

**II B. Tech I Semester Regular Examinations, Dec - 2015**  
**MANAGERIAL ECONOMICS AND FINANCIAL ANALYSIS**  
 (Com. to ME, ECE, CSE, IT, ECC, MTE)

Time: 3 hours

Max. Marks: 70

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

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**PART -A**

1. a) Identify nature of managerial economics through its definitions (4M)
- b) Identify formula for any one method of measuring demand elasticity and describe variables used in it. (4M)
- c) What are the uses of Cobb-Douglas production functions and where it can be applicable? (4M)
- d) What are the different phases in business cycle and explain with the help of graph (4M)
- e) Explain the convention of "Conservatism" in accounting (3M)
- f) What is IRR and identify suitable formula for Internal Rate of Return (3M)

**PART -B**

2. a) What is the importance and uses of Managerial Economics to Engineers? How can use these concepts to Manufacturing Sector? (8M)
- b) What are the objectives & uses of demand forecasting? How do you predict demand for Steel Manufacturing? (8M)
3. a) List different internal & external economies of scale of for Chemicals Production Units like Ranbaxy Labs Ltd. & Dr. Reddy Labs Ltd.? (8M)
- b) Determine BEP, P/V Ratio and Sales level for a profit of Rs.15.00 Lakhs, if Fixed Cost is Rs.25.00 Lakhs, Sales is Rs.175.00 Lakhs and Variable Cost is Rs.170.00 Lakhs. (8M)
4. a) Differentiate features Monopolistic & Oligopolistic Markets (8M)
- b) Explain in detail different stages of business life cycle, how recessionary trends influence Capital Goods Sector? (8M)
5. a) What is a Business Cycle and explain different stages of business cycle? (8M)
- b) Differentiate Memorandum & Articles of Association? (8M)

6. a) Journalise following transactions in the Books of M/S. Telugunadu Industries Ltd., for the month of Oct-15 (8M)

| Date       | Transaction Description                          | Amount Rs.  |
|------------|--------------------------------------------------|-------------|
| 01-10-2015 | Business Commenced with Cash                     | 5,00,000/-  |
| 03-10-2015 | Deposited in Costal Andhra Bank                  | 3,00,000/-  |
| 07-10-2015 | Purchased Goods from M/s. LCB Ltd.               | 25,00,000/- |
| 09-10-2015 | Sold Goods to M/s. ANL Ltd.                      | 50,00,000/- |
| 15-10-2015 | Purchased Motor Vehicle from M/s.TML Ltd.        | 10,00,000/- |
| 21-10-2015 | Purchased Office Furniture from M/s. Godrej Ltd. | 2,00,000/-  |
| 30-10-2015 | Withdrawn Cash for office purpose                | 1,00,000/-  |
| 31-10-2015 | Paid Salaries & Rent in Cash                     | 75,000/-    |

- b) Determine Current Ratio, Quick Ratio, Cash Ratio & Working Capital Ratios (8M) with the help of following information:

| Description                            | Amount Rs.  |
|----------------------------------------|-------------|
| Cash & Bank Balances                   | 11,50,000/- |
| Marketable Securities                  | 5,00,000/-  |
| Prepaid Expenses                       | 1,50,000/   |
| Outstanding Expenses                   | 2,25,000/   |
| Short Term Investments & Term Deposits | 8,00,000/   |
| Debtors & Bills Receivables            | 25,00,000/  |
| Creditors & Bills payables             | 10,00,000/  |
| Provision for Divided & Taxation       | 1,45,000/   |
| Short Term Bank Loans                  | 4,00,000/   |
| Inventory                              | 2,75,000/   |

7. a) Compare merits & demerits of Pay Back Period & Accounting Rate of Return Methods (8M)

- b) Determine Accounting Rate of Return(ARR) for the following two projects, if Company follows Straight Line Method of Depreciation and consider scrap value (8M)

| Description                | Project-A     | Project-B     |
|----------------------------|---------------|---------------|
|                            | Cash Flow Rs. | Cash Flow Rs. |
| Initial Cost of Investment | 125000        | 150000        |
| I Year                     | 35000         | 45000         |
| II Year                    | 40000         | 55000         |
| III Year                   | 45000         | 40000         |
| IV Year                    | 50000         | 65000         |
| V Year                     | 20000         | 35000         |
| Salvage Value              | 20000         | 25000         |

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**PART -A**

1. a) Identify different scope areas of managerial economics? (4M)
- b) Compare Point & Arc Elasticity of Demand (4M)
- c) Explain Law of Variable Proportion? (4M)
- d) List various features of Joint Stock Company. (4M)
- e) Compare the convention of "Consistency & Full Disclosure" in accounting (3M)
- f) List & identify formula for Net Present Value & Profitability Index (3M)

**PART -B**

2. a) What is the law of Demand? What are the different factors influencing Demand? (8M)
- b) What are the objectives & uses of elasticity demand? Differentiate Promotional & Cross Elasticity of demand? (8M)
3. a) Explain the law of diminishing marginal utility with the help of suitable graph under different stages of return of scale? (8M)
- b) Determine BEP, P/V Ratio and Sales level for a profit of Rs.25.00 Lakhs, if Fixed Cost is Rs.15.00 Lakhs, Sales is Rs.190.00 Lakhs and Variable Cost is Rs.180.00 Lakhs. (8M)
4. a) Differentiate features Perfect & Monopoly Markets (8M)
- b) List different methods of pricing and explain any four of them in detail. (8M)
5. a) Compare features & limitations of Partnership to that of Sole Trader form of business. (8M)
- b) Differentiate features of Private Limited Company to that of Public Limited Company? (8M)

6. a) Prepare Three Column Cash Book following transactions in the Books of M/s. (8M)  
Mahanadu Manufacturers Ltd., for the month of Oct-15

| Date       | Transaction Description                                                                                      | Amount Rs.  |
|------------|--------------------------------------------------------------------------------------------------------------|-------------|
| 01-10-2015 | Opening Balance of Cash                                                                                      | 5,00,000/-  |
| 03-10-2015 | Costal Andhra Bank Balance                                                                                   | 3,00,000/-  |
| 07-10-2015 | Purchased Goods from M/s. LCB Ltd. on Credit                                                                 | 25,00,000/- |
| 09-10-2015 | Sold Goods to M/s. ANL Ltd. on Credit                                                                        | 50,00,000/- |
| 11-10-2015 | Received a bank cheque from M/s. ANL Ltd & requested for a discount of Rs. 1.00 Lakh accepted                | 49,00,000/- |
| 13-10-2015 | Paid to M/s, LCB Ltd                                                                                         | 10,00,000/- |
| 15-10-2015 | Purchased Motor Vehicle from M/s.TML Ltd. for Rs. 10,50,000/- Paid Down Payment of Rs. 50,000/- through Bank | 10,50,000/- |
| 21-10-2015 | Purchased Office Furniture from M/s. Godrej Ltd. and paid through bank                                       | 1,00,000/-  |
| 25-10-2015 | Withdrawn Cash for office purpose                                                                            | 1,00,000/-  |
| 28-10-2015 | Paid Salaries & Rent in Cash                                                                                 | 75,000/-    |
| 30-10-2015 | Interest payable                                                                                             | 50,000/-    |
| 31-10-2015 | Income Tax Payable                                                                                           | 3,00,000/-  |

- b) Determine Debt-Equity Ratio, Proprietary Ratio and Funds Proportion Ratios (8M) with the help of following information:

| Description                             | Amount Rs.  |
|-----------------------------------------|-------------|
| Equity Capital                          | 10,00,000/- |
| Profit & Loss A/C(Profit)               | 5,00,000/-  |
| Reserves & Surplus                      | 3,00,000/   |
| Premium on Issue of Shares & Debentures | 2,50,000/   |
| Debentures                              | 30,00,000/  |
| Long Term Fixed Deposits Accepted       | 5,00,000/   |
| Long Term Bank Loans                    | 15,00,000/  |
| Provision for Divided & Taxation        | 1,50,000/   |
| Short Term Bank Loans                   | 5,00,000/   |
| Fixed Assets                            | 45,75,000/  |

7. a) Compare merits & demerits of Net Present Value Method & Internal Rate of Return Methods (8M)

- b) Determine NPV, Profitability Index and Internal Rate of Return(IRR) for the following project. (8M)

| Description                | Project-A<br>Cash Flow Rs. | PV Factor<br>15% | PV Factor<br>20% |
|----------------------------|----------------------------|------------------|------------------|
| Initial Cost of Investment | 225000                     | 1.000            | 1.000            |
| I Year                     | 55000                      | 0.870            | 0.833            |
| II Year                    | 45000                      | 0.756            | 0.694            |
| III Year                   | 75000                      | 0.658            | 0.579            |
| IV Year                    | 58000                      | 0.572            | 0.482            |
| V Year                     | 29000                      | 0.497            | 0.402            |
| Salvage Value              | 24000                      | 0.497            | 0.402            |

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**PART -A**

1. a) Differentiate Producer Durable & Non Durable and Consumer Durable & Non Durable Goods Demand? (4M)
- b) How demand is forecasted through method of least squares method? (4M)
- c) Explain Returns to Scale with the help of graph? (4M)
- d) List various features of Departmental Type of Undertaking. (4M)
- e) List & explain various functions of accounting (3M)
- f) List & explain various steps involved in Capital Budgeting (3M)

**PART -B**

2. a) What are different distinctions of Demand? (8M)
  - b) What is price elasticity of demand? Explain Relatively Elastic, Relatively Inelastic, Unity Elastic. (8M)
  3. a) Explain the least cost input output combinations with suitable graphs? (8M)
  - b) Determine P/V Ratio, Fixed Cost and BEP with the help of following information: (8M)
- | Description       | 2014-15 | 2015-16 |
|-------------------|---------|---------|
| Sales(Rs. Lakhs)  | 10.00   | 50.00   |
| Profit(Rs. Lakhs) | 2.50    | 22.50   |
4. a) How Price & Output determined under Perfect Competition in Short Run for Industry & Firm? Explain with the help of graphs. (8M)
  - b) What are the objectives and situation behind pricing strategies and explain cost based pricing methods. (8M)
  5. a) Compare Objectives, features & limitations of Co-operative type of organisation. (8M)
  - b) What are the objectives & limitations of state enterprises? (8M)

6. a) Prepare Three Column Cash Book following transactions in the Books of M/s. Indo-Japan Consultants Ltd., for the month of Oct-15 (8M)

| Date       | Transaction Description                                                | Amount Rs.  |
|------------|------------------------------------------------------------------------|-------------|
| 01-10-2015 | Opening Balance of Cash                                                | 15,00,000/- |
| 04-10-2015 | Rayalaseema Bank Balance                                               | 30,00,000/- |
| 05-10-2015 | Purchased Goods on Credit                                              | 20,00,000/- |
| 10-10-2015 | Sold Goods on Credit                                                   | 50,00,000/- |
| 12-10-2015 | Received a bank cheque from Mr. Srinivas                               | 40,00,000/- |
| 14-10-2015 | Paid to M/s, LCB Ltd                                                   | 10,00,000/- |
| 16-10-2015 | Purchased Motor Vehicle from M/s.SML Paid Down Payment through cash    | 1,50,000/-  |
| 18-10-2015 | Purchased Office Furniture from M/s. Godrej Ltd. and paid through bank | 1,50,000/-  |
| 20-10-2015 | Withdrawn Cash for office purpose                                      | 4,00,000/-  |
| 22-10-2015 | Paid Salaries & Wages through Bank                                     | 2,75,000/-  |
| 24-10-2015 | Interest credited in bank                                              | 50,000/-    |
| 26-10-2015 | Income Tax Paid                                                        | 2,00,000/-  |
| 28-10-2015 | Deposited Cash in Bank                                                 | 25,000/-    |
| 30-10-2015 | Received cheque from Mr. Pullarao                                      | 2,50,000/-  |

- b) Determine Interest Coverage and equity Ratio and Debt Ratio with the help of following information: (8M)

| Description                                                           | Amount Rs.  |
|-----------------------------------------------------------------------|-------------|
| EBIT                                                                  | 50,00,000/- |
| Taxation                                                              | 50%         |
| Long Term Institutional Loans( Repayable 5 Years) and 10% Interest    | 10,00,000/  |
| 5 Years 12% Debentures                                                | 50,00,000/  |
| Long Term Bank Working Capital Loan for 5 Years at an interest of 30% | 15,00,000/- |

7. a) How do you estimate cash flow? Compare merits & demerits of traditional methods & DCF methods. (8M)

- b) Determine NPV, Profitability Index and Internal Rate of Return(IRR) for the following project. (8M)

| Description                | Project-A<br>Cash Flow Rs. | PV Factor<br>15% | PV Factor<br>20% |
|----------------------------|----------------------------|------------------|------------------|
| Initial Cost of Investment | 900000                     | 1.000            | 1.000            |
| I Year                     | 350000                     | 0.870            | 0.833            |
| II Year                    | 400000                     | 0.756            | 0.694            |
| III Year                   | 245000                     | 0.658            | 0.579            |
| IV Year                    | 350000                     | 0.572            | 0.482            |
| V Year                     | 220000                     | 0.497            | 0.402            |
| Salvage Value              | 120000                     | 0.497            | 0.402            |

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**PART -A**

1. a) How knowledge of Economics, Management and Operations Research helpful in decision making? (4M)
- b) List qualitative methods of demand forecasting and explain opinion poll methods? (4M)
- c) Identify properties of Iso-Product Curves with the help of graph? (4M)
- d) Differentiate Privatisation & Liberlisation concepts. (4M)
- e) List & explain different types of errors in preparation of trial balance. (3M)
- f) Nature of Capital Budgeting Project Decisions (3M)

**PART -B**

2. a) Explain law of Demand & Limitations with the help of graph? Also list different factors influencing demand. (8M)
- b) Compare price, income, promotional & cross elasticity of demand? (8M)
3. a) What is a production function? Explain different types of Short & Long Run Production Function? (8M)
- b) Determine P/V Ratio, Fixed Cost and BEP with the help of following information: (8M)
 

| Description       | 2014-15 | 2015-16 |
|-------------------|---------|---------|
| Sales(Rs. Lakhs)  | 20.00   | 50.00   |
| Profit(Rs. Lakhs) | 5.00    | 10.00   |
4. a) How Price & Output determined under Perfect Competition in long Run for Industry & Firm? Explain with the help of graphs. (8M)
- b) What are the objectives and situation behind pricing strategies and explain cost based pricing methods. (8M)
5. a) Compare Objectives, features & limitations of Cooperatives. (8M)
- b) What are the objectives & limitations of state enterprises? (8M)

6. a) Journalise following transactions in the Books of M/s. Indo-Malasian (8M) Constructions Ltd., for the month of Oct-15

| Date       | Transaction Description                                               | Amount Rs.  |
|------------|-----------------------------------------------------------------------|-------------|
| 01-10-2015 | Business commenced with Cash                                          | 15,00,000/- |
| 03-10-2015 | Deposited Indo-Malaysian Bank                                         | 10,00,000/- |
| 07-10-2015 | Purchased Goods on Credit from M/s. Isuzu & Co.                       | 25,00,000/- |
| 10-10-2015 | Sold Goods on Credit to M/s. GMRIFL                                   | 30,00,000/- |
| 11-10-2015 | Received a bank cheque from M/s. GMRIFL on Account                    | 20,00,000/- |
| 15-10-2015 | Paid to M/s, Isuzu & Con On Account                                   | 12,00,000/- |
| 16-10-2015 | Purchased Motor Vehicle from M/s.MML                                  | 12,00,000/- |
| 17-10-2015 | Purchased Office Furniture from M/s. Tumbi Ltd. and paid through bank | 1,00,000/-  |
| 25-10-2015 | Withdrawn Cash for office purpose                                     | 1,00,000/-  |
| 29-10-2015 | Paid Salaries & Wages though cash                                     | 75,000/-    |
| 29-10-2015 | Interest credited in bank                                             | 2,50,000/-  |
| 30-10-2015 | Paid Freight through bank                                             | 1,00,000/-  |
| 30-10-2015 | Deposited Cash in Bank                                                | 1,25,000/-  |
| 31-10-2015 | Paid Rent through bank cheque to Mr. Umamaheswar Rao                  | 50,000/-    |

- b) Determine Stock Velocity & Debtors Velocity with the help of following (8M) information:

|                                      |             |
|--------------------------------------|-------------|
| Description                          |             |
| Opening Balance of Stock             | 5,00,000/-  |
| Opening Balance of Debtors           | 15,00,000/- |
| Opening Balance of Bills Receivables | 4,00,000/   |
| Closing Balance of Stock             | 2,00,000/   |
| Closing Balance of Debtors           | 25,00,000/- |
| Closing Balance of Bills Receivables | 8,00,000/-  |
| Sales                                | 40,00,000/- |
| Gross Profit                         | 20%         |
| Credit Sales                         | 60%         |
| Days in a Year                       | 360         |

7. a) What are the different Methods of evaluating capital budgeting projects? (8M)  
 b) Determine Pay Back Period and Internal Rate of Return (IRR) for the following project. (8M)

| Description                | Project-A | PV Factor | PV Factor |
|----------------------------|-----------|-----------|-----------|
| Cash Flow Rs.              |           | 12%       | 20%       |
| Initial Cost of Investment | 1000000   | 1.000     | 1.000     |
| I Year                     | 250000    | 0.893     | 0.833     |
| II Year                    | 350000    | 0.797     | 0.694     |
| III Year                   | 200000    | 0.712     | 0.579     |
| IV Year                    | 450000    | 0.636     | 0.482     |
| V Year                     | 250000    | 0.567     | 0.402     |
| Salvage Value              | 150000    | 0.567     | 0.402     |