05MBAFM425

USN

NEW SCHEME

Fourth Semester M.B.A. Degree Examination, July 2007
Business Administration
Project Appraisal, Planning and Control

Time: 3 hrs.] [Max. Marks:100

Note : *1. Answer any FOUR questions from Q.No1 to Q.No.7*
2. Question No.8 is compulsory.
3. Use of interest factor tables is allowed.

1 a. Describe the importance and difficulties of capital investment. **(03 Marks)**
b. Discuss the phases of capital budgeting. **(07 Marks)**
c. Explain the facets of project analysis. **(10 Marks)**

2 a. What are the three key criteria, which reflect the objective of maximizing wealth of shareholder? **(03 Marks)**
b. Discuss the various elementary investment options, which influence resource allocation strategy. **(07 Marks)**
c. Explain the SPACE approach and the various postures associated with it. **(10 Marks)**

3 a. Describe the important investment criteria. **(03 Marks)**
b. Discuss about the biases in cash flow estimation. **(07 Marks)**
c. Following information is given about revenue and cost for a company 'XYZ'. (Amount in Rs.)

	Year '0'	Year (1-10)
Investment	(20,000)	-
Sales	-	18000
Variable cost	(2/3 of sales)	12000
Fixed cost	-	1000
Depreciation	(10% fixed)	2000

i) Assuming that the cost of capital is 12% and tax rate @ 33.33%, calculate the NPV.
ii) Calculate the effect of variation in investment. Assume Investment under two situations i) Rs. 24000 ii) Rs. 18000.
iii) Assuming equal probability of all the three investment amounts what is the risk of the project in term of standard deviation of NPV? **(10 Marks)**

4 a. What are the pros and cons of sensitivity analysis? **(03 Marks)**
b. Discuss the different ways of managing the project related risks. **(07 Marks)**
c. A project requires Rs 5 million investment. The expected costs generation is Rs.1 million per year for 8 years. The opportunity cost is 15% p.a. The cost of issuing equity is 5%. The project enables to raise Rs. 2.4 million debt at an interest rate of 14% p.a. The debt will be paid in 8 equal annual installments at the end of each year. Tax rate is 40%. Calculate i) Base case NPV ii) Adjusted Net Present Value (APV). **(10 Marks)**

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5 a. What are the sources of discrepancy between social cost and benefits of a project and monetary cost and benefits of the project? **(03 Marks)**

b. Discuss the five stages of project appraisal in UNIDO method. **(07 Marks)**

c. Describe the key steps in the public investment decision making process in India. **(10 Marks)**

6 a. What are the various methods of demand forecasting? **(03 Marks)**

b. Discuss the properties of NPV rule. **(07 Marks)**

c. Following information is available about a project. Initial investment outlay Rs. 100 lacs, consisting of Rs. 80 lacs on plant and machinery and Rs. 20 lacs on net working capital. Life of the project is 5 years. Net salvage value on fixed assets at the end of 5 years is Rs 30 lacs. Net working capital will be liquidated at book value. The incremental revenue from the project is Rs 120 lacs per year. Increase in cost is Rs. 80 lacs per year. [Excluding depreciation, interest and tax]. The tax rate applicable is 30%. Plant and Machinery will be depreciated at 25% p.a. on WDV basis. Calculate and show the projected cash flow of the project. **(10 Marks)**

7 a. Describe the features of 'term loan'. **(03 Marks)**

b. Discuss the procedures associated with availing term loan. **(07 Marks)**

c. Explain the pre requisites for successful project implementation. **(10 Marks)**

8 CASE STUDY :

A project consists of 6 activities and their time estimates are given below. (time in weeks)

Activity	t_o	t_m	t_p
1 – 2	9	12	21
1 – 3	6	12	18
2 – 4	1	1.5	5
3 – 4	4	8.5	10
2 – 5	10	14	24
4 - 5	1	2	3

a. Draw the network diagram showing the details.

b. Calculate the event slack and determine critical path.

c. Calculate activity floats.

d. Find the standard deviation of critical path duration. **(20 Marks)**

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