

Capital Budgeting and Introduction to Strategic Management

Time Allowed : 1 hour

Total : 30 Marks

Q.1 A company is considering the purchase of a new machine out of following two machines: -

Particulars	Machine MX	Machine MY
Cost of Machine (₹)	8,00,000	10,20,000
Expected Life	6 years	6 years
Scrap Value (₹)	20,000	30,000

Profit before Depreciation	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Machine MX	2,50,000	2,30,000	1,80,000	2,00,000	1,80,000	1,60,000
Machine MY	2,70,000	3,60,000	3,80,000	2,80,000	2,60,000	1,85,000

Additional Information: -

(a) Tax Rate is 30% (b) Cost of Capital is 10% (c) Depreciation would be by straight line method
You are **required** to calculate NPV and suggest the best machine to be purchased.

(10 Marks)

Q.2 EEC Ltd. is considering the purchase of a machine. Two machines LM and PM are available, each costing ₹ 1,00,000. Both machines will last for five years with no residual value. In comparing the profitability of machines, a discount rate of 10% is to be used. Earnings after taxation @ 40% and charging depreciation on straight line are expected to be as follows:

Year	1	2	3	4	5
LM (₹)	10,000	20,000	30,000	10,000	Nil
RM (₹)	(10,000) Loss	10,000	20,000	40,000	20,000

Indicate which machine would be a more profitable investment under the various methods of ranking investment proposals, viz. ARR, Payback, NPV and Profitability Index (PI).

(10 Marks)

Q.3 "Strategy is partly pro-active and partly reactive". Give your comments.

(3 Marks)

Q.4 Explain "Values" and how is it different from "Intent".

(3 Marks)

Q.5 Ramesh Sharma has fifteen stores selling consumer durables in Delhi Region. Four of these stores were opened in last three years. He believes in managing strategically and enjoyed significant sales of refrigerator, televisions, washing machines, air conditioners and like till four years back. With shift to the purchases to online stores, the sales of his stores came down to about seventy per cent in last four years.

Analyse the position of Ramesh Sharma in light of limitations of strategic management.

(4 Marks)