**Corporate Finance**

**September 2023 Examination**

**1. An iron ore company is considering investing in a new processing facility. The company extracts ore from an open pit mine .During a year 2 lakh tonnes of ore is expected to be extracted. If the output from the extraction process is sold immediately upon removal of dirt, rocks and other impurities a price of Rs.10000 per ton can be obtained. The company has estimated that its extraction cost will amount to 65% of net realizable value of the ore at this juncture.**

**Instead of selling all the ore at Rs.10000 per ton it is possible to process further 25% of the output The additional cost of further processing would be Rs.1000 per ton. The proposal would yield a final output of 80% of the input. The processed output can be sold at Rs.16000 per ton. For additional processing the company would have to install an equipment at a cost Rs.1000 lakhs. The equipment is subject to depreciation @25% on reducing balance. It is expected to have a useful life of 5 years. It can be sold at the end of its useful life at its written down value. Additional working capital is expected to be Rs.150 lakhs. The company’s cut off rate of return for such investment is 15%.Corporate tax rate is 30%.**

**Should the company invest in this proposal?**

**Ans:**

**Investment Analysis: A Case Study in Corporate Finance**

**Introduction:**

Company finance is critical in business decision-making strategies, especially when evaluating capability investments. This evaluation will delve into the financial considerations an iron Ore Company faces because it contemplates investing in a new processing facility. By inspecting the costs, revenues, tax implications, and required charge of return, we goal to comprehensively check whether this funding notion aligns with the company's financial goals.

The corporation operates an open pit mine, extracting about 2 lakh tonnes of ore yearly. If the ore is offered immediately after eliminating impurities, the company can secure a rate of

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**2. Akshay Khan Leather Goods Manufacturers Ltd. have just taken over a business. You have been appointed as a consultant to work out the working capital that will be required in the first year of its working. You are given the following the following estimates for the year .Also provide 10% of the computed figures for contingencies. (10 Marks)**

|  |  |
| --- | --- |
| **Particulars** | **Amount for each month (Rs.)** |
| **(i) Average amount backed up by stocks** | |
| **(a)Stock of finished products** | **50000** |
| **(b)Stock of stores and materials** | **80000** |
| **(ii) Average credit given** | |
| **(a) Inland sales 6 weeks** | **300000** |
| **(b) Export Sales 1.5 weeks** | **75000** |
| **(iii) Average time lag in payment of wages and other outgoings** | |
| **(a)Wages 1.5 weeks** | **500000** |
| **(b)Stocks and materials 1.5 months** | **60000** |
| **(c)Rent and royalties 6 months** | **30000** |
| **(d)clerical staff 1 month** | **80000** |
| **(e) Manager 1 month** | **50000** |
| **(f) Miscellaneous expenses 2months** | **30000** |
| **(iv) Payments in advance (paid quarterly in advance)** | |
| **Sundry Expenses** | **40000** |

**Ans:**

**Introduction:**

Managing running capital is paramount for organizations to ensure smooth operations and economic stability in company finance. Operating capital refers to a company's finances to cover its day-to-day Operational prices and meet brief-term duties. It distinguishes between current property (cash, inventory, and accounts receivable) and present-day liabilities (debts payable and brief-term debt).

While a company undergoes a takeover or acquisition, assessing the operating capital requirements for the preliminary year of operation is essential. This assessment helps determine

**3. a. Explain the concept of “ECONOMIC ORDERING QUANTITY’ and its relevance**

**Ans:**

**Introduction:**

Economic Ordering Quantity (EOQ) is a concept in company finance that allows organizations to determine the optimum stock quantity to reserve. It is a components-primarily based technique that pursues to stabilize the expenses associated with protecting stock and the costs related to ordering inventory. EOQ is essential for organizations to manipulate lists effectively, decrease costs, and ensure easy operations. In this essay, we will explore the concept of EOQ, its utility in

**b. A company has provided you with the following figures**

**Earnings after tax Rs.50lakhs**

**Preference Dividends payable Rs.5 lakhs**

**What would be the optimum dividends payable as per Walter’s Model**

**Assuming**

**(i) rate of return is greater than the cost of equity**

**(ii) cost of equity is greater than the cost of rate of return**

**Ans**

**Introduction:**

Company finance performs a vital position in handling the economic components of a company, such as decisions related to investments, capital structure, and dividends. Dividend policy is a crucial component of corporate finance as it determines the distribution of profits to shareholders. Walter's version, named after James E. Walter, offers insights into a company's