

**MANAGEMENT PROGRAMME**

**Term-End Examination**

**June, 2012**

**MS-42 : CAPITAL INVESTMENT AND  
FINANCING DECISIONS**

*Time : 3 hours*

*Maximum Marks : 100*

*(Weightage 70%)*

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*Note : Attempt any five questions. All questions carry equal marks. Use of calculators is allowed. Time values tables would be provided if asked for.*

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1. One up Ltd. has equity share capital of Rs. 5,00,000 divided into equity shares of Rs. 100 each. It wishes to raise further capital of Rs. 3,00,000 for its expansion-cum modernisation scheme. The company plan has the following financing alternatives :
- (a) By issuing equity shares only.
  - (b) Rs. 1,00,000 by issuing equity shares and Rs. 2,00,000 through debentures or term loan @ 10% per annum.
  - (c) By raising term loan only at 10% per annum.
  - (d) Rs. 1,00,000 by issuing equity shares and Rs. 2,00,000 by issuing 8% preference shares.

You are required to suggest the best alternative giving your comment assuming that the estimated Earnings Before Interest and Taxes (EBIT) after expansion would be Rs. 1,50,000 and the corporate rate of tax is 35% show your calculations.

2. Amarnath Cements Ltd. has the following capital structure

Particulars	Market Values	Book Values	Cost %
Equity Share capital	80	120	18
Preference Share capital	30	20	15
Fully Secured debentures	40	40	14

Calculate the company's weighted average cost of capital based on both market value weights and book value weights . Cost of debentures is net of tax.

3. What is the purpose of control ? What tools are available to the project manager, for the purpose of controlling a project ?
4. What are Asset Betas ? How are they determined ? Explain.

5. Discuss the various norms used by financial institutions while sanctioning loans to corporates.
  6. Write short notes on the following :
    - (a) Leasing and hire purchase
    - (b) The Euro Currency Market
    - (c) Scenario Analysis
    - (d) Present value method of capital budgeting.
  7. What are the factors which influence dividend decisions ? Explain Gordon's model relating to dividend policy.
  8. What is Corporate restructuring ? What motivates an enterprise to engage in restructuring exercise ?
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