

04721

MANAGEMENT PROGRAMME

Term-End Examination

June, 2014

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 for a firm ? What is its relevance in investment decision making ? How is it calculated for different sources of capital ?
2. Define and explain the term 'Capital Structure'. Critically examine the traditional approach and the Modigliani - Miller theories of Capital Structure.
3. Discuss the various components of project planning. Explain the application of Work Breakdown structure in monitoring and controlling a project.
4. Discuss the various types of project control and its control processes. Explain the design characteristics of a control system.

5. Discuss the various sources of finance available to an enterprise in India and evaluate equity shares and debentures as source of finance. Why are preference shares considered as hybrid Securities ? Explain.
6. Explain the meaning, processes and significance of the following :
 - (a) Asset Securitization
 - (b) Venture Capital
7. What are the major considerations that are taken into consideration for determining the dividend policy of a company ? Compare Walter's model with Gordon's model and examine their rationality.
8. A company has to select one of the two alternative projects whose particulars are given below :

	Project E	Project F
	Rs.	Rs.
Initial Outlay	11,872	10,067
Net Cash flow	-	-
End of year		
1	10,000	1,000
2	2,000	1,000
3	1,000	2,000
4	1,000	10,000

The company can arrange funds at 8 per cent. Compute the NPV and IRR of each project and comment on the results.

The PV Rs. 1 at different discount rate is as follows :

Year/ Discount rate	8	10	12	14
1	0.926	0.909	0.893	0.877
2	0.857	0.826	0.797	0.770
3	0.794	0.751	0.712	0.675
4	0.735	0.683	0.636	0.592
