**NMIMS**

**Corporate Finance**

**Internal Assignment for June 2020 Examination**

**1. Alpha Ltd is expecting an annual earnings before interest and tax of ₹ 1.5 Lakhs. The company has 10% debentures of ₹ 4 lakhs and cost of Equity capital is 12%. Calculate the total value of the firm and the overall cost of capital of the firm according to Net Income Approach. Also comment what will happen to the value of the firm and the overall cost of capital if debt is increased in the capital structure.**

**Answer**: **Value of the Equity of the firm**

|  |  |  |
| --- | --- | --- |
| **PARTICULARS** | **If debt is 400000** | **If debt is 500000** |
| Current operating income | 150000 | 150000 |
| **Less**: Interest on debt (10%) | 40000 | 50000 |
| Earnings for shareholders | **110000** | **100000** |
| Equity capitalisation rate | 0.12 | 0.12 |
| Value of equity | **916667** | **833333** |

(**Value of equity**

**If debt is**

Its half solved sample only

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**2. The Capital structure of ABC Ltd, is as under:**

**Equity share capital ₹ 100 Lacs**

**10% Debentures ₹ 50 Lacs**

* **The sales for the year 2019 are 1.5 Lac units@ ₹ 40per unit**
* **Also, the variable cost per unit is 20 % of sales revenue**
* **₹ 12 Lacs is the fixed operating cost.**
* **Assume Income tax rate as 40 %**

**Calculate Operating, Financial and Combined Leverage of the firm and interpret the result.**

**Answer**:

|  |  |  |
| --- | --- | --- |
| **S.no** | **Particulars** | **ABC Ltd** |

**3. Neha would retire 30 years from today and she would need ₹ 6,00,000 per year after her retirement, with the first retirement funds withdrawn one year from the day she retires. Assume a return of 7% per annum on her retirement funds and if her planning is for 25 years after retirement, Calculate:**

**a. How much lumpsum she should deposit in her account today so that she has enough funds for retirement?**

**b. How much she should deposit each year so that she has enough funds for retirement?**

**Answer**: a) Cash PV annuity factor = (1 – (1/(1+r)^n))/r

= (1 – (1/(1+0.07)^25))/0.07

= (1 – (1/(1.07)^25)/0.07

= (1 – (1/5.427)/0.