

[10]

Year-1		Year-2		Year-3	
Cashflow	Prob	Cashflow	Prob	Cashflow	Prob
Rs		Rs		Rs	
1000	0.1	1000	0.2	1000	0.3
2000	0.2	2000	0.3	2000	0.4
3000	0.3	3000	0.4	3000	0.2
4000	0.4	4000	0.1	4000	0.1

- Calculate the expected net cash flows.
- Calculate the present value of the expected cash flow, if the discount rate is 10%.

UNIT-IV

- Following information is available for a company : [10]

EBIT Rs.1120 lakhs.

PBT Rs. 320 lakhs

Fixed cost Rs. 700 lakhs

Calculate percentage in EPS if sales increased by 5%.

- Compare and contrast the NI and NOI approach of capital structure. [10]

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(4)

Question Paper Code : 1663

M.B.A.(CM)(F) Examination, 2018

(Semester-IV)

CAPITAL INVESTMENT DECISIONS

[F-042]

Time : Three Hours]

[Maximum Marks : 70

Note : Answer **five** questions in **all**. **Question No. 1** is **compulsory**. Besides this, attempt **one** question from each unit.

- Write short notes on the following : [3x10 =30]

- Utility of payback period method
- Difference between NPV and IRR method of project evaluation
- Sensitivity Analysis
- Financial leverage is a double-ledged sword
- Assumptions of Modiglieni-Miller approach to capital structure
- Features of preference shares

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(1)

[P.T.O.]

- (g) Significance of warrants
- (h) Cost of retained earning
- (i) Use of financial instruments in long-term decisions.
- (j) Risk-return trade off in capital decisions

UNIT-I

2. "Long term finance decisions relate to firm's overall strategy". Comment . [10]
3. "Value maximization objective of corporations reflect the most efficient use of society's economic resource and thus, lead to maximization of society's economic wealth". Evaluate critically. [10]

UNIT-II

4. Equipment A has a cost of Rs.75,000 and net cash flow of Rs.20,000 per year for six years. A substitute equipment B would cost Rs.50,000 and generate net cash flow of Rs.14,000 per year for six years. The required rate of return of both equipments is 11%. Calculate the IRR and NPV for the equipments. Which equipment should be accepted and why ? [10]

- 5 A company is considering the following six projects : [10]

Project	Cost (Rs.1000)	NPV (Rs. '000)
1	1000	210
2	6000	1560
3	5000	850
4	2000	260
5	2500	500
6	500	95

- (a) Calculate the profitibility index for each project and rank them.
- (b) Which project (s) would you choose if the total available funds are Rs. 80,00,000 ?

UNIT-III

6. Discuss the important techniques of risk analysis in capital budgeting. [10]
7. A company has determined the following probabilities for net cash flows for three years generated by a project :