

II B.Tech II Semester Supplementary Examinations, November/December 2005  
**MANAGERIAL ECONOMICS AND FINANCIAL ANALYSIS**  
 ( Common to Electrical & Electronic Engineering, Electronics &  
 Communication Engineering, Computer Science & Engineering, Electronics  
 & Instrumentation Engineering, Bio-Medical Engineering, Information  
 Technology, Electronics & Control Engineering, Mechatronics and  
 Computer Science & Systems Engineering)

Time: 3 hours

Max Marks: 80

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

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1. What is meant by elasticity of demand? How do you measure it? [16]
2. Explain and illustrate Laws of Returns. [16]
3. Sales are Rs.1,10,000 yielding a profit of Rs.4,000 in period-I Sales are Rs.1,50,000 with a profit of Rs.12,000 in period-II. Determine BEP and fixed Expenses. [16]
4. Define Monopoly. How is it further classified? How is price determined under Monopoly? [4+4+8]
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 merits and limitations of Pay Back period? How does Discounting approach overcome the limitations of Pay back 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. Following is the Profit and Loss Account and Balance Sheet of Jai Hind Ltd. Calculate the following ratios:

- (a) Gross Profit Ratio  
 (b) Current Ratio  
 (c) Liquidity ratio.

*Profit and Loss Account*

Dr.			Cr.
Liabilities	Rs.	Assets	Rs.
To Opening stock of finished goods	1,00,000	By Sales	8,00,000
To Opening stock of raw materials	50,000	By Closing stock of raw materials	1,50,000
To Purchase of raw materials	3,00,000	By closing stock of finished goods	1,00,000
To manufacturing Expences	1,00,000	By Profit or sale of shares	50,000
To Administration Expences	50,000		
To Selling and distribution expenses	50,000		
To Loss on sale of plant	55,000		
To Interest on debentures	10,000		
To Net profit	3,85,000		
	<u>11,00,000</u>		<u>11,00,000</u>

*Balance Sheet*

Liabilities	Rs.	Assets	Rs.
Share Capital :		Fixed Assets	250000
Equity Share capital	100000	Stock of raw materials	150000
Preference share capital	100000	Stock of finished goods	100000
Reserves	100000	Sundry debtors	100000
Debentures	200000	Bank balance	50000 [5+5+6]
Sundry creditors	100000		
Bills payable	50000		
	<u>650000</u>		<u>650000</u>

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1. (a) Explain the various factors that influence the demand for a computer.  
 (b) What is cross elasticity of Demand? Explain.  
[8+8]
2. How will you define economies of scale? Explain how increasing returns to scale work out in reality. [6+10]
3. The PV ratio of Matrix Books Ltd, is 40% and the margin of safety is 30% You are required to work out the BEP and Net Profit, if the sales volume is Rs. 14,000[16]
4. What is Perfect Competition? How is Market Price determined under conditions of Perfect Competition? [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. What are the components of working capital? Explain each of them. [16]
7. What is Three columnar cash book? What is contra Entry? Illustrate. [16]
8. Following is the Balance Sheet of XYZ company as on 31<sup>st</sup> Dec 2000

Liabilities	Rs.	Assets	Rs
Equity share capital	20,000	Goodwill	12,000
Capital Reserve	10,000	Fixed assets	28,000
8% loan on mortgage	16,000	Stocks	6,000
Trade Creditors	8,000	Debtors	6,000
Bank overdraft	6,000	Investments	2,000
		Cash in hand	6,000
	60,000		60,000

Sales amounted to Rs.1,20,000. Calculate ratios for

- (a) testing liquidity, and
- (b) Solvency of the company.

[8+8]

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1. What is demand? State and Explain the Law of Demand. Are there any exceptions to the law? [4+8+4]
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 prepares a budget to produce 3 lakh units, with fixed costs as Rs.15 lakhs and average variable cost of Rs.10 each . The selling price is to yield 20% profit on cost. you are required to calculate
  - (a) P/V ratio.
  - (b) Break even point.[8+8]
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. What are the merits and limitations of Pay Back period? How does Discounting approach overcome the limitations of Pay back method? [16]
7. Prepare a Trial Balance from the following data for the year 2003.

	Rs		Rs
Free hold property	10,800	Discount received	150
Capital	40,000	Returns inward	1,590
Return outwards	2,520	Office expenses	5,100
Sales	80,410	Bad debts	1,310
Purchases	67,350	Carriages outwards	1,590
Depreciation of furniture	1,200	Carriage inwards	1,450
Insurance	3,300	Salaries	4,950
Stock (1-1-2003)	14,360	Book debts	11,070
Creditors for Expenses	400	Cash at bank	2,610
Creditors	4,700		

[16]

8. The following are the extracts from the financial statements of Blue and Red Ltd., as on 31<sup>st</sup> March 2001 and 2002 respectively.

	<u>31 March 2001</u>	<u>31 march 2002</u>
	Rs.	Rs.
Stock	10,000	25,000
Debtors	20,000	20,000
Bills receivables	10,000	5,000
Cash in hand	18,000	15,000
Bills payable	15,000	20,000
bank overdraft	-	2,000
9%debentures	5,00,000	5,00,000
Sales for the year	3,50,000	3,00,000
Gross profit	70,000	50,000

Compute for both the years the following:

- (a) Current ratio
- (b) Liquidity ratio
- (c) Stock turnover ratio. Also interpret the results.

[8+8]

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1. What is meant by elasticity of demand? How do you measure it? [16]
2. Define production function. Discuss in detail the different types of production functions. [4+12]
3. Explain the utility of Break-Even Analysis in managerial decision-making. [16]
4. What are the features of monopolistic competition? How is it different from Monopoly? [10+6]
5. Evaluate the partnership form of business organization. How does it overcome the limitations of proprietary form of business? [8+8]
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 follows;

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. During January 2003 Narayan transacted the following business.

Date		Rs
1.	Commenced business with cash	40,000
2.	Purchased goods on credit from Shyam	30,000
3.	Received cash from Murthy as advance for Goods ordered by him	3,000
4.	Paid wages	500
5.	Goods returned to Shyam	200
6.	Goods sold to Kamal	10,000
7.	Goods returned by Kamal	500
8.	paid into bank	500
9.	Goods sold for cash	750
10.	Bought goods for cash	1,000
11.	Paid salaries	700
12.	Withdrew cash for personal use	1,000

Journalize the above transactions and prepare Cash Account.

[16]

8. Following is the Balance Sheet of XYZ company as on 31<sup>st</sup> Dec 2000

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