

III B. Tech I Semester Regular/Supplementary Examinations, October/November - 2016
MANAGERIAL ECONOMICS AND FINANCIAL ANALYSIS
 (Comm to EEE, AME and MINE)

Time: 3 hours

Max. Marks: 70

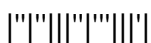
- Note: 1. Question Paper consists of two parts (**Part-A** and **Part-B**)
 2. Answering the question in **Part-A** is compulsory
 3. Answer any **THREE** Questions from **Part-B**
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PART -A

- | | | | |
|---|----|--|------|
| 1 | a) | What is demand forecasting? | [4M] |
| | b) | Define Oligopoly. | [3M] |
| | c) | Name Liquidity ratios. | [4M] |
| | d) | What are the phases of Business Cycle? | [3M] |
| | e) | Define Fixed cost and variable cost. | [4M] |
| | f) | Define capital budgeting. | [4M] |

PART -B

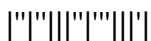
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|---|----|---|------|
| 2 | a) | Explain how managerial economics is linked with other disciplines. | [5M] |
| | b) | What is meant by elasticity of demand? How do you measure it? | [5M] |
| | c) | Define law of demand. What are its assumptions and exceptions? | [6M] |
| 3 | a) | Raju & Co., has supplied you the following information.
Fixed Cost Rs. 2,40,000; Variable Cost per Unit Rs.15; Selling Price per Unit Rs.30
Find out: (a) BEP Units (b) BEP in Rupees (c) Margin of Safety (d) Sales to get a profit of Rs.2,00,000. | [6M] |
| | b) | What are the economies of scale? Explain different types of economies of scale. | [5M] |
| | c) | Explain the production function with reference to Law of variable proportions and substitutability of factors. | [5M] |
| 4 | a) | Define Monopoly. How are price and output determined under monopoly? | [8M] |
| | b) | Define pricing and explain the various methods of pricing. | [8M] |
| 5 | a) | What do you understand by Joint Stock Company? What are its salient features? | [8M] |
| | b) | Differentiate between Sole trader and partnership. | [8M] |
| 6 | | Journalize the following transactions. [16M] | |
| | | January 1. Commenced business with a capital of Rs. 1,00,000 | |
| | .. | 2. Cash deposited into bank Rs. 900 | |
| | .. | 3. Bought Furniture for cash Rs. 3,000 | |
| | .. | 4. Bought goods for cash from 'B' Rs. 5000 | |
| | .. | 5. Sold goods for cash to 'A' Rs. 2,000 | |
| | .. | 6. Purchased goods from 'C' on credit Rs.2000 | |
| | .. | 7. Goods sold to 'D' on credit Rs. 1500 | |
| | .. | 20. Received interest Rs. 500 | |
| | .. | 31. Paid rent Rs. 4000 | |
| | .. | 31. Paid salary to 'P' Rs.10,000 | |



- 7 ABC Co. Ltd. is proposing to undertake one project. Two projects A and B are available. The initial cost of the Project in each case is Rs. 4, 00,000/-. A discount factor of 10% is used to compare the projects. Cash flows after taxes are likely to be as under [16M]

Cash flows after taxes (in Rs.)		
Year	Project-X	Project-Y
1	1,50,000	50,000
2	2,00,000	1,50,000
3	2,50,000	2,00,000
4	1,50,000	3,00,000
5	1,00,000	2,00,000

Which one do you recommend under Net Present Value Index method?



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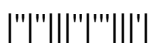
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PART -A

- | | | |
|------|----------------------------------|------|
| 1 a) | Explain Isoquants. | [3M] |
| b) | Discuss interest coverage ratio. | [3M] |
| c) | Joint stock company. | [4M] |
| d) | Priority pricing. | [4M] |
| e) | Law of Demand. | [4M] |
| f) | Need for capital budgeting. | [4M] |

PART -B

- | | | |
|------|--|------|
| 2 a) | Define managerial economics. Explain the nature and scope of managerial economics. | [6M] |
| b) | Explain different methods of demand forecasting? | [6M] |
| c) | Briefly explain elasticity of demand. | [4M] |
| 3 a) | Explain briefly Cobb-Douglas production function. | [5M] |
| b) | If Sales are 10,000 Units and selling price is Rs.15 per unit, Variable cost is Rs.8 per unit and fixed cost is Rs.70,000.
Find out BEP in terms of Rupees and Units. What is the profit Earned?
What should be the sales for earning a profit of Rs.50,000. | [6M] |
| c) | Explain determinants of Break Even Point. | [5M] |
| 4 a) | What do you understand by pricing and equilibrium of pricing? How do you calculate equilibrium of pricing in competitive market? | [8M] |
| b) | Explain how price is determined under perfect competition. | [8M] |
| 5 a) | Outline the types of partners and explain the limitations of partnership business. | [8M] |
| b) | Differentiate between sole trader and partnership. | [8M] |



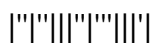
- 6 From the following information, calculate: [16M]
 (i) Gross Profit Ratio; (ii) Net Profit Ratio (iii) Inventory Turnover Ratio;
 (iv) Net worth to Debt Ratio.

Particulars	Amount (Rs.)
Sales	25,20,000
Cost of Goods Sold	19,20,000
Net Profit	3,60,000
Stock	8,00,000
Current Assets	7,60,000
Fixed Assets	14,40,000
Net worth	15,00,000
Debt	19,00,000
Current Liabilities	6,00,000

- 7 Prepare Trading and Profit & Loss Account and Balance sheet for the year ended [16M]
 31st March 2014 from the following Trial Balance of XYZ Co. Ltd.

	Dr, Rs.	Cr, Rs.
Furniture	6500	
Plant and machinery	60000	
Buildings	75000	
Capital		125000
Bad debts	1750	
Reserve for bad debts		3000
Sundry debtors	40000	
Sundry creditors		24000
Stock(1.1.2001)	34600	
Purchases	54750	
Sales		154500
Bank over draft		28500
Sales returns	2000	
Purchase returns		1250
Advertising	4500	
Interest	1180	
Commission received		3750
Cash in hand	6500	
Salaries	33000	
General expenses	7820	
Car expenses	9000	
Taxes and insurance	3500	
	340000	340000

Closing stock valued at Rs. 50,000



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**PART -A**

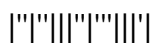
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|---|----|------------------------------------------------|------|
| 1 | a) | Explain Implicit Cost                          | [4M] |
|   | b) | What is Net Present Value method?              | [4M] |
|   | c) | Limit Pricing                                  | [4M] |
|   | d) | Discuss the significance of Debt-Equity Ratio. | [4M] |
|   | e) | Phases of Business cycle                       | [3M] |
|   | f) | What are the duties of partners?               | [3M] |

**PART -B**

- |   |    |                                                                                                                                                                                                                                                                                                                                                                                                   |       |
|---|----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| 2 | a) | What do you mean by demand? Explain its determinants.                                                                                                                                                                                                                                                                                                                                             | [8M]  |
|   | b) | Explain the different types of elasticity of demand.                                                                                                                                                                                                                                                                                                                                              | [8M]  |
|   | c) | How do you forecast demand for a new product?                                                                                                                                                                                                                                                                                                                                                     | [8M]  |
| 3 | a) | Explain the concepts of cost and explain their contribution to managerial decisions.                                                                                                                                                                                                                                                                                                              | [7M]  |
|   | b) | Explain production function.                                                                                                                                                                                                                                                                                                                                                                      | [5M]  |
|   | c) | What is contribution? Explain its significance in cost-volume profit analysis.                                                                                                                                                                                                                                                                                                                    | [4M]  |
| 4 | a) | What do you understand by monopolistic competition? How is price determined under it?                                                                                                                                                                                                                                                                                                             | [8M]  |
|   | b) | Differentiate between determination of price in the short-run and long-run.                                                                                                                                                                                                                                                                                                                       | [8M]  |
| 5 | a) | Define sole trader. What are its advantages and disadvantages?                                                                                                                                                                                                                                                                                                                                    | [8M]  |
|   | b) | Explain about the various state/ public enterprises and their form.                                                                                                                                                                                                                                                                                                                               | [8M]  |
| 6 |    | A company is considering an investment proposal to install new milling control at a cost of Rs. 55,000/-. The facility has a life expectancy of 5 years and no salvage value. The tax rate is 30%. Assume the firm uses single line depreciation and the same is allowed for tax purposes. The estimated cash flow before depreciation and tax (CFBT) from the investment proposal are as follows | [16M] |

| Year | CFBT   |
|------|--------|
| 1    | 13,600 |
| 2    | 16,590 |
| 3    | 14,769 |
| 4    | 13,660 |
| 5    | 24,855 |

Calculate Payback Period, ARR and IRR



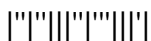
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The following is the Trial Balance of ABC Co. Ltd., was prepared on 31<sup>st</sup> March 2014. Prepare Trading and Profit & Loss Account and Balance Sheet. [16M]

|                                     | Debit Rs.     | Credit Rs.    |
|-------------------------------------|---------------|---------------|
| Capital                             | -----         | 22000         |
| Opening stock                       | 10000         | -----         |
| Debtors and Creditors               | 8000          | 12000         |
| Machinery                           | 20000         | -----         |
| Cash at Bank                        | 2000          | -----         |
| Bank overdraft                      | -----         | 14000         |
| Sales returns and Purchases returns | 4000          | 8000          |
| Trade expenses                      | 12000         | -----         |
| Purchases and Sales                 | 26000         | 44000         |
| Wages                               | 10000         | -----         |
| Salaries                            | 12000         | -----         |
| Bills payable                       | -----         | 10600         |
| Bank deposits                       | 6600          | -----         |
| <b>TOTAL</b>                        | <b>110600</b> | <b>110600</b> |

Closing Stock was valued at Rs.60, 000

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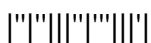
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PART -A

- | | | |
|------|--|------|
| 1 a) | Explain the scope of Managerial Economics. | [3M] |
| b) | What is double entry system? | [4M] |
| c) | Explain about Economies of scale. | [4M] |
| d) | Define break-even point. | [3M] |
| e) | What do you understand by joint stock company? | [4M] |
| f) | What do you understand by capital budgeting. | [4M] |

PART -B

- | | | |
|------|--|------|
| 2 a) | Explain the basic economic tools in managerial economics. | [6M] |
| b) | Illustrate demand schedule. Explain assumption to the law of demand. | [5M] |
| c) | What is cross elasticity of demand? Explain. | [5M] |
| 3 a) | Discuss various types of isoquants. | [5M] |
| b) | What is meant by breakeven analysis? Explain its advantages. | [5M] |
| c) | Critically evaluate the law of diminishing marginal return. | [6M] |
| 4 a) | Define market and explain the various market structures with examples. | [8M] |
| b) | Explain about Maris and Williamson's models. | [8M] |
| 5 a) | Discuss briefly the various phases of business cycle. | [8M] |
| b) | Define partnership. What are its features? | [8M] |



- 6 From the following information, prepare trading, profit and loss account and balance sheet. [16M]

Particulars	Debit Rs.	Credit Rs.
Purchases	30,000	
Sales		70,000
Returns	1,400	1,600
Opening Stock	20,000	
Wages	1,000	
Salaries	1,400	
Depreciation	2,000	
Rent Received		10,000
Buildings	30,000	
Capital		60,000
Debtors	21,800	
Creditors		14,000
Bank Over Draft		10,000
Cash	58,000	
Total	1,65,600	1,65,600

Adjustments:

Closing Stock was valued at Rs.30,000

Outstanding Wages Rs.1,000

Appreciation on Buildings @ 10%.

- 7 A company is considering an investment proposal to install new milling controls at a cost of Rs.50,000. The facility has a life expectancy of 5 years and no salvage value. The tax rate is 35 percent. Assume the firm uses straight line depreciation and the same is allowed for tax purposes. The estimated cash flows before depreciation and tax (CFBT) from the investment proposal are as follows: [16M]

Year	CFBT
1	10,000
2	10,692
3	12,769
4	13,462
5	20,385

Calculate the following: payback period, ARR and Profitability index at 10 percent discount rate.(5+5+6)

