

MANAGEMENT PROGRAMME

Term-End Examination

June, 2015

**MS-42 : 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 is meant by cost of capital ? How is cost of long term debt and preference share capital calculated ? Explain.
2. What is meant by a firm's capital structure ? Explain the Modiglian - Miller (MM) theory and Traditional approach to capital structure of a firm.
3. Explain the concept of project life cycle ? How are the work breakdown structure and linear responsibility chart prepared ?
4. What is Project Risk ? Briefly explain the techniques used for the measurement of project risk.

5. (a) What do you understand by Asset Securitisation? Explain the process involved in asset securitisation and its advantages to the parties concerned.
- (b) What is meant by factoring of receivables? How is it different from discounting of bills of exchange? Discuss its advantages to the Sellers of goods?
6. What are the factors which influence dividend decisions of a company? Explain the Walter's model and Modigliani - Miller's hypothesis regarding dividend policy.
7. What is Financial Engineering? Explain the factors which motivate the finance manager to undertake financial engineering.
8. A Company is contemplating to purchase a machine. Two machines A and B are available each costing ₹ 5 lakh. In comparing the profitability of the machines a discount rate of 10% is to be used and machine is to be written off in five years by straight line method of depreciation with nil residual value. Cash inflows after tax are expected as follows :

| Years | Machine A | Machine B |
|-------|-----------|-----------|
| 1 | 1.5 | 0.5 |
| 2 | 2.0 | 1.5 |
| 3 | 2.5 | 2.0 |
| 4 | 1.5 | 3.0 |
| 5 | 1.0 | 2.0 |

Indicate which machine would be profitable using the following methods of ranking investment proposals.

- (a) Pay back period
- (b) Net present value method
- (c) Profitability index method
- (d) Average rate of return method

The discount factors at 10% are as follows :

| Year | 1 | 2 | 3 | 4 | 5 |
|-----------------|-------|-------|-------|-------|-------|
| Discount factor | 0.909 | 0.826 | 0.751 | 0.683 | 0.621 |
