

**KARACHI UNIVERSITY BUSINESS SCHOOL
UNIVERSITY OF KARACHI
FINAL EXAMINATION JUNE 2015; AFFILIATED COLLEGES
PROJECT & APPRAISAL; BA (M)-683
MBA – IV**

Date: June 27, 2015

Max Time: 3 Hrs
Max Marks: 60

INSTRUCTIONS:

1. Attempt 4 questions, where Q1 is compulsory all carry equal marks. Do not write anything on the question paper.
2. Mobile phones or any other communicating device will not be allowed in the examination room. Students will have to remove the batteries of these devices before entering the examination hall.

CASE STUDY

Q1 National Industries Ltd. is being set up to manufacture industrial gears. The expected outlays and proposed financing during the construction and the first two operating years are shown below.

Outlays	Construction Period	Operating Period	
	(Rs)	Year I	Year II
Land	1220	----	----
Building	6110	----	----
Plant & machinery	24440	----	----
Miscellaneous fixed assets	4720	----	----
Preliminary expenses	850	----	----
Pre-operative expenses	4800	----	----
Current assets (Other than cash)	42140	Rs 22,804	Rs 2,500
Financing	16300	----	----
Equity capital	29000	Rs 5,704	Rs 500
Term Loan		Rs 17,100	Rs 2,000
Short-term bank borrowing			
	45300	Rs 22,804	Rs 2,500

The following information is available:

- (a) The construction period will last for one year, beginning on 1st April of year n and ending on 31st March of year n+1.
- (b) The first operating period will begin on 1st April of year n+1 and end on 31st March of year n+2. This will be immediately followed by the second operating year which will end on 31st March of year n+3.
- (c) The term loan will carry an interest of 10 percent. Each amount disbursed is repayable in 16 equal semi-annual installments, the first such repayment commencing from the end of the 1st operating year. The interest on term loan during the construction period is included in pre-operative expenses. Interest due in each subsequent half year is payable at the end of the same half year. The term loan disbursements in each operating year will occur right in the beginning of that operating year.
- (d) Short-term bank borrowings in the two operating years will occur right in the beginning of those years and carry an interest rate of 8 percent which is payable at the end of the respective operating year.
- (e) Pre-operative expenses will be allocated to land, building, plant and machinery, and miscellaneous fixed assets in proportion of their values. Preliminary expenses will be written off in ten equal annual installments.
- (f) For the first two operating years the expected revenues are 42000 and 60000 and the expected cost of sales (excluding depreciation, other amortization, and interest) are 280,000 and 40000 respectively.
- (g) The depreciation rates for company law purposes will be as follows:

Building	:	3.34 percent
Plant and machinery	:	10.34 percent
Miscellaneous fixed assets	:	10.34 percent

The method of depreciation will be the straight line method
- There will be no income tax liability for the first two operating years.

Required

Prepare the following:

- i) Projected income statements for the first two operating years.
- ii) Projected cash flow statements for the construction period and the first two operating years.
- iii) Projected balance sheets as on 31/3n+1, 31/3n+2, and 31/3n+3.

**APPEARANCE OF MOBILE PHONE(S) / SMART DEVICE(S) SUBJECT TO CONSIDERED AS AN
ACT OF CHEATING**

Page 2 of 2

- Q2. a) Many Industrial economists believe that most products evolve through a life cycle which has some stages what are these, briefly describe each one.
b) What factors contribute to decline in unit cost with respect to the accumulated volume of production?
- Q3. What are the key steps involved in market & demand analysis? Describe in an orderly and systematic manner.
- Q4. a) Discuss the uncertainties in demand forecasting. How can one cope with these uncertainties?
b) Briefly discuss the steps involved in sensitivity analysis.
- Q5. a) What is a work schedule of a project what purpose does it close it serve?
b) What is the difference between the effective rate of interest and stated rate of interest in the following cases?
- Stated rate of interest is 12 percent and the frequency of compounding is six times a year.
 - Stated rate of interest is 24 percent and the frequency of compounding is four times a year.
 - Stated rate of interest is 24 percent and the frequency of compounding is twelve times a year.

END OF EXAM PAPER