**Corporate Finance**

**Internal Assignment Applicable for December 2020 Examination**

**1. ABC Pvt. Ltd. is considering two mutually exclusive capital investments. The project’s expected net cash flows are as follows:**

|  |
| --- |
| **Expected Cash Flows**  |
| **Year**  | **Project A**  | **Project B**  |
| **0**  | **-375**  | **-575**  |
| **1**  | **-300**  | **190**  |
| **2**  | **-200**  | **190**  |
| **3**  | **-100**  | **190**  |
| **4**  | **600**  | **190**  |
| **5**  | **600**  | **190**  |
| **6**  | **926**  | **190**  |
| **7**  | **-200**  | **0**  |

**If you were told that each project’s cost of capital was 12%, which project should be selected using the NPV criteria? What is each project’s IRR? What is the regular payback period for these two projects? What is the profitability index for each project if the cost of capital is 12%?**

**Answer 1**

**Introduction**

The concept of cash flow implies the movement of money in a virtual form to ensure a narrow payment of sense. From a company perspective, the term cash flow is the core amount of equivalent cash that the company has received in view prospects from its creditors. In general, the cash flow is Its Half solved only

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# 2. Assume that your father is now 50 years old and plans to retire after 10 years from now. He is expected to live for another 25 years after retirement. He wants a fixed retirement income of Rs. 5,00,000 per annum. His retirement income will begin the day he retires, 10 years from today, and then he will get 24 additional payments annually. Your father has current savings of Rs. 10,00,000 and he expects to earn a return on his savings @ 10% p.a., annually compounding. How much (to the nearest of rupee) must your father save during each of next 10 years to meet his retirement goal?

# Answer 2

**Introduction**

In the concept of accounting the term future method of an annuity is a very famous technique in terms of measuring

# 3. CP India Ltd has the following capital structure, which it considers optimal:

# Debt 25%

# Preference Shares 15%

# Equity shares 60%

# Total 100%

# Applicable tax rate for CPIL is 25%. and investors expect earnings and dividends to grow at a constant rate of 9% in the future. Risk free rate of return is 6%, average equity

# share has expected rate of return of 15%. CPIL’s beta is 1.50. Following terms would apply to new securities being issued as follows:

# 1. New preference can be issued at a face value of Rs. 100 per share, dividend and cost of issuance will be Rs. 8 per share and Rs. 4 per share respectively.

# 2. Debt will bear an interest rate of 10%.

# Calculate

# a. Component cost of debt, preference shares and equity shares assuming that CPIL does not issue any additional equity shares.

# b. WACC.

# Answer 3

**Introduction**

The company management performance is duly depending upon the financial status of an organization. The company with proficiently financially sound tends to attract more of investors and shareholders from the share stock market. In other sense, the term debt is also a very popular term in prospective of the company management. It is recommended to minimize the debt so as to meet the