4CS1-03. Managerial Economics And financial Accounting (18EJICS177) Vaibhav Saran (1).

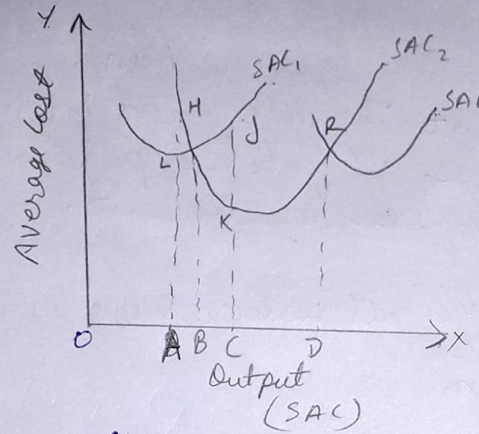
SET-4

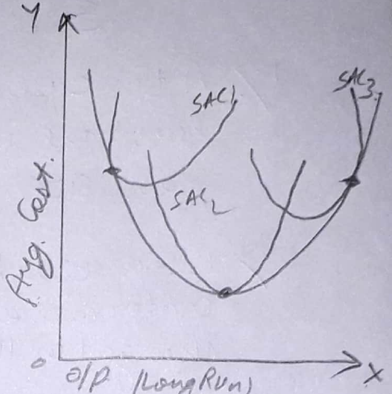
Q1

	Short Run.	Long Run.
1.)	A time period when at least one input, such as plant size, can't be changed	The time period in which all factors of production can be different.
2.)	Resources like labour, raw materials etc. can be changed in the short run.	All resources are fixed.
3.)	The decisions can easily be reversed.	The decisions made cannot be reversed easily.
4.)	The costs have fixed factors and variables that impact production.	The costs have no fixed factors of production.
5.)	It is demand with its immediate reaction to price changes, income fluctuations and so on.	In this demand will ultimately exist as a result of the changes in pricing, promotion etc. after enough time is allowed to let the market adjust itself to the given solution.

(18EJICS177). Vaibhav Saran

Lets consider 3 short run average cost curves (SACs) as shown below.





In The short run, a firm can operate on any SAC, given the size of plant. We assume that there are only 3 plants technically possible; Therefore the firm increases or decreases its outputs by changing the amount of the variable inputs. In the long run, the firm examines each SAC to find the curve that allows it to produce a given level of output at minimum cost. from above fig. to generate OB amount of output firm will choose SAC_1 due to lower cost than SAC_2

Also, say to produce an output OA it costs

→ AL per unit SAC_1

→ AH per unit SAC_2

∴ firm chooses SAC_1 (AL < AH).

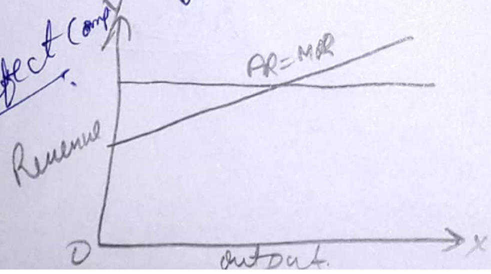
(18EJICS177) Vaibhav Saran (3)

Q2 A firm is said to be in equilibrium when it has no incentive either to expand or to contract its output. A firm would not like to change its level of output only when it is earning maximum money profile. hence making a max profit on incurring a minimum loss in an important condition of firms equilibrium.

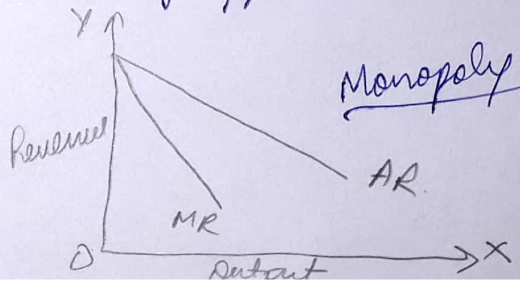
An Industry is in equilibrium in the short run when its total output remains steady there being no tendancy to expand or contract its output. For full equilibrium of the industry in the Short run, all forms must be earning only normal profits.

Only similarity b/w the two, that a firm under both perfect competition and monopoly is in equilibrium at the level of output at which marginal revenue equals marginal cost; consequent under monopoly, average revenue is greater than marginal revenue at all levels of o/p.

Perfect Comp.



Monopoly Comp.



(18EJICS177) Vaibhav Saran ④

Q3 (i) The contribution earned by XYZ Ltd. = ₹ 2,00,000/-

Net profit = ₹ 1,50,000/-.

Sales = ₹ 8,00,000.

The. PV ratio (Profit / Volume ratio) = $\frac{\text{Contribution}}{\text{Sales}} \times 100\%$

$= \frac{\cancel{2,00,000}}{\cancel{8,00,000}} \times 100 = 25\%$.

margin of safety is expressed as the ratio of profit & PV ratio

∴ margin of safety = $\frac{1,50,000}{25} \times 100$ = ₹ 6,00,000.

Hence the margin of safety is ₹ 6,00,000.

Ans.

(18EJKCS177) Vaibhav Saran 5

(ii) A cash flow statement is a financial statement that provides aggregate data regarding all cash inflows a company recieves from its ongoing operations and external investment sources. It also includes all cash outflows that pay for business activities & investments during a given period.

A sources and use of cash schedule gives a summary of where capital will come from and what the capital will be spent on in a corperate finance transaction.

Eg

Sources of Cash		Uses of Cash	
Senior debt	₹ 10,000,000	→ Purchase target company equity	₹ 20,000,000
Sub debt	₹ 5,000,000.	→ Transaction fees	₹ 5,00,000
Common equity	₹ 20,000,000		
Total.	₹ 35,000,000.	Total.	₹ 20,500,000

(18EJICS177) Vaibhav Saran

Q4 financial Statement analysis involves gaining an understanding of an organization's financial situation by reviewing its financial reports. The results can be used to make investment and lending decisions. ~~This review~~

Methods of financial. Statement Analysis:

1.) Use of Horizontal & vertical Analysis: Horizontal analysis is the comparision of financial information over a series of reporting periods, while vertical analysis is the proportional analysis of a financial statement where each line item on a financial statement is listed as a percentage of another item. Typically this means that every line item on an income statement is stated as a percentage of gross sales while every line item on a balance sheet is stated as a percentage of total assets.

2.) Using Ratios: Ratios are used to calculate the relative size of one number in relation to another.

(18ESICS177) Vaibhav Saran

7

Some of them are:

1.) Liquidity Ratio

2.) Activity Ratio.

3.) Leverage Ratio

4.) Profitability Ratio

After calculating ratio, they can be compared to ratio of prior period to see if the firm/company is performing according to expectations.

Q5.

Trading Account of ~~Sara~~ Saraswati Traders

To	opening stock.	180800	By sales.	5,80,000
To	purchases.	393300	By closing stock	1,80,000
To	Carriage Inward.	10500.		
To	Wages	30400.		
To	depreciation	500		
To	Con. Ree.	10500.		
To	Gross profit	14500		
		760000.		760000.

$$\text{Gross profit ratio} = \frac{\text{Gross profit}}{\text{net sales}} \times 100$$

Gross profit = Net sales − COGS

Cost of goods sold = O.S + Pur. + Dir. Exp. − C.S.T.

$$\text{Gross Profit / Bal} = \frac{5,80,000 - 4,35,000}{5,80,000} \times 100 = 25.003\%$$