**Corporate Finance**

**June 2023 Examination**

 **Q 1. The following information is made available in respect of a company**

**Equity Capitalization rate15%**

**Earnings per share.20**

**Assuming a rate of return to be (i) 10% and (ii) 20%.**

**Using Walter's Model calculates the market price per share if the dividend Payout were**

 **(i) 0% (ii)25% (iii)50 % (iv)75% and (v) 100% In each case. (10 Marks) –**

**ANS:**

**Introduction**

The formula for Walter's version is straightforward. It is meant to separate the expected income in step with a component with the aid of the specified return charge and then subtract the current worth of the predictable destiny dividends. The current value of the predictable destiny dividends is calculated by multiplying the expected reward in step with the share by using the anticipated dividend payout ratio and dividing it utilizing the obligatory degree of interest. one of the good-sized benefits of Walter's model is that it allows buyers to assess the impact of dividend policy on a business stock rate. For instance, increasing its dividend

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**Q 2. A company currently sells its goods on credit. The average collection period is 45 days. It presently sells 2, 00,000 units at Rs.40 per unit. The variable cost per unit is Rs.30 and the average cost per unit is made within 10 days. is Rs.35.It is considering offering a cash discount of 1% if payment is made within 10 days? In such a case sales are expected to increase to 2, 50,000 units, and the average collection period is expected to fall to 30 days. Assuming that 50% of debtors in terms of value will avail of the cash discount and the expected rate of return on investment is 30% should the proposed discount be offered? (10 Marks)**

**ANS:**

**Introduction**

A better discount percentage may appeal to more customers and lessen the income margins extensively. The audience is any other important thing to consider, even when analyzing reductions. Specific customer segments can also have varying charge sensitivities, and consequently, businesses need to tailor their discount strategies to fulfill each segment's desires. For example, reducing excessive-cost customers may lead to better customer retention, even if lowering low-value customers does not significantly affect sales. The

**Q 3a. Explain the concept of the "Working Capital Cycle". (5 Marks)**

**ANS:**

**Introduction**

The length of the operating Capital Cycle could have a massive impact on a company's cash go with flow & financial stability. If the cycle is shorter, a company might also warfare to meet its economic responsibilities and might want to rely on external financing to cowl its expenses. On the other hand, if the cycle is too brief, the employer may not maximize its

**Q3b. Amar Cable Corporation Ltd. is considering investing in Machine**

**A The following information is made available**

|  |  |
| --- | --- |
| **Particulars** |  **Machine A** |
| **Initial cost (Rs.)** |  **10,00,000** |
| **CFAT each year (Rs,)** |  |
| **1st year** |  **3,00,000** |
| **2nd year** |  **3,50,000** |
| **3rd year** |  **4,50,000** |
| **4th year** |  **2,50,000** |
| **5th year** |  **1,50,000** |
| **Salvage value at the end of 5  years** |  **50,000** |

**Determine the payback period of machine A. (5 Marks)**

**ANS:**

**Introduction**

The payback period is a critical financial metric applied to evaluate the achievement of speculation. It represents the time period it grosses for a business to recuperate its early savings from the cash actions produced by the investment. The reimbursement duration is designed by isolating the original