No. of Printed Pages : 3 **MS-042**

01645

MANAGEMENT PROGRAMME

Term-End Examination

December, 2016

MS-042 : CAPITAL INVESTMENT AND FINANCING DECISIONS

Time : 3 hours *Maximum Marks : 100*

Weightage : 70%

Note : *Attempt **any five** questions. **All** questions carry **equal** marks.*

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1. What do you understand by Project Control ? What are its objectives ? Explain the three basic types of control mechanisms that are employed in an organisation.

2. (a) Define the concept of Financial Restructuring and explain the main areas covered under it.

(b) Distinguish between mergers and take-overs and describe different types of mergers.

3. What do you understand by the term Corporate Governance ? How can good corporate governance help in better performance of the company ? How is the corporate governance report useful to investors ?

4. What is meant by Venture Capital ? Explain its distinguishing features. How does it differ from development finance provided by banks and financial institutions ? Explain.

5. Distinguish between :
   (a) Syndicated loans and soft loans.
   (b) Factoring and bills discounting.
   (c) Dividend Payout and Dividend Yield.
   (d) Fixed Rate of Interest and Floating Rate of Interest.

6. (a) Why do the companies prefer stable dividend policy ? Explain the three forms in which stability may be maintained while distributing dividends.
   (b) Distinguish between Zero Coupon Bond and Convertible Bond. For what purposes are they issued ? Explain.

7. Write explanatory notes on :
   (a) Retained Earnings are not cost free.
   (b) Euro Currency Market.
   (c) Scenario Analysis.
   (d) Commercial Paper.

8. A & Co. has the following capital structure as on 31st March, 2015.

10% Debentures	₹ 3,00,000
9% Preference shares	₹ 2,00,000
Equity shares (5,000 shares of ₹ 100 each)	₹ 5,00,000
	₹ 10,00,000

The equity shares of the company are quoted at ₹ 102 and the company is expected to declare a dividend of ₹ 9 per share for the year 2014-15.

(a) Assuming the tax rate applicable to the company at 50%, calculate the weighted average cost of capital. State your assumptions, if any.

(b) Assuming in the exercise that the company can raise additional term loan at 12% for ₹ 5,00,000 to finance an expansion, calculate the revised weighted cost of capital. The company's assessment is that it will be in a position to increase the dividend from ₹ 9 per share to ₹ 10 per share, but the business risk associated with new financing may bring down the market price from ₹ 102 to ₹ 96 per shares.