

MANAGEMENT PROGRAMME**Term-End Examination****June, 2010**

04538

**MS-42 : CAPITAL INVESTMENT AND
FINANCING DECISIONS***Time : 3 hours**Maximum Marks : 100**(Weightage 70%)***Note :**

- (i) Attempt **any five** questions.
- (ii) All questions carry **equal** marks.
- (iii) Present value tables would be provided, if asked for.
- (iv) Use of calculators is allowed.

1. A Limited Company has the following Capital Structure :

Equity Share Capital	Rs. 40,00,000
(2,00,000 Shares)	
6% Preference Shares	10,00,000
8% Debentures	30,00,000
	<u>80,00,000</u>

The market price of the company's equity share is Rs. 20. It is expected that company will pay a current dividend of Rs. 2 per share which will grow at 7% for ever. The tax rate may be presumed at 50%. You are required to compute the following :

- (a) A weighted average cost of capital based on existing capital structure.
 - (b) The new weighted average cost of capital if the company raises an additional Rs. 20,00,000 debt by issuing 10% debentures. This would result in increasing the expected dividend to Rs. 3 and leave the growth rate unchanged, but the price of share will fall to Rs. 15 per share.
 - (c) The cost of capital if in (b) above the growth rate increases to 10 percent.
2. Discuss the relationship between EBIT and EPS.
3. What is Work Breakdown Structure ? Explain in what ways may the Work Breakdown Structure be used as a key document to monitor and control a project ?
4. What are the three main types of control systems ? What questions should a control system answer ?
5. Write explanatory notes on *any four* :
- (a) Sensitivity analysis
 - (b) Monte Carlo Simulation
 - (c) Game Theory
 - (d) The expected utility approach
 - (e) Objectives of social benefit analysis
 - (f) Net operating income approach of capital structure

6. What are the major global sources of financing ?
 7. Discuss the major non traditional sources of Long-term financing and explain their significance as a source of financing.
 8. What is meant by dividend stability ? Explain about the types of dividends and the factors which influence the dividend policy of a firm.
-