

Code No: R21022

R10**SET - 1**

II B. Tech I Semester Regular Examinations, March – 2014
MANAGERIAL ECONOMICS AND FINANCIAL ANALYSIS
(Com. to EEE, ME, ECE, EIE, CSE, IT, ECC, BME)

Time: 3 hours

Max. Marks: 75

Answer any **FIVE** Questions
All Questions carry **Equal** Marks
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1. a) Explain the exceptions to the law of demand.  
b) Discuss various determinants of demand for electronic gadgets. (8M+7M)
2. a) Explain how to forecast demand for new products.  
b) Explain point and arc elasticity of demand. (8M+7M)
3. a) Explain law of variable proportions.  
b) Discuss briefly managerial significance of break even analysis. (8M+7M)
4. Explain Price-Output determination in Perfect Competition. (15M)
5. What is business cycle? What are the various phases of business cycles? (15M)

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6. From the following Trial Balance, prepare a Trading, Manufacturing and Profit and Loss Account and balance sheet as on 31<sup>st</sup> December 2012: (15M)

**TRIAL BALANCE as on 31<sup>st</sup> December 2012**

| Particulars                  | Amount Rs.         | Amount Rs.       |
|------------------------------|--------------------|------------------|
| Stock on 1.1.2012            |                    |                  |
| Raw materials                | 20,000/-           |                  |
| Work-in progress             | 50,000/-           |                  |
| Finished Goods               | 100,000/-          |                  |
| Manufacturing wages          | 100,000/-          |                  |
| Purchasing of Raw materials  | 300,000/-          |                  |
| Factory Rent                 | 50,000/-           |                  |
| Carriage of Raw materials    | 30,000/-           |                  |
| Salary of the Works Managers | 20,000/-           |                  |
| Office Rent                  | 20,000/-           |                  |
| Printing and Stationery      | 10,000/-           |                  |
| Bad Debts                    | 10,000/-           |                  |
| Sales                        |                    | 600,000/-        |
| Land and Buildings           | 300,000/-          |                  |
| Plant and machinery          | 200,000/-          |                  |
| Depreciation on Plant        | 20,000/-           |                  |
| Sundry Debtors               | 50,000/-           |                  |
| Sundry Creditors             |                    | 300,000/-        |
| Cash in Hand                 | 50,000/-           |                  |
| Capital                      |                    | 430,000/-        |
| <b>Total</b>                 | <b>13,30,000/-</b> | <b>13,30,000</b> |

7. From the following particulars, prepare the Funds Flow Statement: (15M)

| Liabilities | 1 JAN<br>Rs.    | 31 Dec<br>Rs.   | Assets    | 1 Jan<br>Rs.    | 31 Dec<br>Rs.   |
|-------------|-----------------|-----------------|-----------|-----------------|-----------------|
| Creditors   | 36,000          | 41,000          | Cash      | 4,000           | 3,600           |
| Bank Loan   | 30,000          | 45,000          | Debtors   | 35,000          | 38,400          |
| Capital     | 1,48,000        | 1,49,000        | Stock     | 25,000          | 22,000          |
|             |                 |                 | Land      | 20,000          | 30,000          |
|             |                 |                 | Building  | 50,000          | 55,000          |
|             |                 |                 | Machinery | 80,000          | 86,000          |
|             | <b>2,14,000</b> | <b>2,35,000</b> |           | <b>2,14,000</b> | <b>2,35,000</b> |

8. a) Discuss the need for Capital Budgeting.  
 b) Explain i) ARR ii) NPV (7M+8M)

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1. a) Explain the basic economic tools in Managerial Economics.
 b) What is Law of Demand? (8M+7M)
2. Explain: a) survey Method of demand forecasting b) Trend Projection Method
 c) Delphi method (5M+5M+5M)
3. a) Explain Least cost Combination of Inputs.
 b) Distinguish between Explicit costs and implicit costs. (8M+7M)
4. a) Explain the features of Monopolistic Competition.
 b) What is Peak Load Pricing and Transaction based Pricing? (8M+7M)
5. Discuss characteristic features of Industrial organization and also business cycles. (15 M)
6. From the following balance extracted from the books of RKC Co. pass the necessary closing entries, prepare a trading and Profit and Loss account and Balance Sheet. (15 M)

Particulars	Rs.	Particulars	Rs.
Opening Stock	1,250	Plant and machinery	6,230
Sales	11,800	Returns Outwards	1,380
Depreciation	667	cash in hand	895
Commission(cr.)	211	Salaries	750
Insurance	380	Debtors	1,905
Carriage Inwards	300	Discount (Dr.)	328
Furniture	670	Bills receivable	2,730
Printing Charges	481	Wages	1,589
Carriage Outwards	200	Returns Inward	1,659
Capital	9,228	bank Overdraft	4,000
Creditors	1,780	Purchases	8,679
Bills Payable	541	Petty cash in Hand	47
		Bad Debts	180

 The value of stock on 31st December 2012 was Rs.3,700

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7. From the following Balance sheets as on 31st December 2011 and 31 December 2012 , prepare a Schedule of Changes in the Working capital and a funds flow statement taking:
- the provision for tax and proposed dividends as non-current liabilities.
 - the provision for tax and proposed dividends as current liabilities. (15 M)

Balance sheet as on 31 December

Liabilities	2011 Rs.	2012 Rs.	Assets	2011 Rs.	2012 Rs.
Share capital	10,000	15,000	Fixed Assets	10,000	20,000
Profit & Loss account	4,000	6,000	Current assets	13,000	14,500
Provision for Tax	2,000	3,000			
Proposed Dividends	1,000	1,500			
Sundry Creditors	4,000	6,000			
Outstanding Expenses	2,000	3,000			
	23,000	34,500		23,000	34,500
Additional Information					
Tax paid during 2011		Rs.2,500			
Dividends paid during 2011		Rs.1,000			

8. A Project initial investment is 10 lakhs and cash inflows for five years are as follows.

Year	Cash inflows
2008	2,00,000
2009	2,40,000
2010	3,00,000
2011	3,60,000
2012	4,00,000

The cost of Capital is 12%. Compute NPV and IRR of the Project.

(15 M)

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1. Discuss the multidisciplinary nature of Managerial economics. Explain the scope of managerial economics. (15 M)
2. Explain types of income elasticity of demand with suitable examples. (15 M)
3. Discuss the Cobb Douglas Production function. What is opportunity cost? (15 M)
4. What is kinked Demand Curve? Explain price output determination in oligopolistic market. (15 M)
5. Outline the features of Sole Proprietorship. (15 M)
6. From the following balances, taken from the Trial Balance of SCo Ltd. Prepare a trading and Profit and Loss account for the year ending 31<sup>st</sup> December 2012 (15 M)

| Particulars                                                       | Dr.<br>Rs | Cr.<br>Rs. |
|-------------------------------------------------------------------|-----------|------------|
| Stock on 1.1.2011                                                 | 2,000     |            |
| Purchases and sales                                               | 20,000    | 30,000     |
| Returns                                                           | 2,000     | 1,000      |
| Carriage                                                          | 1,000     |            |
| Cartage                                                           | 1,000     |            |
| Rent                                                              | 1,000     |            |
| Interest received                                                 |           | 2,000      |
| Salaries                                                          | 2,000     |            |
| General Expenses                                                  | 1,000     |            |
| Discount                                                          |           | 500        |
| Insurance                                                         | 500       |            |
| The closing stock on 31 <sup>st</sup> December 2011 is Rs.5, 000. |           |            |

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7. From the following Profit and Loss account, you are required to compute cash from operations (15 M)

**Profit and Loss account for the ending 31 December 2010**

| Particulars                | Rs            | Particulars               | Rs            |
|----------------------------|---------------|---------------------------|---------------|
| To Salaries                | 5,000         | By Gross Profit           | 25,000        |
| To Rent                    | 1,000         | By Profit on sale of Land | 5,000         |
| To Depreciation            | 2,000         | By income tax refund      | 3,000         |
| To loss on sale of Plant   | 1,000         |                           |               |
| To Goodwill written off    | 4,000         |                           |               |
| To Proposed Dividends      | 5,000         |                           |               |
| To Provisions for Taxation | 5,000         |                           |               |
| To Net Profit              | 10,000        |                           |               |
|                            | <b>33,000</b> |                           | <b>33,000</b> |

8. Explain Net Present value and payback methods of capital budgeting. (15 M)

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1. Explain discounting principle, incremental concept and equi-marginal concept. (15 M)
2. Discuss various forecasting demand for new products with suitable examples. (15 M)
3. Discuss the production function with all inputs variables. (15 M)
4. Explain Skimming Price policy, Marginal cost pricing and Limit Pricing. (15 M)
5. Discuss the various phases of business cycles. Explain its features. (15 M)
6. Enter the following transactions in proper subsidiary books of Ram; (15 M)

2010

|           |                                   |        |
|-----------|-----------------------------------|--------|
| January 1 | Sold goods to Ramesh              | 5250   |
| January1  | Bought from hari ram              | 7800   |
| January2  | Ramesh returned oods              | 750    |
| January2  | Sold to Dev                       | 5500   |
| January2  | Purchased goods from Mangal       | 7000   |
| January4  | return goods to Mangal            | 1000   |
| January4  | Bought from Devi dayal            | 3250   |
| January4  | Sold to Zakeer                    | 3500   |
| January5  | zakeer returned goods             | 450    |
| January6  | Sold to ram saran                 | 5000   |
| January6  | sold to Gyan                      | 3000   |
| January7  | ram saran returned goods          | 500    |
| January7  | Bought from Devi dayal            | 7000   |
| January8  | Return goods to Devi dayal        | 750    |
| January9  | Purchased goods from raghuSubject |        |
|           | To trade discount of 10%          | 10,000 |
| January10 | Sold to rajaram goods subject to  |        |
|           | Trade discount of 5%              | 5,000  |

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7. From the following ratios draw the balance sheet of the company for the year 2012 (15 M)

|                                                    |             |
|----------------------------------------------------|-------------|
| Current Ratio                                      | 2.5         |
| Liquidity Ratio                                    | 1.5         |
| Net Working Capital                                | Rs.3,00,000 |
| Stock Turnover Ratio (Cost of Sales/closing stock) | 6 times     |
| Gross Profit Ratio                                 | 20 per cent |
| Fixed assets Turnover ratio(on cost of sales)      | 2 times     |
| Debt Collection Period                             | 2 months    |
| Fixed assets to shareholders net worth             | 0.80        |
| Reserve and Surplus to Capital                     | 0.50        |

8. Initial Investment for a project is 20 lakh. The Project life is 6 years and the cash inflows for six is as given below

| Year | Cash inflow Rs. |
|------|-----------------|
| 1    | 3,50,000        |
| 2    | 4,00,000        |
| 3    | 5,00,000        |
| 4    | 5,50,000        |
| 5    | 6,00,000        |
| 6    | 5,00,000        |

The cost of capital of is 13%. Compute NPV, IRR and Payback period. (15 M)