

Code No: 07A5HS01

R07

Set No. 2

III B.Tech I Semester Examinations, MAY 2011

MANAGERIAL ECONOMICS AND FINANCIAL ANALYSIS

Common to CE, ME, MEP, BT, AME, ICE, E.COMP.E, MMT, ETM, ECE

Time: 3 hours

Max Marks: 80

Answer any FIVE Questions

All Questions carry equal marks

1. What is meant by utility? How does it figure in the analysis of consumer demand? [16]

2. Distinguish between:

(a) Direct Costs and Indirect Costs

(b) Incremental Costs and Sunk Costs

(c) Past Costs and Future Costs and

(d) Fixed Costs and Variable Costs [16]

3. Journalise the following transactions with narration: [16]

2002		
March 1	X brought capital into the Business	20,000
March 3	Purchased Furniture for cash	4,000
March 5	Purchase of goods	15,000
March 10	Purchase of goods from M	10,000
March 15	Sold goods to N	8,000
March 20	Cash sales	10,000
March 22	Cash paid to M	10,000
March 31	Salaries paid	2,000

4. Examine the nature of equilibrium for a monopolist. Is it necessarily true that the equilibrium output of monopolist will be smaller than that of a competitive seller? [16]

5. Explain the regression method of demand forecasting. Compare this method with trend method. [16]

6. Find out the liquidity, profitability, financial leverage and activity ratios and discuss their utility by using the given information. [16]

Balance Sheet of S Ltd., as on Dec'2000.			
Liabilities	Rs.	Assets	Rs.
Equity share capital	1,50,000	Plant	1,00,000
Reserve fund	40,000	Machinery	75,000
6% Debentures	80,000	Investments (LT)	40,000
Sundry creditors	30,000	stock	30,000
Profit and Loss Account		Sundry Debtors	40,000
Previous year 1,000	25,000	Bank Balance	7,500
Current year 24,000		patents	2,500
		Preliminary exp	30,000
	3,25,000		3,25,000

7. (a) What do you mean by discounted cash flow techniques?
 (b) Explain NPV and probability index methods to full fill the requirements of time value money. [16]
8. Analyze the problems of the Govt. Company and suggest remedial measures for their improvement. [16]

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1. How does the analysis of demand contribute to business decision making? [16]
2. Discuss briefly different cost concepts relevant to managerial decision making. [16]
3. Distinguish between equilibrium price and market price. [16]
4. A company has two projects X and Y. Suggest which of the two projects should be accepted under NPU method assuming discount rate of 10%. [16]

	Project X	Project Y
Initial investment (Rs.)	80,000	1,20,000
Estimated Life	5 Years	5 Years
Scrap Value (Rs.)	4,000	8,000
Cash inflows year 1	24,000	70,000
2	36,000	50,000
3	14,000	24,000
4	10,000	8,000
5	8,000	8,000

5. What is the utility of demand forecasting? How is the demand for new products estimated? [16]
6. From the following assets and liabilities, calculate:
 - (a) Current ratio
 - (b) Acid test ratio
 - (c) Working capital ratio
 - (d) Stock to current asset ratio
 - (e) Cash ratio
 - (f) Interpret all the above ratios. [16]

Liabilities	Rs.	Assets	Rs.
Equality share capital	1,50,000	Fixed assets	2,00,000
Reserves	50,000	Accounts receivable	40,000
Sundry creditors	80,000	stock	60,000
Outstanding	1,20,000	Cash in hand	35,000
Expenses		Cash at bank	65,000
	4,00,000		4,00,000

7. From the following balances of Grewal prepare Trading A/c. Profit and Loss A/c for the year ending 31st December, 2001 and Balance Sheet as on that date:

Particulars	Amount	Particulars	Amount
Purchases	14,000	Commission Received	1,000
Sales	28,800	Debtors	5,000
Opening Stock	3,000	Salaries	4,800
Machinery	8,000	Insurance	1,200
Cash	2,000	Buildings	15,000
Creditors	1,500	Bills Payable	2,000
Wages	3,000	Furniture	500
Printing & Stationary	1,700	Interest received	800
Capital	25,000	Patents	4,000
Factory Rent	300	Bank overdraft	3,400

Adjustments:

(a) Closing stock Rs.5,500

(b) Outstanding Printing charges Rs.300.

[16]

8. What do you mean by LPG? Explain its Policies.

[16]

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1. How are ratios classified for the purpose of financial analysis? With assumed data illustrate any two types of ratios under each category. [16]
2. What are the laws of variable proportions? Explain the three laws of production. [16]
3. What is Monopoly? Discuss the price-output policy of a monopolist. [16]
4. What are the basic functions of business managers? How does economics help business Managers in performing their functions? [16]
5. Prepare a Trial Balance from the following accounting records: [16]

Particulars	Rs.
Capital	1,00,000
Machinery	30,000
Stock (1.1.200x)	16,000
Wages	50,000
Carriage inwards	500
Salaries	5,000
Factory rent	2,400
Repairs	400
Fuel and power	2,500
Buildings	40,000
Sundry Debtors	20,000
Sales	2,03,600
Purchases	1,22,000
Creditors	12,500
Returns outwards	2,000
Returns inwards	3,600
Drawings	2,000
Discounts allowed	750
Discounts received	250
Office expenses	1,000
Manufacturing expenses	600
Bills payable	8500
Bills receivable	5,000
Cash in hand	2,400
Cash at bank	15,400
Office Rent	1,800

6. (a) Discuss the factors that help in choosing a suitable form of business organization.
(b) Evaluate the Govt. Company form of Public enterprise. [16]
7. The financial manager of a company has to advise the board of directors on choosing between two Compelling project proposals which require an equal investment of Rs.1,00,000 and are expected to generate cash flows as under:

Year	Proposal - I (Rs.)	Proposal - II (Rs.)
1	48,000	20,000
2	32,000	24,000
3	20,000	36,000
4	Nil	48,000
5	24,000	16,000
6	12,000	8,000

Which project proposal should be recommended? and why? Assume the cost of capital to be 10% P.A. [16]

8. Which of the following commodities has the most inelastic demand and why?

- (a) Soap
(b) Salt
(c) Cigarettes
(d) Ice-cream [16]

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1. Explain the basic accounting concepts and convention. Give example. [16]
2. Managerial Economics is applied microeconomics. Elucidate. [16]
3. What do you understand by ARR Method? Explain its features and limitations. [16]
4. (a) Explain the need for public enterprise in India.
(b) What are the different types of public enterprises? [8+8]
5. Explain economies of scale. Distinguish between return to a factor and returns to a scale. [16]
6. Distinguish between slope and elasticity of demand curve. Find the relation between price and marginal revenue with reference to price elasticity of demand. [16]
7. Show that price is higher and output is smaller under monopoly compared to those under perfect competition. [16]
8. Explain the concept of 'Liquidity' and narrate its importance through suitable examples with some assumed data. [16]
