**Corporate Finance**

**June 2022 Examination**

**Q1. Determine the present value of INR 2500 invested today assuming a rate of return of 10%. Define the concept of Present value. Compute- the Present value received one year from now, received at the end of 5 years, received at the end of 10 years.**

**Discuss with reason, which of the three values, is the lowest one (10 Marks)**

**Ans 1.**

**Introduction:**

In corporate finance, the money in hand these days is known as the current price, and the cost of the amount of cash expected to be acquired in the destiny is called the future price of cash. It is a risk-less fact that cash nowadays has a higher cost than the cash to be acquired in the future s. it is danger-much less cash. It could be invested to earn a return on it. Further, the accurate price of money in hand isn't always likely to be decreased today. It implies that a comparison between the Its Half solved only

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**Q2. For a business firm leverage is about the fixed operating cost and the fixed finance costs in the cost structure of the firm.**

**For the given details, identify for which firm the degree of operating leverage and degree of financial leverage are higher and why so: (10 Marks)**

|  |  |  |
| --- | --- | --- |
| **Firms** | **Amrit** | **Baayu** |
| **Sales (Rs.)**  **Variable cost p.u**  **Fixed cost (Rs.)**  **Output (units)**  **Interest** | **3,60,000**  **20**  **72,000**  **6,000**  **40,000** | **7,50,000**  **150**  **1,40,000**  **1,500**  **80,000** |

**Ans 2.**

**Introduction:**

The period leverage is commonly used in economic management to signify the ability of the company to extend business results at a lower cost. James Horne defines leverage as using the funds or assets through paying a hard and fast cost or return. Belongings in the business can be sold by using either owned budget or borrowed funds. Fundamentally leverage Is called the debtor, the borrowings of the business that are used to finance the company's assets. Using a high quantum of borrowed finances can endanger the enterprise's survival through primary to

**3. Project costs Rs 180,000 and is expected to generate cash inflows as:**

|  |  |
| --- | --- |
| **Year** | **Cash inflows(Rs)** |
| **1** | **20,000** |
| **2** | **24,000** |
| **3** | **30,000** |
| **4** | **36,000** |
| **5** | **40,000** |

1. **Discuss the characteristics of long term capital budgeting decisions**

**Ans 3a.**

**Introduction:**

Capital Budgeting may be defined as the assessment method of long-term capital investments. It aids in figuring out the prospective investments and the costs which could generate a better return to the enterprise. The primary objective of the method is to augment the return earned through the business by deciding on and investing the capital within the maximum worthwhile

**b. calculate the Net Present Value of the project if the cost of capital is 12% and conclude.**

**Ans 3b.**

**Introduction:**

When we speak about capital budgeting selections, we strive to determine whether the new investment needs to be made or can be ignored. The capital outflow or inflow at the quit of the length is commonly nominal or, now and then, even opposite predicted. At the same time as