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08MBAFM425

Fourth Semester MBA Degree Examination, December 2010

Project Appraisal, Planning and Control

Time: 3 hrs. Max. Marks:100

Note: ***1. Answer any FOUR full questions from Q No. 1 to Q No. 7.***
2. Question No. 8 is compulsory.

1 a. What is capital expenditure? **(03 Marks)**

b. Explain the portfolio analysis according to BCG matrix. **(07 Marks)**

c. A company is considering two mutually exclusive investments, project X and project Y. The expected cash flows of these projects are as follows :

Year	Project X	Project Y
0	(5,000)	(2,500)
1	(2,500)	800
2	300	1,000
3	2,000	2,000
4	5,000	2,000
5	6,000	1,500

Which project should it choose if the cost of capital is 15 percent? 45 percent? **(10 Marks)**

2 a. What do you mean by feasible normal capacity? **(03 Marks)**

b. Explain the steps involved in capital budgeting process. **(07 Marks)**

c. Ultra Ltd. is evaluating different dates for investing in a project. The discount rate applicable to the project is 12%. Determine the optimal timing of the project considering the following, net future value for various dates.

Time (years)	Value (millions)	PVIF	Time (years)	Value (millions)	PVIF
0	10	1.000	3	23	0.712
1	15	0.893	4	26	0.636
2	19	0.797	–	–	–

(10 Marks)

3 a. What is meant by work break down structure? **(03 Marks)**

b. Explain the sensitivity analysis method. **(07 Marks)**

c. The balance sheet of BPL enterprises at the end of year n (i.e. 31st March, 2010) is as follows :

Liabilities	Rs. (,000)	Assets		Rs. (,000)
Share capital	100	Fixed assets		180
Reserve and surplus	20	Investments		–
Secured loans	80	Current assets :		180
Unsecured loans	50	Cash	20	
Current liabilities	90	Receivable	80	
Provisions	20	Inventories	80	
	360			360

Important Note : 1. On completing your answers, compulsorily draw diagonal cross lines on the remaining blank pages.
2. Any revealing of identification, appeal to evaluator and /or equations written eg, 42+8 = 50, will be treated as malpractice.

The projected income statement and the distribution of earnings for the year n + 1 is given below : **(10 Marks)**

	Rs. (,000)		Rs. (,000)
Sales	400	Profit before tax	60
Cost of goods sold	300	Tax	30
Depreciation	20	Profit after tax	30
Profit before interest and taxes	80	Dividends	10
Interest	20	Retained earnings	20

During the year n + 1, the firm plans to save a secured term load of 20,000, repay a previous term loan to the extent of 5000, and increase unsecured loans by 10,000. Current liabilities and provisions are expected to remain unchanged. Further, the firm plans to acquire fixed assets worth 30,000 and increase its inventories by 10,000. Receivables are expected to increase by 15,000. Other assets would remain unchanged, excepting of course, cash. The firm plans to pay Rs. 10,000 by way of equity dividend. Given the above information, prepare the projected cash flow statement.

4 a. Define environmental impact assessment. **(03 Marks)**
b. Describe briefly the various means of financing of a project. **(07 Marks)**
c. A project has begun on 1st July 2010 and is expected to be completed by 31st December 2010. The project is being reviewed, on 30th September 2010, when the following information has been developed : **(10 Marks)**

Budgeted cost for work scheduled (BCWS)	Rs. 8,000,000
Budgeted cost for work performed (BCWP)	Rs. 4,600,000
Actual cost of work performed (ACWP)	Rs. 4,100,000
Budgeted cost for total work (BCTW)	Rs.11,000,000
Additional cost for completion (ACC)	Rs. 6,000,000

Determine the following : i) cost variance ii) schedule variance in cost terms, iii) cost.

5 a. List out the techniques of stand – alone risk analysis. **(03 Marks)**
b. Discuss the five stages of project appraisal in UNIDO method. **(07 Marks)**
c. What are the methods of raising equity capital? Explain each method briefly. **(10 Marks)**

6 a. What do you understand by social cost benefit analysis? **(03 Marks)**
b. What are the mistakes committed in financial analysis? **(07 Marks)**
c. What are the pre-requisites for successful project implementation? **(10 Marks)**

7 a. What is capital rationing? **(03 Marks)**
b. Describe the procedure involved in obtaining a term loan. **(07 Marks)**
c. Suppose a firm has a proposal requiring original investment of Rs. 2000 in a plant having economic life of 2 years. Cash flow and probabilities for 2 years are : **(10 Marks)**

1 year alternative	Cash-flows (Rs.)	Probability
1	800	0.3
11	1100	0.4
111	1500	0.3

II year : if cash flows in 1st year are :

Rs. 800		Rs. 1100		Rs. 1500	
Cash flows	Probability	Cash flows	Probability	Cash flows	Probability
I 400	0.2	1300	0.3	1600	0.1
II 1000	0.6	1500	0.4	2000	0.8
III 1500	0.2	1600	0.3	2400	0.1

Cost of capital is at 10%. Plot decision tree and suggest whether the proposal is to be accepted.

8 Rana Home appliances Ltd. is considering the manufacture of a new dishwasher B–10, for which the following information has been gathered. B-10 is expected to have a product life cycle of five years after which it will be withdrawn form the market. The sales from this product are expected to be as follows :

Year	1	2	3	4	5
Sales (Rs. in million)	800	950	1000	1200	1000

The capital equipment required for manufacturing B-10 costs Rs. 900 million and it will be depreciated at the rate of 25 percent per year as per the WDV method for tax purposes. The expected net salvage value after 5 years is Rs. 150 million. The working capital requirement for the project is expected to be 10% of the sales. Working capital level will be adjusted at the beginning of the year in relation to the sales for the year. At the end of five years, working capital is expected to be liquidated at par, barring an estimated loss of Rs. 5 million on account of bad debt, which of course, will be tax-deductible expense. The accountant of the firm has provided the following estimates for the cost of B-10.

Raw material cost	: 45 percent of sales
Variable management cost	: 15 percent of sales
Fixed annual operating and maintance costs	: Rs. 3 million
Variable selling expenses	: 10 percent of sales.

The tax rate for the firm is 30 percent.

a. Estimate the post-tax incremental cash flows for the project to manufacture B-10.
b. What is the NPV of the project if the cost of capital is 20 percent? **(20 Marks)**

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