No. of Printed Pages : 4 **MS-042**

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MANAGEMENT PROGRAMME

Term-End Examination

December, 2018

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 is meant by Social Cost-Benefit Analysis ? Why is it considered necessary for the economic appraisal of a project ? How is this analysis undertaken ? Explain.

2. What is meant by Re-organisation of Capital ? Explain the methods through which re-organisation of Capital may be undertaken by a company. Point out the main difference between re-organisation of Capital and Financial Reconstruction.

3. (a) Explain the factors that are taken into consideration by the Board of Directors of a Company while taking a decision about dividend.

(b) A company has been regularly paying dividend to its shareholders. It is planning to undertake expansion programme which will necessitate additional share capital. But in the current year the company has suffered loss due to prolonged labour unrest. Should the company skip dividend this year or declare it, even if it shall have to borrow funds from banks for a short period ?

What advice would you give to the Board ? Give reasons.

4. What do you understand by Securitisation of Assets ? How does it differ from Loans on the Security of Assets ? Explain the procedure adopted for Securitisation of Assets and its advantages to the concerned parties.

5. Distinguish between :
   (a) Horizontal and Vertical Merger
   (b) Factoring and Bills Discounting
   (c) Business Risk and Financial Risk
   (d) Net Present Value Method and Internal Rate of Return Method

6. Discuss the various methods through which corporates can raise finance from domestic markets.

7. Write explanatory notes on :
   (a) Sensitivity Analysis
   (b) Game Theory
   (c) Earned Value Chart
   (d) Factoring

8. ABC Corporation has plans for expansion which calls for 50% increase in assets. The alternatives before the corporation are issue of equity share or debt at 14%. Its Balance Sheet and Profit and Loss A/C are as given below :

Balance Sheet

Liabilities	₹ Lakh		₹ Lakh
12% Debentures	25	Total Assets	200
Equity shares	100		
10 Lakh shares			
of 10% each			
General Reserve	75		
	200		200

Profit and Loss A/C

Sales		₹ 750 Lakhs
Total cost excluding interest		675
EBIT		75
Intt. on Debentures		3
EBT		72
Taxes		36
EAT		36
Earnings per share	=	₹ 3.60
PE Ratio	=	5 times
Market Price		₹ 18

If the Corporation finances the expansion with debt the incremented financing charges will be 14% and P/E Ratio is expected to be at 4 times.

If the expansion is through Equity, the P/E ratio will remain at 5 times. The company expects that its new issue will be subscribed to at a premium of 25% with the above information determine the following :

(a) If EBIT is 10% of sales, calculate EPS at sales of ₹ 4 crore, ₹ 8 crore and ₹ 10 crore.

(b) After expansion determine at what level of EBIT, EPS will remain the same, whether new funds are raised by equity or debt.

(c) Using P/E Ratios calculate the market value per share at each sales level for both debt and equity financing.
