

**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)

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 31<sup>st</sup> December 2012 was Rs.3,700

7. From the following Balance sheets as on 31<sup>st</sup> 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<br>Rs.   | 2012<br>Rs.   | Assets         | 2011<br>Rs.   | 2012<br>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         |                |               |               |
|                       | <b>23,000</b> | <b>34,500</b> |                | <b>23,000</b> | <b>34,500</b> |

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. Rs	Cr. 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.		

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)



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)