

**II B.Tech. I Semester Regular Examinations, November -2005**  
**MANAGERIAL ECONOMICS AND FINANCIAL ANALYSIS**  
 ( Common to Electronics & Telematics, Electronics & Computer  
 Engineering and Instrumentation & Control Engineering)

**Time: 3 hours****Max Marks: 80**

**Answer any FIVE Questions**  
**All Questions carry equal marks**

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1. What is managerial economics? What type of issues come under the preview of managerial economics? [6+10]
2. Why does the Law of Diminishing Returns operate? Explain with the help of assumed data and also represent in a diagram. [4+6+6]
3. A company reported the following results for two periods.

period	Sales	Profit
I	Rs.20,00,000	Rs.2,00,000
II	Rs.25,00,000	Rs.3,00,000

Ascertain the BEP, P V Ratio, Fixed Cost and margin of safety. [4+4+4+4]

4. Compare and contrast between perfect competition and monopoly. [16]
5. Define and Evaluate Statutory corporations. [16]
6. Consider the case of the company with the following two investment alternatives each costing Rs.9 lakhs. The details of the cash inflows are as followa;

year	Rs. in Lakhs	
	project 1	project 2
1	3	6
2	5	4
3	6	3

the cost of capital is 10% per year. Which will you choose (a) under Npv method. [16]

7. The following figures have been extracted from the records of Fancy Stores a proprietary concern as on 31-12-2003

Furniture	15,000	Insurance	6,000
Proprietors capital a/c	54,000	Rent	22,000
Cash in hand	3,000	Sundry debtors	60,000
Opening stock	50,000	Sales	6,00,000
Fixed deposit	1,34,600	advertisement	10,000
Drawings	5,000	postages and telephone	3,400
provision for bad debts	3,000	Bad debts	2,000
Cash at bank	10,000	printing and Stationary	9,000
Purchases	3,00,000	General charges	13,000
Salaries	19,000	Sundry creditors	40,000
Carraige inwards	41,000	deposit from Customers	6,000

Prepare Trading, Profit and loss account and balance sheet after taking into consideration the following information.

- (a) Closing stock as on 31<sup>st</sup> March was Rs.10,000
- (b) Salary of Rs. 2,000 is yet to paid to an employee.

[16]

8. (a) Who are the users of financial statements and for what purpose do they use?
- (b) Government company
- (c) Calculate the Gross profit Margin and Net operating margin and Operating ratio given the following information.

Sales	Rs.10,00,000
Cost of goods	Rs. 6,00,000
Selling and administrative costs	Rs. 2,00,000
Depreciation	Rs.1,00,000
Also Comment on the results	

[16]

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1. "Managerial economics is the discipline which deals with the application of economic theory to business Management". Discuss. [16]
2. Explain the following with reference to production function,  
 (a) Marginal rate of Technical substitution  
 (b) Variable proportions of factors  
 [8+8]
3. How do you determine BEP in terms of physical units and sales value? Explain the concepts of margin of safety and the angle of incidence. Illustrate through a breakeven chart. [6+6+4]
4. (a) What are the causes for the emergence of monopoly?  
 (b) How is the equilibrium position attained by a monopolist under varying cost conditions?  
 [6+10]
5. Evaluate the partnership form of business organization. How does it overcome the limitations of proprietary form of business? [8+8]
6. Find out the average rate of return from the following data relating to Machines 1 and 2

Cost	Rs.300,000 each
Estimated life	3years each
Estimated scrap	Rs.60,000 each
Income tax rate	50%
Additional working capital required	Rs.2,50,000 for each Machine

The estimated cash inflows after taxes for each machine are as given below:

Year	Machine 1	Machine 2
	Rs.	Rs.
1	1,50,000	2,00,000
2	3,00,000	3,00,000
3	1,50,000	2,50,000
4	—	1,50,000

[16]

7. What is Three columnar cash book? What is contra Entry? Illustrate. [16]

8. Given the following information from the Kamal Plastics Limited, compute

- (a) Assets turn over
- (b) Return on Equity
- (c) Return on Assets
- (d) Net profit Ratio and comment of the results.

	2001	2002
Net Sales	86,000	71,000
Profit after taxes	12,000	11,000
Total assets	49,000	41,000
Shareholders equity	27,000	21,000

[16]

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1. (a) Define income - elasticity of demand. How does income - elasticity differ from price elasticity of demand?  
 (b) How is cross elasticity of demand computed?  
[4+4+6]
2. Why does the Law of Diminishing Returns operate? Explain with the help of assumed data and also represent in a diagram. [4+6+6]
3. What cost concepts are mainly used for managerial decisions? Illustrate. [6+10]
4. (a) What are the causes for the emergence of monopoly?  
 (b) How is the equilibrium position attained by a monopolist under varying cost conditions?  
[6+10]
5. (a) Define 'partnership' and explain its salient features. And limitations.  
 (b) What Qualities do you expect in persons to become good partners in business.  
[12+4]
6. Given the following information in respect of the two project proposals rank them by applying the criteria of  
 (a) payback period Annual cash Flow after Taxes:  
 (b) ARR

Initial investment: Rs.25,000

Year	Proposal 1 Rs.	Proposal 2 Rs.
1	11,750	13,500
2	12,250	12,500
3	12,500	12,250
4	13,500	11,750

[8+8]

7. The Trial Balance of Prasad Laboratories on 31<sup>st</sup> December, 2002 is given below:

Debit balances	Rs	Credit balances	Rs
Plant	160,000	Capital account	2,00,000
Purchases	136,000	Sales	2,54,000
Sales returns	2,000	Purchase returns	2,550
Opening stock	60,000	Discounts received	1,600
Discount allowed	700	Sundry creditors	50,000
Bank Balance	4150		
Sundry debtors	90,000		
Salaries	13,600		
Wages	20,000		
Frieght	3,900		
Rent, rates and taxes	4,000		
Advertisement	13,800		
	5,08,150		5,08,150

Adjust the following:

- (a) Closing stock Rs. 30,000
- (b) Rent paid in advance Rs. 500
- (c) Depreciate Plant @ 10% per annum

[16]

8. Selected financial information about Siri Traders Limited is given below:

	2001	2002
Sales	6,00,000	4,30,000
Cost of goods sold	5,70,000	3,25,000
Debtors	72,000	30,000
Inventories	1,14,000	55,000
Cash	15,000	8,000
Other current assets	40,000	27,000
Current liabilities	1,60,000	1,10,000

Compute the current ratio, quick ratio, debt collection period and inventory turnover ratios for the above two years and comment on the results.

[16]

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1. What is managerial economics? What type of issues come under the preview of managerial economics? [6+10]
2. Explain the following with reference to production function,
  - (a) Marginal rate of Technical substitution
  - (b) Variable proportions of factors[8+8]
3. Explain the utility of Break-Even Analysis in managerial decision-making. [16]
4. What is a Market? Explain, in brief, the different Market structures. [4+12]
5. (a) What are the characteristics of a business unit?  
(b) Explain the features of sole trader form of organization. Discuss the advantages and limitations of sole trader form of organization. [6+10]
6. What are the components of working capital? Explain each of them. [16]
7. From the following Trial Balance of Vikram Foundary Works, prepare Trading Account and Profit and Loss Account for the year ending 31<sup>st</sup> March 2003. Also prepare a Balance Sheet as on that date.

*Trial Balance*

Dr	Rs	Cr	Rs
Electricity	12,000	Interest	14,000
Land	1,40,000	Discount	6,000
Interest	16,000	Sales	8,00,000
Wages	50,000	Returns	10,000
Opening Stock	20,000	Sundry creditors	60,000
Rent	24,000	Capital	3,02,000
Office expenses	30,000	Bills payable	15,000
Buildings	4,00,000		
Salaries	90,000		
Power, gas and water	30,000		
Returns	20,000		
Furniture	15,000		
Sundry debtors	60,000		

Adjustments:

- (a) Outstanding salaries Rs.10,000
- (b) Closing stock Rs. 80,000
- (c) Depreciate building at 10 per cent per annum
- (d) Interest received in advances Rs. 2,000

[16]

8. Explain how ratios are used in the interpretation of financial statements and in financial analysis. [16]

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