**Corporate Finance**

**September 2023 Examination**

**1. Aradhana Limited has the following 2 investment options:**

**i) The project requires 1 machine of Rs. 2 lacs with a life of 6 years. There is NIL salvage value expected at the end of the life. The annual income in each year is Rs. 100000, Rs. 200000, Rs. 250000, Rs. 250000, Rs. 200000, Rs. 120000.**

**ii) Cost of the project is Rs. 1.5 lacs with a life of 5 years. Salvage value of the machinery used in the project is Rs. 10000. The annual income in each year is Rs. 80000, Rs. 80000, Rs. 100000, Rs. 250000, Rs. 100000.**

**Which option seems more profitable and why? (10 Marks)**

**Ans:**

**Introduction:**

Aradhana Limited is considering funding options to determine which option is more profitable. In option I, the assignment requires a system costing Rs. 2 lakhs with a life of 6 years and no salvage value. Each year's once-a-year income is Rs. 100,000, Rs. 200,000, Rs. 250,000, Rs. 250,000, Rs. 200,000, and Rs. 120,000. In alternative ii, the project expenses of Rs. 1.5 lakhs with a life of 5 years, and the equipment used has a salvage value of Rs. 10,000. The annual income for each year is Rs. 80,000, Rs. 80,000, Rs. 100,000, Rs. 250,000, and Rs. 100,000. In this evaluation, we will evaluate the profitability of both options and provide a recommendation

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**2. With the following information, evaluate the projects using payback, discounted payback and the PI method for the following projects. Discounting factor is 10%**

**Which project shall be chosen?**

**Under what situation would you prefer the PI method over the other 2 methods? (10 Marks)**

|  |  |  |
| --- | --- | --- |
| **Year** | **A** | **B** |
| **0** | **-4,50,000** | **-550000** |
| **1** | **1,00,000** | **135000** |
| **2** | **2,20,000** | **180000** |
| **3** | **2,45,000** | **235000** |
| **4** | **1,80,000** | **200000** |
| **5** | **1,20,000** | **100000** |

**Ans:**

We can calculate the relevant values based on the supplied information to assess the projects using the payback period, discounted payback period, and the profitability index (PI) method. The discounting factor given is 10%. Let us calculate the values for each way:

**Project A:**

Year | Cash Flow

0 | -450,000

1 | 100,000

**3. a. Juhi has taken a car loan of Rs. 5, 00,000 for a period of 5 year @ 10%. Calculate the EMIs to be paid by her and draw up her EMI Schedule. (5 Marks) –**

**Ans:**

**Introduction:**

Car loans have become a popular financing alternative for individuals who aspire to own a car without paying the total price upfront. By taking an automobile loan, borrowers can spread out the bills over a specified duration, making it more excellent viable and lower priced. In this text, we will explore the concept of car loans, mainly focusing on Juhi, who has obtained a car loan of

**b. XYZ Ltd. manufactures plastic toys. The fixed operating cost is Rs. 1,00,000/-. The toys sell at a price of Rs. 60 each. The variable cost for production of the toys is Rs. 30 each. It has an outstanding loan of Rs. 5, 00,000/- @ 8% p.a.**

**Calculate the DTL at 6000 units of production. Also mention the inference/implication drawn. (5 Marks)**

**Ans:**

**Introduction:**

XYZ Ltd. is an organization that focuses on manufacturing plastic toys. To analyze the employer's financial performance, we need to consider various factors, including ongoing operating costs, variable costs, selling prices, outstanding loans, and product ranges. By examining those factors, we can calculate the Debt to Equity Ratio (DTL) at a specific