**Corporate Finance – I**

**June 2023 Examination**

**1. Alpha Ltd is currently evaluating an investment in two separate projects. As the new finance executive, you are asked to prepare a brief report identifying the two best evaluation methods to help compare the viability of the projects. You are also asked to explain the situations under which the two methods are likely to result in conflicting**

**SOLUTION:**

**Introduction:**

A funding decision indicates the intentions of the organization to expand its operations. It desires to boom its production facilities and develop by using earning extra. The selection to invest, how tons to make investments, and where and when to invest is known as a capital budgeting choice. It's a system of figuring out if a brand new investment ought to be made, as the capital outlay is high, so adequate attention is required. The method of capital budgeting involves capital rationing decisions also. The company might also have different alternatives to put money into, but the capital will continually be

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**2. The market value of Madura India Ltd’s sources of capital is as follows**

|  |  |
| --- | --- |
| **Particulars** | **Rs** |
| **Bonds** | **40,00,000** |
| **Common Stock** | **60,00,000** |
| **Total Capital** | **100,00,000** |

**The equity beta of Madura India Ltd is 1.2. The current risk free rate is 5% and the equity risk premium is 8%. The yield to maturity on comparable bonds with similar rating and term to maturity is 9%. Assuming a tax rate of 40%, calculate the weighted average cost of capital of the company. How does WACC affect financial decision making in a company? (10 Marks)**

**SOLUTION:**

**Introduction:**

An organization's capital shape can also contain both equity and debt additives. The fee of capital is the entire cost of elevating debt and fairness. Value of equity refers to the value of equity shares and choice stocks. Consequently, to decide the total price of capital, it's essential to calculate the value of different elements of money, i.e., the price of equity and the cost of debt. The weighted average price of capital refers to shelling out weights to the fee of different capital additives based on the ratio of their existence in the general prosperity.

**Concept and application:**

The company's capital might also have price range contributed through the fairness of

**3. The extracts of the financial information for Marvel Ltd are given below:**

|  |  |
| --- | --- |
| **Particulars** | **Rs** |
| **Revenue** | **78,00,000** |
| **Variable Costs** | **18,00,000** |
| **Fixed Costs** | **20,00,000** |
| **Financing Expenses** | **25,00,000** |

**a. Calculate the percentage change in operating income for a change in units sold by 4% and interpret the results. (5 Marks)**

**SOLUTION:**

**Introduction:**

The revenue the business derives from selling products or providing services is the sales from its operations. It is reduced with the fee of products sold to get the company's gross earnings. Then the business's operating expenses, i.e., costs incurred on business activities, are deducted from the gross income to determine the running payments. It is a good indicator of

1. **Calculate the percentage change in net income for a change in units sold by 4% and interpret the results. (5 Marks)**

**SOLUTION:**

**Introduction:**

Operating earnings are the money the business generates, available for paying off its non-operating expenses, just like the interest price or taxes. It's far presented as a bottom line determined by the income statement. After paying off non-working or ongoing fees, the company's net income is the