

5/4/2016



DOON UNIVERSITY, DEHRADUN
School of Management
Mid Term Examination, 2016
(MBA-2 yrs 2nd Sem)
(MMS-514) Financial Management

Time Allowed: 2 Hours

Maximum Marks: 30

Attempt any three of the following. Each question carries 10 marks

1. Define Capital Expenditure? Explain the Techniques used for selecting Capital projects in the Capital Budgeting process.
2. Explain the relevance of time value of money in financing and investment decisions.
3. (a) Define Cost of Capital?
(b) A company is considering the following to raise additional capital for its expansion schemes:

Equity (% of total capital)	Debt (% of total capital)	Cost of equity %	Cost of debt (pre-tax) %
75	25	16	12
50	50	18	14
25	75	24	18

Tax rate is 50%. Which option would you recommend? Show workings.

4. Mr. Good wrench deposits \$2,500 today in a savings account that earns 9% interest. He plans to deposit \$2,500 every year for a total of 30 years. How much cash will Mr. Good wrench accumulate in his retirement savings account, when he retires in 30 years?

5. A firm's cost of capital is 10%. It is considering two mutually exclusive profits X and Y. The details are given below :

Year	Project 'X' (\$)	Project 'Y' (\$)
Investment	8,40,000	6,40,000
Net cash Inflow:	1,20,000	1,20,000
	2,40,000	80,000
	3,60,000	1,40,000

4,90,000
5,12,000
3,30,000

1,20,000
1,20,000
2,10,000

Compute

- a) Payback period
- b) Net Present Value

P.V. Factor at 10% for 6 years is given below

Year	1	2	3	4	5	6
P.V. Factor (@ 10%)	0.909	0.826	0.751	0.683	0.621	0.572