

MANAGEMENT PROGRAMME

01071

Term-End Examination

December, 2017

**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.*

1. What do you understand by Capital Structure of a company ? Explain EBIT - EPS analysis that is used for determining the Capital Structure. Give an example.
2. What is Corporate restructuring ? What motivates an enterprise to engage in restructuring exercise ? Explain the four dimensions of corporate restructuring.
3. (a) Why do companies prefer to pay stable dividends ? Explain the three ways in which such stability is maintained.
(b) Distinguish between Bonus shares and Rights shares. Why are bonus shares issued by companies ? What is the effect issuance of bonus shares on the Net Worth of the Company ?

4. (a) Why is Project Control necessary ? Distinguish between Physical Asset Control and Financial Resource Control.
- (b) Explain the concept of Profitability Index and discuss its utility in Capital budgeting decisions.
5. (a) What do you understand by factoring ? How is it different from discounting of bills ? Explain the procedure adopted in case of factoring.
- (b) What are Global Depository Receipts ? Why are they issued ? Explain the procedure adopted for issuing such receipts.
6. Write short notes on the following :
- (a) Seed Capital and Risk Capital Schemes.
- (b) Commercial Paper.
- (c) Corporate Governance.
- (d) Zero Coupon Bond and Floating Rate Bond.
7. (a) What do you understand by Leasing ? Why should firms acquire assets on lease basis ? Discuss.
- (b) Explain the concept of Time Value of Money and discuss its importance in financing decisions of a firm.

8. Three Companies (A), (B) and (C) are in the same type of business and have similar operating risk. However, the Capital structure of each of them is different. Following are the details :

	(A)	(B)	(C)
	₹	₹	₹
Equity Share Capital (Face Value ₹ 10 per share)	4,00,000	2,50,000	5,00,000
Market Value per Share	15	20	12
Dividend per share	2.70	4	2.88
Debenture (Face Value per debenture ₹ 100)	NIL	1,00,000	2,50,000
Market Value per debenture	-	125	80
Interest rate	-	10%	8%

Assume that the current levels of dividends are generally expected to continue indefinitely and Income Tax Rate at 50 %.

You are required to compute weighted average cost of capital of each company.