

Code No: R21022

R10**SET - 1**

II B. Tech I Semester Supplementary Examinations, June - 2015
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) "Managerial Economics is the integration of economic theory with business practice for the purpose of facilitating decision making and forward planning by management". Explain?  
b) Define demand and describe its determinants with suitable examples?
2. a) Differentiate between the following:  
i) Point Price elasticity of demand and Arc Price elasticity of demand  
ii) Elasticity of demand and elasticity of supply  
b) Write briefly about trend projection method?
3. a) What is the relationship between firm's short run production function and its fixed and variable costs?  
b) Distinguish between:  
i) Implicit and Explicit costs  
ii) Accounting and Economic costs
4. a) What are the features of Perfect competition?  
b) Distinguish between Market skimming pricing and penetrating pricing.
5. a) What are the features of Joint stock Company?  
b) Write short note on features of Business cycles.

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6. The following are the balances extracted from the books of Rakesh on 31<sup>st</sup> March 2015.

| PARTICULARS            | AMOUNT (IN RUPEES) |
|------------------------|--------------------|
| Rakesh Capital         | 30,000             |
| Rakesh Drawing         | 5,000              |
| Furniture and Fixtures | 2,600              |
| Opening Stock          | 22,000             |
| Debtors                | 18,000             |
| Rent from tenants      | 1,000              |
| Purchases              | 1,10,000           |
| Sales                  | 1,50,000           |
| Electricity Charges    | 1,100              |
| Sales return           | 2,000              |
| Discounts (Dr)         | 1,600              |
| Bank Overdraft         | 4,200              |
| Creditors              | 13,800             |
| Discount (Cr)          | 2,000              |
| Taxes and Insurances   | 2,000              |
| General Expenses       | 4,000              |
| Salaries               | 9,000              |
| Commission (Dr)        | 2,200              |
| Carriage on purchases  | 1,800              |
| Bad debts              | 800                |

Adjustments:

Closing stock at the end was Rs 20,060; Depreciate furniture and fixtures by Rs 550.

Prepare Trading, Profit and Loss account and Balance Sheet for the year ended 31<sup>st</sup> March 2015 after taking the above adjustments.

7. From the following particulars you are required to prepare a statement of proprietary fund:  
Capital turnover ratio=2; Fixed Asset turnover ratio=4; Gross profit turnover ratio=20%; Stock velocity=5; Debtors velocity= 3 months; Creditors velocity is 2.5 months. The gross profit is Rs 50,000, Reserves and Surplus is Rs 15000 and closing stock was Rs 5000 lesser than opening stock.
8. Explain briefly the various methods of capital budgeting.

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**SET - 2**

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1. What do you understand by Elasticity of demand? How do you measure it? What is its significance?
2. Explain and illustrate the following: and also mention why they arise: a) The Law of Constant Returns b) The Law of increasing returns.
3. What is opportunity Cost? Give some examples of opportunity cost. How are these costs relevant for managerial decisions?
4. What is a Market? Explain, in brief, the different Market structures.
5. Explain the merits and demerits of different forms of Business organization and their suitability with different types of business Activities
6. What are the accounting concepts that govern accounting process? Explain in brief.
7. The following are the extracts from the financial statements of Marvel Ltd. as on 31st March 2014 and 31st March 2015 respectively

	31 st March 2014 (Amount in Rupees)	31 st March 2015 (Amount in Rupees)
Stock	10,000	25,000
Debtors	20,000	20,000
Bills receivable	10,000	5,000
Cash	18,000	15,000
Bills payable	15,000	20,000
Bank Overdraft		2,000
9% Debenture	5,00,000	5,00,000
Sales	3,50,000	3,00,000
Gross Profit	70,000	50,000

Compute Current ratio, Acid test ratio and Stock Turnover ratio and also interpret the result.

8. Compare and contrast with illustration
 Accounting rate of return and Payback period method
 Net present Value and IRR method

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1. Define Managerial Economics. Explain the nature and scope of managerial economics?
2. What is meant by Elasticity of demand? What are the factors governing the potential demand for a product as either Elastic or Inelastic?
3. Explain how production function is valuable to manufacturer?
4. What are the features of perfect competition? Explain with the help of a diagram how price output is determined in perfect competition?
5. Define and evaluate partnership form of business organization.
6. What is working capital? What are the factors governing working capital requirement? Illustrate.
7. Ram Enterprise is considering purchasing a CNC machine. The following are the earnings after tax from the two alternative proposal under consideration each costing Rs 8,00,000. Select the better proposal if the company wishes to operate @ 10% rate of return

|                             | Year 1   | Year 2   | Year 3   | Year 4   | Year 5   |
|-----------------------------|----------|----------|----------|----------|----------|
| Proposal I                  | 80,000   | 2,40,000 | 3,20,000 | 4,80,000 | 3,20,000 |
| Proposal 2                  | 2,40,000 | 3,20,000 | 4,00,000 | 2,40,000 | 1,60,000 |
| Present value of Rs 1 @ 10% | 0.909    | 0.826    | 0.751    | 0.683    | 0.620    |

8. Journalize the following transactions and post them to ledger.
  - i) Ram invested Rs 10,000 in cash
  - ii) He bought goods worth Rs 2000 from Shyam
  - iii) He bought a machine for Rs 5000 from Lakshman on account
  - iv) He paid to Lakshman Rs. 2000
  - v) He sold goods for cash Rs. 3000
  - vi) He sold goods to A on account for Rs 4000
  - vii) He paid to Shyam Rs. 1000
  - viii) He received amount from A Rs. 2000.

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1. a) What do you understand by demand? What are the different types of demand
b) State the law of demand what its exception are
2. How do you forecast demand for product and services? Explain the method of least squares as a method of forecasting demand.
3. Do you think monopoly is present in the current business environment? Explain how price output is determined in monopoly in short run
4. Rahim sells 500 kg of sweets per hour at a rate of Rs 100 per kg. The fixed overhead is Rs 7000 and the variable cost is Rs 25 per kg. There is a proposal to reduce the price by 10%. Calculate the present PV and present BEP both in units and in Rupees; present level of profit and future PV ratio and BEP both in units and in Rupees. How many kilograms must be sold to earn present level of profit?
5. Explain any four pricing methods based on strategy.
6. Based on the following information of the financial ratios prepare Balance sheet of Premier India Ltd as on 31st March 2015.
Current ratio= 2.5; Liquidity ratio= 1.5; Net working Capital= 6,00,000; Stock turnover ratio= 5; Gross profit to sales =20%. Turnover ratio to net fixed assets (on cost of sales) =2; Average debt collection period = 2.4 months; Fixed asset to net worth =0.8; Long term debt to capital and Reserves =7:25.

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7. From the following prepare Trading, Profit and loss and Balance Sheet as on 31st March 2015.

Particulars	Debit	Credit
Capital		20000
Purchases	29000	
Sales		55000
Carriage Inwards	5000	
Wages outstanding		2000
Plant	20000	
Depreciation on plant	4000	
Rent received		1000
Salaries and wages	3000	
Reserve for bad and doubtful debt		1000
Bad debts	2000	
Interest		5000
Premises	20000	
Interest paid	5000	
Creditors		6000
Opening stock	25000	
Loans		38000
Debtors	15000	

Adjustment

Closing stock at the end: Rs 40,000

Depreciate building at the rate of 15% per annum.

8. A ltd is considering to purchase a new machine costing Rs 5,85,000. An additional investment will be required for installation costing Rs 15,000 and for working capital Rs 1,00,000. The machine has a working life of 5 years and salvage value will be Rs 1,00,000. The working capital will be released after 5 years. The estimated cash inflows before depreciation and tax are estimated as follows

Years	Cash Inflows (Rupees)
1	1,00,000
2	1,80,000
3	2,50,000
4	2,00,000
5	1,50,000

You can assume straight line method for charging depreciation, cost of capital of 15% and corporate tax rate of 50%. Should the company purchase the machine?