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MS-42

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MANAGEMENT PROGRAMME

Term-End Examination

December, 2011

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.*** *Use of calculator is allowed. Present value tables would be provided if asked for.*

1. What is meant by capital structure of a firm ? Explain the various theories of capital structure.

2. Discuss the distinguishing features of a project and explain the concept of project life cycle.

3. What is meant by Social Cost Benefit Analysis ? Explain how the Social Cost - Benefit Analysis of a project is undertaken ?

4. What is project risk ? Explain Probability Distribution and Sensitivity Analysis methods of project risk measurement.

5. Discuss briefly the various non traditional sources of raising long term finance. Explain the process of assets securitization in this regard.

6. What is financial engineering ? Explain the factors contributing to financial engineering.

7. C Ltd. is considering investing in a project. The initial investment in the project will be Rs. 2,00,000 and the life of the project will be 5 years with no salvage value. The expected net cash inflows after depreciation but before tax during the life of the project will be as followings.

Year	1	2	3	4	5
Rs.	85,000	1,00,000	80,000	80,000	40,000

The project equipments will be depreciated at the rate of 20% on original cost. The company is subject to 30% tax rate. You are required to :

(a) Calculate payback period and average rate of return (ARR).

(b) Calculate Net Present Value if the cost of capital is 10%.

(c) Calculate Internal Rate of Return P.V. factors are :

Year		1	2	3	4	5
P.V. at	10%	• 909	.826	• 751	.683	.621
	37%	• 730	.533	• 389	• 284	.207
	38%	• 725	.525	.381	.276	.200
	40%	• 714	.510	.364	.260	• 186

8. AB Ltd. is considering to acquire an equipment, which will cost Rs. 1,00,000. There are two options before it :

Option I : To buy it with borrowed funds at a cost of 18% p.a. repayable in five equal instalments of Rs. 32,000.

Option II : To take the equipment on lease on an annual rent of Rs. 32,000.

The salvage value of the equipment at the end of the five year period would be zero. The company uses • straight line method of changing depreciation. Assume tax rate @ 40%.

Which of the two options would you recommend ?

Discounting factors are :

Year / Discount Rate	1	2	3	4	5
@ 9%	.917	.842	.772	.708	.650
@ 11%	.901	.812	.731	.659	.593
@ 18%	•847	.718	.609	.516	.437