

II B.Tech II Semester Supplementary Examinations, Aug/Sep 2007
MANAGERIAL ECONOMICS AND FINANCIAL ANALYSIS
 (Common to Electrical & Electronic Engineering, Electronics &
 Instrumentation Engineering, Bio-Medical Engineering, Electronics &
 Control Engineering, Mechatronics and Bio-Technology)

Time: 3 hours

Max Marks: 80

Answer any FIVE Questions
All Questions carry equal marks

1. What is meant by Demand? Every one desires to own a Maruti car. Does this mean that the demand for Maruti car is large? If it is otherwise, how do you narrate? [16]
2. What are the needs for demand forecasting. Explain the various steps involved in demand forecasting. [16]
3. (a) "To reach Breach even position means to reach zero point" In the light of the above statement explain how output, cost and revenue relationship can be established.
 (b) What are its limitations?
 (c) Use suitable diagrams. [8+4+4]
4. (a) What are the salient features of Monopoly?
 (b) In what different aspects monopoly is distinct from perfect competition. [8+8]
5. "In the changing business environment the public sector enterprises should follow the principles of business" Is it true? [16]
6. Examine the following three project proposals and evaluate them based on
 (a) PBP Method
 (b) ARR Method. (ARR on original investment)

Initial Investment is Rs. 10,00,000/- each for all the three projects. [16]

Year	Cash inflows (Rs.)		
	Project-A	Project-B	Project-C
1.	5,00,000	6,00,000	2,00,000
2	5,00,000	2,00,000	2,00,000
3.	2,00,000	2,00,000	6,00,000
4	-	3,00,000	4,00,000

7. Give a brief account on the important records of Accounting under Double entry system and discuss briefly the scope of each. [16]

8. (a) From the following information, calculate [16]

- i. Debt ? Equity ratio
- ii. Current ratio

	Rs.		Rs.
Debentures	1,40,000	Bank balance	30,000
Long term loans	70,000	Sundry Debtors	70,000
General reserve	40,000		
Creditors	66,000		
Bills payable	14,000		
Share capital	1,20,000		

(b) Calculate Interest Coverage ratio from the following information.

	Rs.
Net profit after deducting interest and taxes	6,00,000
12% Debentures of the face value of	15,00,000
Amount provided towards taxation	1,20,000

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1. Explain the role of a Managerial Economist in a Business firm. [16]
2. Explain Income Elasticity of demand and its significance in making business decisions. [16]
3. (a) Draw a diagram of profit graph.
(b) You are required to calculate
 - i. Margin of Safety
 - ii. Sales
 - iii. Variable Cost from the Following figures: Fixed Costs Rs.12000, Profit, Rs.1000, Break-Even Sales=Rs.60000 [4+12]
4. (a) What are the features of monopolistic competitions?
(b) Explain the differences between monopolistic competition and perfect competition. [8+8]
5. (a) What are the different types of business organizations?
(b) What are the differences between proprietary and partnership business organizations? [8+8]
6. Prepare an estimate of working capital requirement from the following information of a trading company. [16]
 - (a) Projected annual sales - 1, 00, 000 units
 - (b) Selling Price - Rs. 8/- per unit
 - (c) % of net profit on sales - 25%
 - (d) Average credit period allowed to debtors - 8 weeks
 - (e) Average credit period allowed by creditors ? 4 weeks
 - (f) Average stock holding in - 12 weeks
terms of sales requirement
Allow 10% for contingencies

7. Explain the purpose of preparing the following accounts/statements and also elaborate the various items that appear in each of them. [16]
- (a) Trading Account
 - (b) Profit & Loss Account
 - (c) Balance Sheet.
8. Discuss the importance of Ratio Analysis for inter firm and intra-firm comparison, including circumstances responsible for its limitations, if any. [16]

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1. Define Managerial Economics. Explain its nature and scope. [16]
2. (a) What is meant by Elasticity of demand.
 (b) Determine price elasticity of demand given that the quantity demanded of a product is 1000 units when the price is Rs. 100 and when the price declines to Rs.70, demand increases to 1100 units. [8+8]
3. (a) Discuss the role and importance of cost analysis in managerial decisions.
 (b) How does the average cost vary during short run and long run periods? [8+8]
4. (a) Define Market and explain how markets are classified?
 (b) What are the important features in any market structure? [12+4]
5. (a) What are the characteristics of a business unit?
 (b) What are the characteristic features of a sole trader form of organization? [8+8]
6. Calculate the Net present value (NPV) of the two projects X and Y. Suggest which of the two projects should be accepted assuming a discount rate of 10%. [16]

Item	Project - A	Project ? B
Initial Investment	Rs. 80,000-00	Rs. 1,20,000-00
Life Period	5 Years	5 Years
Scrap value	Rs. 4000-00	Rs. 8000-00
<i>(Annual cash Inflows)</i>		
Year : 1	24,000-00	70,000-00
2	36,000-00	50,000-00
3	14,000-00	24,000-00
4	10,000-00	8,000-00
5	8,000-00	8,000-00

7. Explain the following concepts and illustrate their treatment with imaginary data. [16]
 - (a) Depreciation

- (b) Prepaid expenses
 (c) Reserve for bad and doubtful debts
 (d) Income received in advance.

8. Compute the following ratios.

- (a) Calculate Earnings Per share

	Rs.
Net profit before preferential dividend	1,15,000
Equity share capital (40,000 shares of Rs.100 each)	4,00,000
12 ¹ / ₂ % preference share capital	2,00,000

- (b) Calculate Debtor ? Turnover ratio

Total sales for the year	Rs.1,75,000
Cash sales 25% of total sales	
Sales returns out of credit sales	Rs.10,000
Sundry Debtors ? Opening balance	Rs. 8,000
Sundry Debtors - Closing balance	Rs.12,000

- (c) Calculate interest coverage ratio

	Rs.
Net profit after deducting Interest and Tax	6,00,000
12% Debentures of the face value of	15,00,000
Provision for taxation	1,20,000

- (d) A company has current ratio of 3:1 and Quick ratio of 1:2. If the Working Capital is Rs. 1,80,000, calculate Current liabilities and Stock. [4+4+4+4]

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1. Discuss the importance of Managerial Economics in decision-making. [16]
2. What is meant by Elasticity of demand. How do you measure it? [16]
3. Explain the following concepts and point out their relevance in managerial decisions. [16]
 - (a) Opportunity cost
 - (b) Marginal cost
 - (c) Contribution margin
 - (d) Margin of safety
4. (a) Explain in detail, the important features of perfect competition.
(b) How can a competitor attain equilibrium position under conditions of perfect competition? [8+8]
5. What are the objectives behind starting public sector enterprises in the country? To what extent have they fulfilled these objectives. [16]
6. (a) What is the importance of Capital budgeting?
(b) How do the discounting models differ from non-discounting models? [6+10]
7. Explain the following adjustments and illustrate suitably with assumed data. [16]
 - (a) Closing stock
 - (b) outstanding expenses
 - (c) Prepaid Income
 - (d) Bad debts.
8. (a) From the following information, calculate [16]
 - i. Debt ? Equity ratio
 - ii. Current ratio

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