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08MBAFM425

Fourth Semester MBA. Degree Examination, December 2011
Project Appraisal Planning and Control

Time: 3 hrs. Max. Marks:100

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

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.

1 a. What do you mean by conglomerate diversification? (03 Marks)
b. Explain the facets of project analysis. (07 Marks)
c. Mahesh Enterprises is considering a capital project about which the following information is available.
i) The investment outlay on the project will be Rs 100 million. This consists of Rs 80 million on plant and machinery and Rs 20 million on net working capital. The entire outlay will be incurred at the beginning of the project.
ii) The project will be financed with Rs 45 million of equity capital, Rs 5 million of preference capital and Rs 50 million of debt capital. Preference capital carry a dividend of 15% debt capital will carry an interest rate of 15%.
iii) The life of the project is expected to be 5 years. At the end of 5 years, fixed assets will fetch a net salvage value of Rs 30 million whereas net working capital will be liquidated at its book value.
iv) The project is expected to increase the revenues of the firm by Rs 120 million per year. The increase in costs on account of the project is expected to be Rs 80 million per year (including all items of cost other than depreciation, interest and tax). The effective tax rate will be 30 percent.
v) Plant and machinery will be depreciated at the rate of 25% per year as per the written down value method. Hence the depreciation charges will be
1st Year : Rs 20.00 million ; 2nd year : Rs 15.00 million ; 3rd year : Rs 11.25 million ; 4th year : Rs 8.44 million ; 5th year : Rs 6.33 million.
Show the project cash flow. (10 Marks)

2 a. What are the merits of sensitivity analysis? (03 Marks)
b. Explain the key steps in decision tree analysis. (07 Marks)
c. ABC Ltd is evaluating different dates for investing in a micro – electronics project. The discount rate applicable for the project is 12% and net future value for various dates is as follows :

Time	0	1	2	3	4
Net future value (Rs in million)	20	28	33	36	38

Calculate the current value and optimal timing of the project. (10 Marks)

3 a. What is separation principle? (03 Marks)
b. What are the advantages and disadvantages of the equity capital? (07 Marks)
c. Describe the various means of financing a project. (10 Marks)

4 a. What are the assumptions underlying a linear programming model? (03 Marks)
b. What are the principal sources of discrepancies, that need to be considered while undertaking SCBA? (07 Marks)

c. What are the factors that have a bearing on the choice of technology? **(10 Marks)**

5 a. What are pre-requisites for the successful implementation of a project? **(03 Marks)**
b. What are the components of market planning? **(07 Marks)**
c. A Ltd. Co. is considering investing in a project, requiring a capital outlay of Rs 2,00,000 Forecast for annual income after depreciation but before tax is as follows :

Year	1	2	3	4	5
Amount	1,00,000	1,00,000	80,000	80,000	40,000

Depreciation taken is 20% on original cost and taxation at 50% on the net income. You are required to evaluate the project, according to each of the following methods :
i) Pay back period ii) Rate of return on original investment method iii) Rate of return on average investment iv) Discounted cash flow method, taking the cost of capital as 10%. **(10 Marks)**

6 a. State the five stages in UNIDO method of project appraisal. **(03 Marks)**
b. Explain human aspects of project management. **(07 Marks)**
c. Discuss the administrative aspects of capital budgeting. **(10 Marks)**

7 a. What are the broad types of raw materials? **(03 Marks)**
b. Explain the poster model of profit potential of industry. **(07 Marks)**
c. A project was began on 1st January 2010 and was expected to be completed by 30th September 2010. The project is being reviewed on 30th June 2010 when the following information has been developed :
Budgeted cost for work scheduled (BCWS) Rs 15,00,000 ;
Budgeted cost for work performed (BCWP) Rs 14,00,000 ;
Actual cost of work performed (ACWP) Rs 16,00,000 ;
Budgeted cost for total work (BCTW) Rs 25,00,000 ;
Additional cost for compeletion (ACC) Rs 12,00,000.
Show the performance analysis of the project. Calculate cost variance, schedule variance in cost terms, cost performance and scheduled performance index. **(10 Marks)**

8 <u>CASE STUDY</u> :

Mohan Enterprises is determining the cash flow for a project involving replacement of an old machine by a new machine. The old machine bought a few years ago has book value of Rs 4,00,000 and it can be sold to realize a post tax salvage value of Rs 5,00,000. It has a remaining life of five years after which its net salvage value is expected to be Rs 1,60,000. It is being depreciated annually at a rate of 25% under the written down value method. The working capital required for the old machine is Rs 4,00,000. The new machine costs Rs 16,00,000. It is expected to fetch a net salvage of Rs 8,00,000 after 5 years when it will no longer be required. The depreciation rate applicable to it is 25% under the written down value method. The net working capital required for the new machine is Rs 5,00,000. The new machine is expected to bring a saving of Rs 3,00,000 annually in manufacturing costs (other than depreciation). The tax rate applicable to the firm is 40%. Show the cash flows for the replacement project. (Incremental after tax cash flows). **(20 Marks)**

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