**Corporate Finance**

**June 2023 Examination**

**1. Compute the NPV and IRR for project whose initial cost is 30,000 and cash inflows are 14000, 8200, 12000, 15000, 22000. Discount Rate is 10%. Cost of Capital if borrowed is 15%.**

**Show value of NPV at IRR as discount factor.**

**Based on the above calculations, should the project be considered?** **(10 Marks)**

**Ans:**

**Introduction:**

Capital investment is one of the most important decisions to be taken by a business organization. It is also called capital appraisal choices. A capital appraisal is figuring out which investment notion to handle by reading the prospects of a funding project. Usually, such decisions are related to acquiring a new asset by comparing the anticipated returns from distinct options. After the capital appraisal, the next step is to shortlist the best project(s) and proceeds primarily based on the fund requirement and It is only half solved

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**2. Calculate the Cash Cycle using the following information. (Assume 360 days in a year).**

|  |  |
| --- | --- |
| **Opening Balances** | |
| **Raw Material** | **4,00,000** |
| **WIP** | **80,000** |
| **Finished Goods** | **6,00,000** |
| **Debtors** | **2,50,000** |
| **Creditors** | **5,60,000** |
| **Closing Balances** | |
| **Raw Material** | **5,00,000** |
| **WIP** | **70,000** |
| **Finished Goods** | **7,25,000** |
| **Debtors** | **3,15,000** |
| **Creditors** | **6,25,000** |
| **Costs Incurred during the year** | |
| **Manufacturing Costs** | **10,45,000** |
| **Excise Duty** | **8,50,000** |
| **Selling and Distribution Expenses** | **4,20,000** |
| **Admin. Overheads** | **3,00,000** |
| **Total Sales** | **4,20,00,500** |
| **Total Purchases** | **3,23,00,000** |

30% of sales are on credit and 80% of purchases are on credit **(10 Marks)**

**Ans:**

**Introduction:**

The Cash Conversion Cycle is the phenomenon to determine the taken by a business to convert its investments into inventory and then to cash. It thus measures the time in no. of days a business invests in converting its input resources into cash.

It is mathematically presented as follows:

**Cash Conversion Cycle = DIO + DSO – DPO**

Here:

* DIO = Days Inventory Outstanding
* DSO = Days Sales Outstanding

**3. a. In the following balance sheet calculate the Current Ratio and the Acid Test Ratio**



**Ans:**

**Introduction:**

Ratio analysis is a part of financial control that includes comparing different financial ratios to evaluate a company's liquidity or solvency position, profitability, etc. A balance is calculated by assessing other figures within the employer's financial statements.

**Concept and application:**

**Ratios are calculated for numerous functions. Some**

**b. Sanghvi & Sons P.Ltd. is a private limited company with almost 80% shareholding with the Sanghvi family. It has now a requirement of Rs. 400 crores for a project to be undertaken. Currently it has a debt-equity ratio of about 1.5:1. The management of the company feels that a ratio of up to 2:1 is acceptable. Discuss whether the company should fund its requirements by Debt or Equity and various considerations for the same.**

**Ans:**

**Introduction:**

A company desires a budget to carry out its operations uninterruptedly. The finances may be acquired from distinct sources. Proprietors of the business may contribute some of it or be received by borrowing. Those assets make up the capital shape