

Code No: R22013

**R10****SET - 1**

**II B. Tech II Semester Regular Examinations August - 2014**  
**MANAGERIAL ECONOMICS AND FINANCIAL ANALYSIS**  
(Com. to CE, ME)

Time: 3 hours

Max. Marks: 75

Answer any **FIVE** Questions  
All Questions carry **Equal** Marks

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1. Define Managerial Economics. Explain its characteristics and importance.
2. Define price elasticity of demand. What are the different methods used to measure the price elasticity?
3. Define MRTS. Explain Cobb-Douglas Production function.
4. What do you mean by a market? What are the concepts considered for dividing the markets? What are the features of Perfect competition?
5. Define business cycle. What are its phases and features?
6. Calculate the net present value of two projects and suggest which of the two projects should be accepted assuming a discount rate of 10%.

|                    | Project A | Project B |
|--------------------|-----------|-----------|
| Initial Investment | Rs. 30000 | Rs.50000  |
| Estimated life     | 5 years   | 5 Years   |
| Scrap Value        | Rs.2000   | Rs.4000   |

Annual Cash inflows after tax and depreciation

| Years     | 1     | 2     | 3     | 4    | 5    |
|-----------|-------|-------|-------|------|------|
| Project A | 10000 | 15000 | 8000  | 6000 | 4000 |
| Project B | 40000 | 30000 | 10000 | 5000 | 4000 |

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7. Define ratio. Explain different ratios used to analyse the performance of the organization.
8. The following Trial balance was extracted from the books of XYZ Ltd., on March 31, 2013. Prepare a Trading account and Profit and loss account for the year ended March 31, 2013 and a Balance sheet as on that date.

Closing stock was valued at Rs.9000

| Ledger Account             | Amount    |            |
|----------------------------|-----------|------------|
|                            | Debit Rs. | Credit Rs. |
| Opening Stock              | 10000     |            |
| Purchases and sales        | 20000     | 40000      |
| Returns                    | 2000      | 1000       |
| Discount                   | 1000      | 2000       |
| Capital and Drawings       | 5000      | 65000      |
| Cash and bank Overdraft    | 7000      | 12000      |
| Debtors and Creditors      | 19000     | 12000      |
| Carriage                   | 3000      |            |
| Freight                    | 4000      |            |
| Salaries                   | 6000      |            |
| Stationary                 | 4000      |            |
| Land and Building          | 35000     |            |
| Plant and Machinery        | 15000     |            |
| Fixtures and Fittings      | 5000      |            |
| Bills Receivable & Payable | 6000      | 4000       |
| General Reserve            |           | 6000       |
| Total                      | 1,42,000  | 1,42,000   |

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1. How basic Managerial Economics is different from Economics? Explain its relation with other subjects.
2. Define Elasticity of demand. Explain different types of elasticity of demand and its significance.
3. What are Law of variable proportions and Law of returns to scale? What are Isocosts and Isoquants?
4. Explain any two Managerial Theories of firm.
5. Define partnership. Explain the features, advantages and disadvantages of partnership.
6. From the following Balance sheet of Excellency Limited, calculate Debt-Equity Ratio.

| Liabilities              | Amount Rs. | Assets                      | Amount Rs. |
|--------------------------|------------|-----------------------------|------------|
| Equity share capital     | 600000     | Land and Building           | 1200000    |
| Preference share capital | 500000     | Plant and Machinery         | 300000     |
| 15% debentures           | 800000     | Sundry debtors              | 250000     |
| Term loans               | 100000     | Stock                       | 150000     |
| Secured loans            | 50000      | Cash at Bank                | 100000     |
| Short term loans         | 150000     | Loans and advances          | 150000     |
| Public deposits          | 200000     | Preliminary expenses        | 50000      |
| Share premium            | 20000      | Discount on issue of shares | 10000      |
| Sundry creditors         | 80000      | Loss on issue of debentures | 45000      |
| Reserve and Surplus      | 60000      | P/L A/c- Accumulated up to  |            |
| Provision for taxation   | 50000      | last year                   | 450000     |
| Capital reserve          | 40000      | Less profit                 | 55000      |
|                          | 26,50,000  |                             | 395000     |
|                          |            |                             | 26,50,000  |

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7. Define capital budgeting. What are the different methods used for calculating capital budgeting?
8. From the following balance sheets of X Ltd. On 31 December, 2012 and 2013, you are required to prepare:
- a) A schedule changes in working capital
  - b) A funds flow statement

| Liabilities            | 2012 (Rs) | 2013 (Rs) | Assets           | 2012 (Rs) | 2013 (Rs) |
|------------------------|-----------|-----------|------------------|-----------|-----------|
| Share Capital          | 100000    | 100000    | Goodwill         | 12000     | 12000     |
| General reserve        | 14000     | 18000     | Building         | 40000     | 36000     |
| Profit & Loss A/C      | 11000     | 8000      | Plant            | 37000     | 36000     |
| Sundry Creditors       | 10000     | 7400      | Investments      | 10000     | 11000     |
| Bills Payable          | 4200      | 1800      | Stock            | 30000     | 23400     |
| Provision for Taxation | 16000     | 20000     | Bills Receivable | 2000      | 3200      |
| Provision for Doubtful | 400       | 600       | Debtors          | 18000     | 19000     |
|                        |           |           | Cash/bank        | 6600      | 15200     |
| Total                  | 155600    | 155800    |                  | 155600    | 155800    |

The following additional information has also been given:

- i) Depreciation charged on plant was Rs4000 and on Building Rs 4000.
- ii) Interim dividend of Rs 8000 was paid during the year 2013.

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1. Explain about different economic tools used in Managerial Economics. What are demand distinctions?
2. Why you have to forecast demand? Explain different methods for forecasting demand.
3. Define costs. Explain different cost concepts.
4. Explain Price-output determination under Monopolistic Competition.
5. What are the differences between Public and private enterprises? Explain different types of public enterprises.

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6. Prepare a Trading and Profit and loss account and balance sheet from the following trail balance.

Particulars	Debit (Rs.)	Credit (Rs.)
Capital		100000
Machinery	30000	
Stock	16000	
Wages	50000	
Carriage inwards	500	
Salaries	5000	
Factory rent	2400	
Repairs	400	
Fuel and power	2500	
Buildings	40000	
Sundry debtors	20000	
Sales		203600
Purchases	122000	
Creditors		12500
Returns outwards		2000
Returns inwards	3600	
Drawings	2000	
Discounts allowed	750	
Discounts received		250
Office expenses	1000	
Manufacturing expenses	600	
Bills payable		8500
Bills receivable	5000	
Cash in hand	2400	
Cash at bank	15400	
Office rent	1800	
Total	326800	326800

7. What is capital budgeting? Explain its need. How it is different from working capital?
8. Interpret the performance of the company from the following data:

Ratio	Actual	Standard
Current ratio	6	2
Quick ratio	3	1
Fixed assets to proprietor's funds	3 times	6 times
Debt collection period	40 days	60 days
Gross profit ratio	20%	30%
Net profit ratio	9%	13%
Stock turnover ratio	8 times	13 times

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1. Define Law of Demand. Explain determinants of demand and exceptions of law of Demand.
2. 'New product does not have past data to forecast demand'. Will you support this this statement. Illustrate.
3. What is BEP? Explain BEP curve. Why an organisation has to achieve BEP?
4. Explain different models of pricing.
5. Explain the features, advantages and disadvantages of Joint Stock Company.
6. Write a short note on  
 a) Double entry book keeping    b) Ledger    c) Journal
7. From the following balance sheet calculate current ratio, quick ration, Debt-equity ratio and interpret the results:

| Liabilities             | Rs.  | Assets              | Rs.  |
|-------------------------|------|---------------------|------|
| Equity share capital    | 1500 | Plant and machinery | 975  |
| Debentures              | 400  | Stock               | 550  |
| Creditors               | 200  | Debtors             | 550  |
| Outstanding expenses    | 100  | Cash in hand        | 375  |
| Profit and loss account | 100  | Prepaid expenses    | 50   |
| Bank loan               | 200  |                     |      |
| Total                   | 2500 |                     | 2500 |

8. A business needs a new machine and has to make a choice between two machines A and B. From the following data suggest which machine is best by using Payback period, ARR and NPV.

|               | Machine A | Machine B |
|---------------|-----------|-----------|
| Initial cost  | 40000     | 55000     |
| Net cash flow |           |           |
| 1             | 10000     | 14000     |
| 2             | 14000     | 16000     |
| 3             | 12000     | 15000     |
| 4             | 9000      | 10000     |
| 5             | 7000      | 9000      |

At the end of fifth year the machine will have no value and will be scrapped. To finance the project the business can borrow money at 10% per annum.