industrial user**

The manufacturers sell the large installations such as locomotives, generators etc to the industrial users.

**b) Producer** —————→ **Industrial distributors** —————→ **User**

Producers of small ancillary equipments (Eg – building equipment) sell their goods through the industrial distributors.

**c) Producer** —————→ **Agent** —————→ **User**

A company which wants to introduce a new product to the market may prefer agents rather than distributors.

### Q.2 Define & classify Wholesalers & write its functions

**Answer:** -The wholesalers are persons who act as link between the manufacturer and the retailers. They buy goods and commodities in large quantities from the producer and sell them to the retailers.

#### Classification of the wholesalers

- **Manufacturer Wholesalers:** - These type of wholesalers are engaged in manufacturing activities. They also buy goods in large quantities from other manufacturers to meet the demand of the retailers.
- **Retail wholesaler:** - These wholesaler purchases goods in large quantities from the manufacturers and sell them in retail to the consumers through their own shops. In this way they act as retailer as well as wholesalers.
- **Distributor wholesaler:** - These type of wholesaler purchase goods concentrate only on buying and selling the goods in large quantities.

**Function of wholesalers:** - The wholesaler performs the following important function

- Assembling:** - The wholesaler buys large varieties of goods from different manufactures and sells them in small quantities to the retailers.
- Distribution:** - The wholesaler serves to distribute goods to the retailers who are generally widely scattered.
- Warehousing:** - The goods purchased from different manufactures or producers are kept in stock in warehouses till these are distributed to retailers. A wholesaler has to keep enough stock of goods with him with a view to meet the requirements of retailers without delay.

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**d) Transportation:** - The wholesaler has to move the goods from the place of its production to his own warehouse and then from there to the retailers. Sometimes the wholesaler has his own vehicles for the purpose of moving and distributing of goods.

**e) Financing:** - The wholesaler provides credit facilities to the retailers and thus finances the retail trade.

**f) Risk bearing:** - Bulk buying and storage of goods for a length of time carries a number of risks, such as changes in demand, spoilage or destruction of goods, loss due to theft in his warehouse. These risks are borne by the wholesaler.

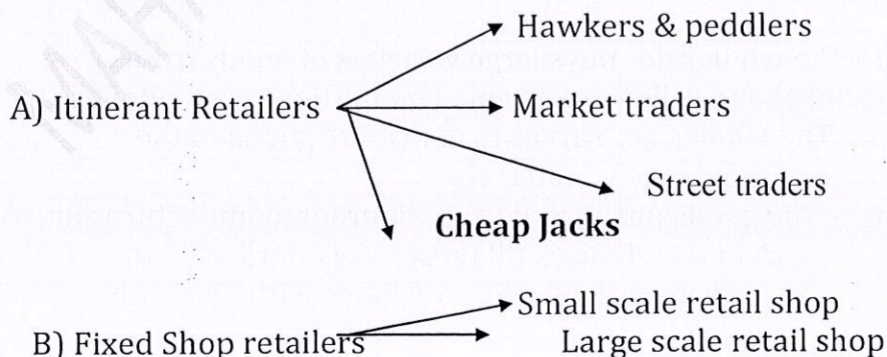
**g) Market research:** - The wholesaler is close to the retailers and from them he knows the needs of the customers. This helps in advising the producer to make goods in accordance with the demand and needs of the consumers.

**Retailers/Retail Chemist:** - Retailers are middle persons between wholesalers & consumers. A retailer involves in sale of small quantities to the consumers directly. He deals in variety of goods. A retailer dealing with drugs or pharmaceutical trade is known as 'Chemist' or 'Pharmacist'

**Functions of retailers:** - Following are the main functions of retailers

- a) A retailer keeps a ready stock of all the goods so that he can be able to meet the demand of the customers at all time.
- b) He provides information about the nature and use of goods to the consumers
- c) He knows the sources from where the different kinds of goods could be obtained.
- d) He provides financial help to the customers by selling the goods on credit.

**Classification of retailers:** - The various types of retailers are



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**Departmental stores:** - It is a large scale retailing stores, divided into a number of small departments where a Wide range of products are available.

### Advantages

- a) Customers can buy all products under one roof.
- b) Generally it is located at the central part of the town/ city, so that it attracts good number of customers.
- c) A large variety of goods has a special appeal to the customers.
- d) Centralized buying helps to reduce the cost of goods.

### Disadvantages

- a) The initial cost of running a departmental store is relatively very high.
- b) High rents may have to be paid for a centralized location
- c) Huge investment is required to buy & sell a large variety of goods.

**Multiple shops or Chain Stores:** - These are large scale retailing stores, owned by a single management which opens a number of branches at different localities in the city.

For example - Medi Plus Pharmacy, Appolo Pharmacy.

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### Advantages-

- a) Lower selling prices are possible.
- b) One shop itself becomes an advertisement for another shops. So advertising expenses is common.
- c) If any loss occur in shop, it may be compensated with the profit occur in another shop.
- d) The fixed price and standard quality of goods helps in winning the confidence of the customers.

### Disadvantages

- a) Price comparison is not possible.
- b) Various consumer services like credit facilities and door to door delivery etc are not possible in multiple shops.
- c) The head office of multiple shops may be located at a far away palce. So there may be no effective control on the staff working in its branches.
- d) Transfer, promotions etc of the employees bring inefficiency to the organizations.

### Difference Between Departmental Stores and multiple Shops

Departmental Stores	Multiple Shops
<ol style="list-style-type: none"><li>1. Central location is important.</li><li>2. They do not have a uniform pricing systems.</li><li>3. More Variety of goods are available. Thus customers can buy all under one roof.</li><li>4. They provide a number of services and amenities.</li><li>5. The control over the activities of a departmental store is easier.</li><li>6. They sell the goods both on cash and on credit basis.</li></ol>	<ol style="list-style-type: none"><li>1. It can be located at any place where consumers are adequate.</li><li>2. The prices are uniform in all branches.</li><li>3. Specialise in a listed range of goods only.</li><li>4. They may not provide a number of services and amenities.</li><li>5. The control over the activities of different branches at different places is difficult.</li><li>6. They sell the goods only on credit basis.</li></ol>

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**Mail Order Business:** - Mail order business is a type of retail trade in which all business activities take place through mail.

For Example: - Teleshopping

**Types of Mail Order Business:** - There are three types of Mail Order Business, namely

- a) Manufacturer mail order house
- b) Departmental mail order business
- c) Middlemen mail order business

### **Advantages**

- a) The seller can sell his product easily through mail order business
- b) The seller can get his amount promptly since the buyer remits the amount to the postman which in turn sends the amount to the seller.
- c) Mail order business is very useful for the customers who live in remote areas.
- d) In this system, there is a direct link between the producer & consumer. So the customer needs not to give any commission to the middlemen.

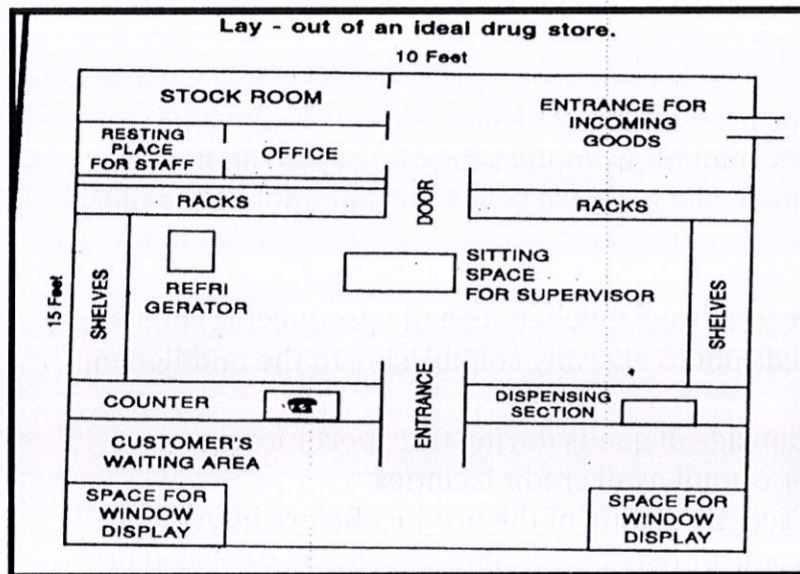
### **Disadvantages**

- a) There is a risk of damage of goods during transportation.
- b) The poor customer cannot avail credit facilities
- c) The buyer cannot see the quality of the product before buying.
- d) Cheating by the producer may be possible by sending damaged or inferior goods through post.

Drug house management

Q.1 Give the layout of an ideal drug store design

Answer: -



Q.2 Discuss the various factors to be considered while selecting a site a drug store

Answer: - The following factors may be considered while selecting the site for a new drug store, namely

- a) **Locality:** - Preferably it is better to open a drug store in a business locality because large number of people will visit such a business locality.
- b) **Thickly populated areas:** - If a drug store is located in a thickly populated area, it is easier for the people to buy the medicines during their evening walk.
- c) **Developing areas:** - Now a day in big cities and other towns, new colonies are coming up very fast. It is better to open a drug store in such developing areas so that there will be no problem of competition.
- d) **Hospitals:** - Places which are nearer to the hospitals and private clinics are ideal locations for starting drug stores.

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- e) **Hotels, Cinema theatres and playground:** - These locations may not be ideal for starting a drug store because most of the people may reside somewhat distance from these places.
- f) **Traffic signals:** - Locations nearer to the traffic signals are not ideal place for starting a drug store.
- g) **Community shopping centre:** - A site in a community shopping centre may be considered as a good location for a new drug store.
- h) **Railway Station & bus stand:** - Area nearer to the railway station, bus stand or petrol pump is an ideal site to open a drug store.

### Q.3 What are the legal requirements to open a drug store?

**Answer:** - To open a drug store, the proprietor or the pharmacist should fulfill the following requirements

- a) **Qualification:** - A person who wish to start a drug store must be 'Registered Pharmacist' or he should appoint a registered pharmacist on whole time basis. The minimum qualification for a person to get registered in the State Pharmacy Council is Diploma in pharmacy from recognized institution.
- b) **Space:** - As per the " Drug & Cosmetics Act 1940" the minimum of 90-100 Sq. ft. area is required to start a retail drug store and a minimum of 100-120 Sq. ft are is required to start a whole sale drug store.
- c) **Store arrangement:** - Adequate racks & shelves should be provided for proper storage of drugs and pharmaceutical preparations. There must be an refrigerator in the shop to store the vitamin preparations, vaccine, enzyme preparations etc.
- d) **Licence:** - Anyone who wishes to start a drug store, he has to get the licence from the concerned authorities. He has to apply in a prescribed form along with prescribed fees with all enclosures. After verification of the application form & other details, if the concerned authorities are satisfied, they will issue the licence to start a drug store.

### Q.4 Write a note on codification of various items in drug store

**Answer:** - Codification is the process of assigning of code, symbol, or number to a particular material for easy identification.

**Methods of codification:** - There are several methods of codification, namely

- a) **Alphabetical method:** - In this system, all items are given code number alphabetically. Alphabet consists of 26 letters. For example code 'M'

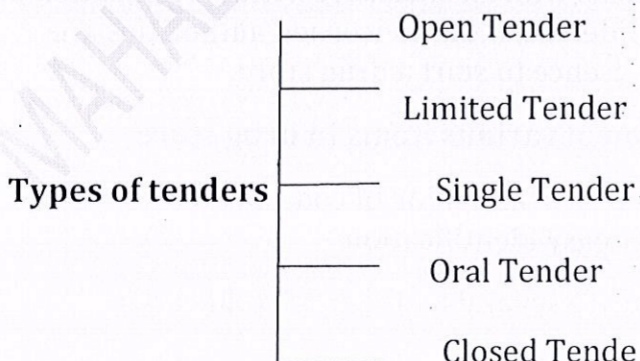
## DRUG STORE & BUSINESS MANAGEMENT

represents mixtures & code 'T' represents tablets. This method is useful when storage space is less.

- b) **Mnemonic method:** - In this method, the coding letter is assigned to each item, so that they can be very easily identified. For example CP represents Chloramphenicol capsules & PAT represents Paracetamol with Analgin tablets.
- c) **Numeric method:** - In this system, separate numbers are assigned to different classifications of stored items. Decimal system & block system are used in numerical method.
- d) **Decimal System:** - In this system, the numbers are assigned in such a way that each digit represents the separate name under the same heading. For example let the number code 10 represent tablets. Under this heading tablets 10.1 represents Paracetamol tablets, 10.2 represents Analgin tablet etc.
- e) **Block system:** - In this method, the numbers are reserved for specified items. For example, let the number 10-50 be allotted to various types of tablets & the number 51-100 be allotted to various types of capsules.
- f) **Combination method:** - In this method both mnemonic & numerical methods are combined together to assign a code to different items of the store. For example code number CPC 51 is allotted to Chloramphenicol capsules; code number PAT 11 is allotted to paracetamol with Analgin tablets.

### Q.5 Define & mention different types of tenders

**Answer:** - Tenders are otherwise known as quotations. Tender is a tool used by business organizations to execute their work at least cost. The business organizations prefer lowest bidder while placing orders.



**INVENTORY CONTROL**

**Inventory:** - Inventory is defined as the list of goods and their cost. Or inventory is defined as the total value of raw materials, spare parts, consumables, semi-processed materials and finished goods etc.

**Inventory control** is generally concerned with the procurement of raw materials and purchased parts and their supply to the production departments.

**Objectives of inventory control:** - The main objectives of inventory control are: -

- a) To maintain sufficient inventory so as to avoid production held up which leads to consumer dissatisfaction, loss of revenue & increase in cost.
- b) To avoid excessive investment in inventory
- c) To improve the customer services
- d) To keep plant costs low

**Modern techniques of inventory control**

- \_\_\_\_\_ ABC Analysis
- \_\_\_\_\_ VED Analysis
- \_\_\_\_\_ The Lead time method
- \_\_\_\_\_ Inventory carrying cost method
- \_\_\_\_\_ Safety Stock Method
- \_\_\_\_\_ Minimum & Maximum Stock levels
- \_\_\_\_\_ Economic order Quantity method
- \_\_\_\_\_ Perpetual inventory system
- \_\_\_\_\_ Establishing an effective purchase procedure

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**ABC Analysis or ABC Method:** - ABC Method means always better control method. In this method, the materials are divided into three groups A, B and C according to the cost of materials.

- a) **Group 'A' materials:** - Costly items are coming under this group A. These items cover only 10% of the total inventories & 70% of the total investment. Only very essential items are purchased and kept in stock so as to minimize the investment on these items.
- b) **Group 'B' materials:** - The items coming under this group are neither costly nor cheap. These items cover only 20% of the total inventories and 20% of the total investment. These items should be handled by junior officers.
- c) **Group 'C' materials:** - The items coming under this group are cheap. These items cover about 70% of the total inventories and 10% of the total investment.

**VED Analysis:** - VED analysis means Vital, Essential, and Desirable Analysis. This system is based on the utility of the materials. Based on the utility the materials are divided into three categories namely vital materials, Essential materials & Desirable materials.

**Vital materials** are one which is very essential for production. Without this material, production is stopped for a period of several days or even a month.

**Essential material** is one which is also very essential for production. Without this material, production is stopped only for a few hours or a day. Because the material is not so costly and it can be purchased and replaced easily.

**Desirable material** is one which is necessary for production. Without this material, production can continue. Such material is not so important for production.

**Lead Time Method:** - The interval between the initiation of acquiring a material and the actual receipt of material is known as Lead Time. It plays an important role in inventory control. The lead time is longer in India than in other foreign countries, because transport and communication facilities are better in foreign

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countries than in India. Within India, the lead time is longer in public sector than in private sector.

**Economic Order Quantity method (EOQ Method):** - EOQ method is used to find out how much of the inventories are to be ordered. The correct quantity to be ordered is determined by considering the following factors:

- a) **Ordering cost** – It consists of cost of paper, typing, postage, filling etc
- b) **The inventory carrying cost** – it consists of storage cost, cost of insurance & taxes, salaries of store keeper & losses in stores.

**Methods of determination:** - Tabular column method & algebraic method are used to determine EOQ.

### Tabular column method

example let the order cost is Rs.100/- per order, inventory carrying cost is 10% and the annual usage is Rs.60,000/-. Suppose the particular item was ordered every month, the annual order cost would be Rs.1200/- (Rs. 100/- x 12). The annual inventory carrying cost would be Rs. 500/- i.e.  $\frac{10}{100} \times \frac{60,000}{12}$ .

The total annual cost would be Rs. 1700/- (1200+500=1700/-).

Suppose the particular item was ordered once in two months (i.e. 6 times in a year), the annual order cost would be Rs. 600/- (Rs. 100/-x6). The annual inventory carrying cost would be Rs. 1000/- i.e.  $\frac{10}{100} \times \frac{60,000}{6}$ . The total annual cost would be 600+1000 = 1600/-. The above would be represented in tabular column :

S.No	No. of orders per year	Annual ordering cost (Rs.)	Annual inventory carrying cost (Rs.)	Total annual cost (Rs.)
1.	12	1200/-	500/-	1200+500=1700/-
2.	6	600/-	1000/-	600+1000=1600/-

Thus if the purchasing detail is represented in a tabular column, it is easier to find out an approximate EOQ.

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**Algebraic Formula Method:** - EOQ can also be determined by using the formula

$$EOQ = \sqrt{2ab/cs}$$

Where- a = Annual consumption, b = Buying cost per order,

c = Cost per unit of material, s = Storage and other inventory carrying cost

**Scrap:** - Scrap is the residue obtained from certain type of manufacturing operations. Scrap is most commonly obtained in engineering industries.

Example for scrap : small metal particles during drilling & turning in engineering industries.

**Classification:** - Scrap may be classified into

- a) **Legitimate Scrap** – The Scrap which can be anticipated in advance during certain manufacturing operations.
- b) **Administrative Scrap:** - This type of scrap is obtained when some type of material becomes obsolete due to change in design.
- c) **Defective Scrap:** - This type of scrap is obtained from sub-standard raw materials & poor workmanship in handling such materials.

**Surplus:** - The surplus items are those items which are not required by the firm or organization. For Example – Spoiled raw materials, expiry date goods etc.

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### **SALES PROMOTION, MARKET RESEARCH & WINDOW DISPLAY**

**Market Research:** - Market research may be defined as the systemic gathering, recording and analysis of data about problems relating to the marketing of goods & service.

#### **Various parts of market research**

- a) **Sales research:** - Problems relating to regional variations in sales, evaluation of sales methods and incentives etc are the main field of this research.

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- b) **Product research:** - Problems relating to the analysis of the strength or weakness of existing product, product testing etc are the main field of this research.
- c) **Advertising research:** - Problems relating to the preparation of the advertisement copy, the media to be used etc are the main field of this research.
- d) **Business economic research:** - Problems relating to input-output analysis, forecasting, price & profit analysis etc are the main field of this research.

**Various steps in market research: there are seven principal steps involved in market research. They are**

- a) **Problem formulation:** - This step helps in determining the techniques to be used and the extent of information to be collected etc.
- b) **Decision on fact-gathering procedure:** - This step helps to find out the best procedure for getting the information.
- c) **Data collection:** - It is the method of obtaining information from a sample of groups.
- d) **The marketing sample:** - The term 'Sample' is a small group which is taken from the total group. The total group may be a city, a state, a nation or the whole world.
- e) **Data evaluation:** - The collected data cannot be simply accepted because they may contain unnecessary or under emphasized facts.
- f) **Interpreting the data:** - Correct interpretation of data makes the research meaning & purposeful
- g) **Report preparation:** - The final step in market research is summarizing the result of the research & marketing a final report.

**Salesmanship:** - Salesmanship is a technique of selling goods through personal approach. Salesman is a person who is engaged at all levels of selling.

**Types of salesmanship:** - There are two types of salesmanship, namely

- a) **Creative salesmanship:** - The main purpose of the salesmanship is to introduce, achieve and establish a new product in the market.

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- b) **Competitive salesmanship:** - The main purpose of competitive salesmanship is to overcome the competition of the products in the market.

### Functions of salesmanship: -

- a) To introduce products to the consumer
- b) To enable a customer to decide what to buy & what not to buy.
- c) To conduct effective selling at a minimum cost.
- d) To collect information about market trends & pass it on to manufacturers.

### Qualities of salesman

Submissiveness	Skilful
Courage	Efficiency
Desire to learn	Integrity
Discipline	Activity
Effectiveness	Creativity
Sound Health	Co-operative
Honesty	Sweet Voice
Industrious or laborious	

**Window Display:** - A window display is a combination of a poster, newspaper, advertisement, a stage act, a speech and a scarf dance. In this method the products are displayed in front of the shop at a place where they would be prominent so that passers-by cannot escape the display.

**Objectives of window display:** - The main objective of window display is to attract customers into the stores and induce them to purchase the goods.

**Position of window:** - The articles displayed inside a glass window which is decorated attractively. The price of the product is also attached to the product. The glass window should not be placed between two doors of adjacent stores because this may lead the customers to enter into wrong door.

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**Window Space:** - Window space depends on the size of the store. The stores at the corner of cross roads would have more space for window display because it faces two roads.

**Lighting & illumination:** - Proper lighting and illumination will attract more people to get into the store and this attractive arrangement makes articles more visible. In case of interior window lighting, only shaded light should be used.

### Recruitment, training & Evaluation

Recruitment of salesman is an important matter because the success of a business depends upon the abilities of the salesman who work in sales organization.

**Sources of recruitment of salesman:** - The following are the sources of recruiting salesman

- a) **From among employee:** - Sales manager appoints some of the employees of their company as salesman.
- b) **From established companies:** - Salesman are also selected from established companies.
- c) **From among the retailers:** - Generally the retailers are the customers of a business firm. Some of the retailers are efficient in salesmanship who knows the attitude of the customers. Such retailers are recruited as salesmen.
- d) **Recommended persons:** - Salesmen are recruited on the recommendation of specialists or business friends.
- e) **From educational institutions:** - The institutions providing education & training of salesmanship are also an important source of recruiting salesmen
- f) **From employment exchanges:** - Employment exchanges are also an important source of recruiting salesmen.

**Factors to be considered while recruiting a salesman:** - The following factors to be considered while selecting a salesman

- a) Sufficient education & knowledge of different languages.

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- b) Physical ability
- c) Good manner of talking
- d) Aptitude, nature & habits of the salesman
- e) Knowledge of psychology
- f) Previous experience
- g) Technical knowledge
- h) Age
- i) Character & personality

### Banking & finance services

**Bank:** - Bank is an institution or an establishment which deals in money & credit. It means bank receive deposits of money from the individuals when they do not need it for use and bank lend money to the individuals who need it for use.

**Types of banks:** - There are various types of banks, namely

- a) **Commercial bank:** - Commercial bank is a bank which accepts the deposits of money from public, financial institutions etc & granting loans and advances. It also provides finances for trade industry and commerce.
- b) **Industrial bank:** - It is another type of bank which meets the long term credit requirements of industries. Industrial banks are very important for promoting industrial development in a country. Ex- IDBI
- c) **Agricultural bank:** - It is a type of bank which meets the credit requirements of farmers. Agricultural banks are organized into two types of banks namely co-operative banks & land development banks.
- d) **Exchange banks:** - These are the banks which mainly deal with foreign exchange business. They purchase the foreign bills and convert the currency of concerned country to facilitate payments easily. These banks play an important role in foreign trade.
- e) **Central bank :** - In our country the name of the central bank is the Reserve Bank Of India. This bank is established to issue the currency, regulate the banking business of the country etc.

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Functions of bank: - The functions of bank may be classified into five categories, namely

- a) To accept deposits
- b) To lend money
- c) To discount bills
- d) To do agency functions
- e) Miscellaneous functions

**Finance:** - Finance is defined as the provision of money at any time when the business needs money.

**Financial planning** is necessary to make sure that adequate funds are available to the business firm for its proper utilization & administration.

**Financial requirements:** - The financial requirements of a business are mainly of two types, namely

- a) **Fixed capital:** - The capital invested in permanent assets such as land & building, plant & machinery, furniture etc is known as fixed capital.
  - b) **Working capital:** - The capital required for meeting day to day expenses such as wages, salaries, rent, taxes, interest etc is known as working capital. The working capital is of two types, namely fixed working capital & Variable working capital.
-

## ACCOUNTANCY

**Accountancy/Accounting:** - Accounting may be defined as the process of identifying, measuring, recording and communicating the economic events of an organisation.

### **Objectives of Accounting**

- To prepare profit and loss accounts of the company
- To record all business transactions in a ledger regularly
- To know the quantity & value of the goods
- To know the position of cash in hand at bank
- To know the progress and growth or down fall of business

### **Branches of accounting**

1. **Financial accounting:** - It is mainly concerned with record keeping directed towards the preparation of profit and loss account and balance sheet.
2. **Cost accounting:** - It is the systemic procedure for determining the unit cost of output produced or services rendered.
3. **Management accounting:** - It is primarily concerned with the supply of information which is useful to the management in making decisions for smooth and efficient running of its business.

**Types of accounts:** - There are three types of account, namely

1. **Personal Account:** - It deals with the individual person, firm, company and institution. The person or firm which supplies the goods to the business is a creditor and entries are made on credit side of his account. Similarly a person or firm who receives the goods from business becomes a debtor and the transaction is made on debit side of his account.
2. **Real Account:** - These accounts are maintained to deal with transactions related to building, cash, furniture, land etc. When an item is purchased or received the transaction is recorded on the debit side.
3. **Nominal Account:** - These accounts are maintained to deal with discounts, insurance, rent, wages, salaries etc. The entries of expenses or losses are made on debit side while the entries of profits or gains are made on credit side.

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Sl.No	Name of the Account	Debit	Credit
1	Personal	The receiver	The giver
2	Real	What comes in	What goes out
3	Nominal	All losses and expenses	All gains and income

**Booking Keeping:** - Book-keeping may be defined as the science or art of systematically and correctly recording of all transactions which involve the transfer of money or money's worth in the books of original entry.

### Difference between Book Keeping and Accounting

Sl.No	Book Keeping	Accountancy
1	It is an art of systematically and correctly recording of all transactions which involve the transfer of money or money's worth in the books of original entry.	It is a science to examine and checks up the accuracy of the recorded transactions.
2	The records under book keeping are not meant for outside parties	It gives required information to all the related outside parties
3	Supporting documents called vouchers are prepared for the records made under book keeping	The records under book keeping are the basis for accounting information
4	Book keeping work is done by junior staff	Accounting work is done by only senior accountants
5	Records under book keeping do not show results of business transactions.	In accounting results of a business are fully made available
6	It is concerned with totally and balancing of various accounts in the ledger	It helps in preparation of trial balance and checking the arithmetical accuracy of accounts.

**Double Entry Book keeping system:** - The double entry book keeping system is based on the principle that every transaction has two fold aspects, a giving aspect and a receiving aspect. Both the aspects must be recorded in the books of both parties. So each account is divided into two parts i.e.

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- Left hand side is known as 'debit side' and is denoted by 'Dr'
- Right hand side is known as 'credit side' and is denoted by 'Cr'

### Advantages of Double entry book keeping

1. It brings into record both the aspects of every transactions
2. The correctness of all entries can be verified
3. It is easy to find out the gross profit, net profit or losses.
4. It is easy to find out the assets, liabilities, income & expenditure etc.
5. It helps in locating the errors in the ledger.

**Journal:** - This is the basic book of original entry. In this book, transactions are recorded as and when they take place. The transactions from this book are posted in the ledger.

### FORMAT of JOURNAL

Date (1)	Particulars (2)	L.F (3)	Debit (4)	Credit (5)
	Narration			

Column (1) The date with month and year of transaction is entered

Column (2) A brief explanation of the transaction called narration is given in the particular column. After narration a horizontal line is drawn to separate one entry from another.

Column (3) the page number of the ledger is given when a transaction is posted in the ledger

Column (4) the amount to be debited to the account is written close to the line in the particulars column.

Column (5) the amount to be credited to the account is written a few spaces away from the margin.

It is necessary to make the total of amount entered in debit and credit columns. The total will be carried forward to the next page and so on up to the last page.

**LEDGER:** - Ledger is the book which contains, in a summarised and classified form, a permanent record of all transactions of a business. A ledger is a collection of all the accounts debited or credited in the general journal and various special types of journals.

A ledger account is divided into sections by a central vertical line. All the debit entries are made on left hand side and the credit entries are made on the right hand

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side. The abbreviation 'Dr' & 'Cr' are placed at the left & right hand corner respectively. The word 'To' is written before the debit entries and 'By' before credit entries.

### Format of ledger

'Dr'		Name of Account				'Cr'	
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount

**Posting of ledger from journal:** - The following steps are involved for posting entries from the journal to the ledger

1. After going through the index of the ledger, locate the account to be debited or credited as entered in the journal.
2. If an account is to be debited, enter the date of transaction in the date column of the debit side.
3. In the particular column write the name of the account which has been debited in the journal.
4. Enter the page number of the journal in folio column and in journal write the page number of the ledger on which particular accounts appears.
5. Enter the relevant amount in the relevant amount column.

### Note-

1. The same procedure is adopted for entering credit entries from the journal to ledger.
2. An account is opened only once in the ledger and all entries which are related to a particular account are posted in it.

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### Difference between journal and ledger

Sl.No	Journal	Ledger
1	It is the book of original entry	It is the book of secondary entry
2	The transactions are recorded as and when they take place	All the transactions relating to a particular account are recorded in order of their occurrence.
3	The unit of classification of data within the journal is the transaction	The unit of classification of data within the journal is the account
4	From the books of original entry, the entries are transferred to the ledger	From the ledger the trial balance is drawn and then financial statements are prepared from it
5	The process of recording entries in the journal is called 'journalising'	The process of recording entries in the journal is called 'posting'
6	In journal there is one column for particulars and two columns for amount, one for debit and another for credit	In ledger there are two equally divided sides having identical columns. The left side is known as debit side and the right side is known as credit.
7	Balancing is not done	All the accounts are balanced

**CASH BOOK:** - Cash book is used to keep a record of all transactions related to cash receipts and cash payments. This serves the purpose of both journals as well as ledger account. Cash book is also a book of original entry.

**Types of cash book:** - There are four types of cash book, namely

1. Single column cash book
2. Double columnar cash book
3. Three columnar cash book
4. Petty cash book

**1. Single column cash book:** - A cash book which contains only one column of amount is called single column or simple cash book. A cash account is divided into sections by a central vertical line. All the debit entries are made on left hand side and the credit entries are made on the right hand side. The abbreviation 'Dr' & 'Cr' are placed at the left & right hand corner respectively. The word 'To' is written before the debit entries and 'By' before credit entries.

'Dr'				Name of Account				'Cr'			
Date	Particulars	L.F	Amount	Date	Particulars	L.F	Amount				

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**2. Double columnar cash book:** - there is a great importance of discount in cash transactions. If a businessman receives or allows discount, then two columnar cash book is needed to record it. In this type of cash book, the following two columns are provided on each side of the cash book-

- a) The first column is for discount, which is nominal account
- b) The second column is for cash, which is real account

Each item of discount allowed is recorded to the credit side while discount received is recorded to the debit side. The total of the discount columns on each side are done without balancing.

'Dr'					Name of Account					'Cr'				
Date	Particulars	J.F	Discount	Cash	Date	Particulars	J.F	Discount	Cash					

**3. Three columnar cash book:** - it is a popular form of cash book. In this type of cash book, the following three columns are provided on each side of the cash book.

- a) The first column is for discount, which is nominal account
- b) The second column is for cash, which is real account
- c) The third column is for bank, which is personal account

'Dr'						Name of Account						'Cr'					
Date	Particulars	J.F	Discount	Cash	Bank	Date	Particulars	J.F	Discount	Cash	Bank						

The following procedure is adopted to while posting a transaction in the three columnar cash book –

1. When amount is received in cash, it is recorded in the debit side in the cash column and the discount allowed to the party is recorded in the discount column of debit side.
2. All cash payments are to be recorded in the credit side in the cash column and the discount received from the party shall be recorded in the credit side of discount column.
3. When cash is received and then sent to bank for deposit, then in the debit side, bank account is debited and the cash account is credited in credit side.

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Similarly when cash is withdrawn from the bank for office use, the cash account is debited, in the debit side and the bank account is credited in credit side. Such entries are called 'contra entries' and letter 'C' is recorded in the ledger folio column.

4. When a cheque is received from the customer, it should be entered in the bank column straightaway because cheques will have to be sent to the bank.
  5. When a cheque is endorsed to a person, then the entry will be just like of cash payment.
  6. When crossed cheque is received, it is recorded in the debit side in the bank column, but when bearer or other cheque is received, it is recorded in the debit side in the cash column.
- Etc.

**Petty cash book:** - In every business organisation, a large number of small payments such as stationary, postage, telegrams and other miscellaneous expenses are made. The cash book will be unnecessarily overburdened if one takes all these types of small transactions. To avoid this, the amount required for such type of transactions for the month is determined and this is given to a person who is known as the petty cashier. This small amount is called as "Imprest" or "Float". Whenever the payments are made they are recorded in petty cash book. At the end of the period he submit the account to the cashier, who after examining the account gives him the amount he has spent, so that the petty cashier has the same balance as he had at the beginning.

'Dr'					'Cr'				
Date	particulars	V.No	L.F	Amount	Date	Particulars	V.No	L.F	Amount

### Advantages of Petty cash book

1. It saves labour because by preparing petty cash book, all petty expenses are neither recorded in the cash book nor in the ledger.
2. It saves time of head cashier as the petty expenses are recorded in petty cash
3. It is very simple to record all the petty expenses in various columns of petty cash book
4. There are less chances of fraud as it is essential to keep the vouchers of all petty expenses.

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**TRIAL BALANCE:** - Trial balance is a statement of the debit and credit totals or debit or credit balance of ledger accounts. If debit and credit totals do not agree there are some mistakes.

Objective of trial balance

- To ascertain the arithmetical accuracy of the ledger accounts
- To help in locating errors
- To help in the preparation of errors

Methods of trial balance

- **Total amount method:** - In this method the total on debit side of every ledger account is entered under the debit column of the trial balance and the total on credit side of every ledger account is entered under the credit column of the trial balance. A grand total of both debit and credit side is then taken. In case the grand totals on both sides tally, it indicates arithmetical accuracy of the book and vice versa shows there is a mistake somewhere which needs rechecking.

### SHARMA MEDICAL HALL

Trial Balance as on 31<sup>st</sup> March 2013

Particulars	Debit totals(Rs)	Credit totals(Rs)
Capital A/c		5000/-
Cash A/c	16,000/-	
Ram Lal		8000/-
Purchases	5000/-	
Bank	28,000/-	5000/-
Furniture	12,000/-	4000/-
Interest	9500/-	
Rent	1500/-	
Depreciation	2500/-	
sales		7500/-
	74,500/-	74,500/-

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- **Balance Method:** - In this method all the ledger accounts are first balanced. This is done immediately after postings have been made from the books of original entry to the ledger. For this purpose the debit and credit sides of each ledger account is totalled and the balance on debit as well as credit side is obtained. The balances are then recorded on the debit and credit side of the trial balance. If the grand total of debit and credit balance tally, it indicates arithmetical accuracy of the book and vice versa shows there is a mistake somewhere which needs rechecking.

### NATIONAL DRUG HOUSE

Trial balance as on 31<sup>st</sup> March 2013

Particulars	Balance	
	Dr	Cr
Sales	25,000/-	
Cash		35,000/-
Building	25,000/-	
Purchases	35,000/-	
Salaries	10,000/-	
Insurances	1500/-	
Bank charges	100/-	
Advertising	1750/-	
Interest paid on loan	500/-	
Furniture	800/-	
Carriage	240/-	
Repair	1200/-	
Loan from bank		43,000/-
Discount allowed	1600/-	
Discount received		2190/-
	80,190/-	80,190

**Accounting Errors:-** the main purpose of preparing trial balance is to test the arithmetical accuracy of the account books. However, it must be kept in mind that tallying of the trial balance does not mean that no errors have been committed in the accounting records. We may remember that the following types of errors are not reflected in the trial balance –

1. **Errors of commission**
2. **Errors of omission**

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3. Errors of principle
4. Errors of posting
5. Compensating errors

**FINANCIAL STATEMENT:** - The term financial statement means the two statements prepared at the end of the accounting period of the enterprises viz. the Balance sheet and profit & loss account.

**Profit & Loss Account:** - It reveals the net profit earned or net loss suffered by a firm in course of its business operations during the accounting period. It is prepared at the end of the financial year of the business.

### Preparation of profit and loss account

On determining the gross profit or gross loss from the trading account, the gross profit is recorded on the credit side of the profit & loss account and gross loss is recorded on the debit side of the profit and loss account.

After this the other incomes or gains such as rent received, interest received, commission, discount etc are credited. The expenses or losses such as salaries, rent, advertisement expenses, stationary etc are recorded on the debit side.

The grand total on both debit and credit sides are obtained. If the grand total on debit side is more than on credit side, it shows a net loss. The net profit or net loss, as the case may be, is taken to the capital account of the proprietor.

**Balance Sheet:** - Balance sheet is a statement of accounts prepared for the purpose of ascertaining the exact financial position of the business on the last date of the financial year under review. It is called balance sheet because it is prepared on a sheet of ledger folio.

### Uses of a balance sheet

1. It provides information as to the total amount of money involved in running the business enterprise.
2. It shows the financial state of the business firm as on a particular date.
3. It gives information regarding the nature and cost of the assets of the firm.
4. The information regarding nature and cost of firm liabilities is available from a balance sheet.

**Preparation of a Balance Sheet:** - In a balance sheet the names of all those accounts which have balances i.e. accounts of assets, liabilities and owners equity are given. Capital and liabilities shown on left hand side are known as 'Liabilities' and other debit balances are given on right hand side are known as 'Assets'.

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Items generally included in a balance sheet are as under –

1. **Current assets:** - Current assets are those which are either in the form of cash or can be easily converted into cash within a year e.g. cash at bank, bills, stock etc
2. **Fixed assets:** - Assets held on a long term basis in the business such as land, machinery, building, furniture etc are called fixed assets.
3. **Current liabilities:** - Liabilities expected to be cleared within a year are called 'current liabilities' e.x. salaries, wages, bills, rent, taxes etc.
4. **Long term liabilities:** - Those liabilities which mature for payment after a period of one year or more and do not require sale of any assets for their payment are known as 'long term liabilities' e.g. loans, mortgages on estate holdings of the business etc.
5. **Investments:** - Investments represent funds invested in Government securities, shares of companies etc. these are shown at cost price in the balance sheet.
6. **Capital:** - Capital is the excess of firm's assets over its liabilities. it represents the amount originally invested by the proprietor/partners and is increased by profit and decreased by losses and drawings.
7. **Drawings:** - Drawings are sums of money or goods withdrawn by the proprietor from the business for his personal use.

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### Difference between Trial Balance and Balance Sheet

<i>Trial Balance</i>	<i>Balance Sheet</i>
<ol style="list-style-type: none"><li>1. It is prepared to check the arithmetical accuracy of posting of transactions to the ledger.</li><li>2. A trial balance can be prepared at any time. It may be prepared at the end of a month or a quarter.</li><li>3. It shows 'debit balances' and 'credit balances'.</li><li>4. All types of accounts find their place in a trial balance.</li><li>5. It is not possible to have information about net profit or net loss.</li><li>6. Generally, the opening stock appears in a Trial Balance and not the closing stock.</li></ol>	<ol style="list-style-type: none"><li>1. It is prepared to know the financial position of the business enterprise on a given date.</li><li>2. A balance sheet is generally prepared at the end of the accounting period.</li><li>3. It shows 'liabilities' and 'assets'.</li><li>4. In a balance sheet accounts of assets, liabilities, capital and those accounts which are in force on the date of the balance sheet are presented.</li><li>5. The information about net profit earned or net loss incurred is provided in a balance sheet.</li><li>6. Only the closing stock appears on the assets side of the balance sheet.</li></ol>

*continued*

<i>Trial Balance</i>	<i>Balance Sheet</i>
<p>7. Trial balance is not recognised by the court.</p> <p>8. It is not essential to prepare a trial balance.</p> <p>9. It can be prepared without making any adjustments regarding prepared expenses, incomes received in advance, etc.</p>	<p>7. Balance sheet is recognised by the court.</p> <p>8. It is essential to prepare a balance sheet at the end of the accounting period.</p> <p>9. It cannot be prepared without making adjustments regarding prepared expenses, outstanding expenses, income received in advance, making provision for possible losses etc.</p>

**Difference between Profit and Loss Account and Balance Sheet**

<i>Profit and Loss Account</i>	<i>Balance Sheet</i>
<p>1. In profit and loss account the nominal accounts are shown.</p> <p>2. The aim of profit and loss account is to provide information regarding net profit or net loss.</p> <p>3. It is a ledger account giving information about debits and credits.</p> <p>4. It is an account, so the words 'To' and 'By' are used.</p> <p>5. The balance of the profit and loss account indicates profit or loss.</p> <p>6. The account shows profit or loss made by the business as on a fixed date.</p>	<p>1. In balance sheet the personal accounts and real accounts are shown.</p> <p>2. The aim of balance sheet is to know the financial position of the business.</p> <p>3. It is only statement of assets and liabilities.</p> <p>4. It is a statement and the words 'To' and 'By' are not used.</p> <p>5. The total on both sides of a balance sheet is always the same.</p> <p>6. It shows the financial position of the business enterprise on a fixed date.</p>