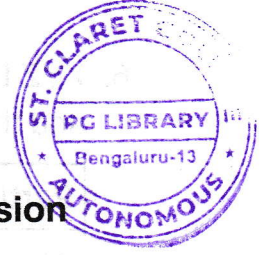




PG – 1420

2
IV Semester M.B.A. (Day and Eve.) Examination,
December 2024/January 2025
(CBCS) (2022-23 and Onwards)
MANAGEMENT

**Paper – 4.2.1 : Financial Techniques for Strategic Decision
Making (Finance)**



Time : 3 Hours

Max. Marks : 70

SECTION – A

Answer **any five** questions. **Each** question carries **5** marks.

(5×5=25)

1. State the reasons for considering Risks in Capital Budgeting Decisions.
2. What is Cost Reduction ? State the Techniques of Cost Reduction.
3. Write a short note on 'Activity Based Costing'.
4. Discuss in brief different Pricing Methods.
5. XYZ Ltd. provides you with the following financial information as on 31/03/2022.

	Rs. in lakhs
Share Capital	490.73
Reserves and Surplus	656.83
Long term debt	72.22
Trade payables	10.19

Additional information :

- i) PBIT is Rs. 1101.42 lakhs
- ii) Interest paid Rs. 6.74 lakhs
- iii) Tax rate is 30%
- iv) Cost of equity = 12.42% and cost of debt = 6.53%

Calculate economic value added to XYZ Ltd.

P.T.O.



6. XYZ Ltd. is considering a project "A" with an initial outlay of Rs.14,00,000 and the possible three cash inflow attached with the project as follows :

Particulars	Year 1	Year 2	Year 3
Worst Case	450	400	700
Most likely	550	450	800
Best case	650	500	900

Assuming the cost of capital as 9%, determine NPV in each scenario. If XYZ Ltd. is certain about the most likely result in first two years but uncertain about the third year's cash flow, analyse what will be the NPV expecting worst scenario in the third year.

7. MNL Limited is considering investment in one of two mutually exclusive projects: AB and BC. The company's cost of capital is 15% and risk-free interest rate is 10%. The income-tax rate for the company is 30%. MNL has gathered the following basic cash flows and risk index data for each project :

Projects	AB	BC
Initial Investment	Rs. 12,00,000	Rs. 10,00,000
Cash Flows	Rs.	Rs.
Year 1	5,00,000	5,00,000
Year 2	5,00,000	4,00,000
Year 3	5,00,000	5,00,000
Year 4	5,00,000	3,00,000
Risk Index	1.80	1.00

Using risk-adjusted Discount Rate, determine the risk-adjusted NPV for each of the project. Which project should be accepted by the company ?

SECTION – B

Answer **any three** questions. **Each** question carries **ten** marks. **(3×10=30)**

8. Explain the different techniques of Risk Analysis in Capital Budgeting.
9. What is Balanced Score Card ? Explain the 4 dimensions of Balanced Score Card.



10. XYZ Ltd. has under its consideration a project with an initial investment of Rs. 1,00,000. Three possible cash inflow scenarios with their probabilities of occurrence have been estimated as below :

Annual Cash flow in Rs.	20,000	30,000	40,000
Probability	0.1	0.7	0.2

The project life is 5 years and the desired rate of return is 20%. The estimated terminal values for the project assets under the three probability alternatives, are respectively Rs. 0, Rs. 20,000 and Rs. 30,000.

You are required to :

- Find the probable NPV.
 - Find the worst-use NPV and the best-case NPV.
 - State the probability occurrence of the worst case, if the cash flows are perfectly positively correlated over time.
11. Catalyst Ltd. makes a single product with the following details :

Description	Current Situation	Proposed Change
Selling price (Rs./unit)	10	
Direct costs (Rs./unit)	5	
Present number of setups per production period, (before each production run, setup is done)	42	
Cost per set up (Rs.)	450	Decrease by Rs. 90
Production units per run	960	1,008
Engineering hours for production period	500	422
Cost per engineering hour(Rs.)	10	

The company has begun Activity Based Costing of fixed costs and has presently identified two cost drivers, viz. production runs and engineering hours. Of the total fixed costs presently at Rs. 96,000, after the above Rs.72,100 remains to



be analyzed. There are changes as proposed above for the next production period for the same volume of output.

Required

- i) Compute units and production runs Catalyst Ltd. should produce in the changed scenario for break-even.
- ii) Suggest whether Catalyst Ltd. should continue to break up the remaining fixed costs into activity-based costs.

SECTION – C

12. Compulsory Question.

(1×15=15)

XYZ Ltd. is considering a project for which the following estimates are available :

	Rs.
Initial Cost of the project	10,00,000
Sales price/unit	60
Cost/unit	40
Sales Volumes	
Year 1	20,000 units
Year 2	30,000 units
Year 3	30,000 units

Discount rate is 10% p.a.

You are required to measure the sensitivity of the project in relation to each of the following parameters :

- a) Sales Price/Unit
- b) Unit Cost
- c) Sales Volume
- d) Initial outlay and
- e) Project Lifetime

Taxation may be ignored.