**Corporate Finance**

**December 2023 Examination**

**1) Calculate the WACC for M/s Antara Limited with the following information:(10 marks)**

|  |  |
| --- | --- |
| **Capital Structure** | **BV** |
| Share Capital | 50,00,000 |
| Retained Earnings | 2,50,000 |

|  |  |
| --- | --- |
| Debentures | 15,00,000 |
| Bank Loan | 2,00,000 |

**Share price of M/s Antara Limited at the beginning of the year was Rs. 50 and end of the year was Rs. 55 per share. Dividend declared was Rs. 5. Beta of the Company was pegged at 0.6. M/s Antara had floated its Debentures at 8% fixed interest for 5 years. The bank had extended a loan on floating rate basis. Interest paid during the year was Rs. 10000. Government securities are earning a return of 4% currently.**

**Ans 1.**

**Introduction**

The (WACC) weighted average cost of capital can be defined as the average rate of Return an organization is expected to pay to all its stockholders, including debt holders, equity shareholders, and preferred equity shareholders. WACC Formula = [Cost of Equity \* % of Equity] + [Cost of Debt \* % of Debt \* (1-Tax Rate)]

WACC is beneficial if we can deal with the above limitations. It is exhaustively used to find the DCF valuation of the company. However, WACC is complex and needs a financial

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**2. Calculate the Gross and the Net Operating Cycle for Vishal & Co. Ltd. using thefollowing information. (Assume 360 days in a year). (10 marks)**

|  |  |
| --- | --- |
|  | **Amt. in Rs.** |
| **Opening Balances** |  |
| **Raw Material** | **200,000** |
| **WIP** | **60,000** |
| **Finished Goods** | **600,000** |
| **Debtors** | **250,000** |
| **Creditors** | **550,000** |
|  |  |
|  |  |
| **Closing Balances** |  |
| **Raw Material** | **300,000** |
| **WIP** | **65,000** |
| **Finished Goods** | **725,000** |
| **Debtors** | **215,000** |
| **Creditors** | **575,000** |
|  |  |

|  |  |
| --- | --- |
| **Annual Purchase of Raw Material** | **3,200,000** |
| **Manufacturing Expenses** | **550,000** |
| **Selling & Distribution Costs** | **300,000** |
| **Sales** | **4,480,000** |

**Ans 2.**

**Introduction**

An operating cycle can be defined as the time it takes a company to buy goods, sell them, and receive cash from the sale of said merchandise. In different phrases, it's how long an enterprise turns its inventories into difficult cash.

The length of a running cycle is linked to the sector or enterprise. Information on a company's operating cycle can assist in deciding its financial health by giving it a concept of whether or not it'll be capable of repaying any liabilities.

For instance, a business with a quick operating cycle will get hold of charge at a regular rate.

**3) a) What should be the amount to be invested:**

**i) To receive Rs. 2,00,000 per annum in perpetuity at an interest rate of 8%.**

**ii) In addition to conditions of point (i) above, if a growth rate of 3% is expected everyyear.**

**To receive Rs. 4,00,000 per annum in perpetuity at an interest rate of 5%. (5 marks)**

**Ans 3a.**

**Introduction**

An investment is an item gathered to generate reputation or income. In an economic outlook, an investment can be defined as acquiring products not eaten up nowadays but used in the future to generate wealth. Funding is a financial asset sold with the idea that the acquisition will offer further income or will later be sold at a better price for a

**3b)** Calculate the current ratio and Acid Test Ratio with the following information **(5 marks)**

|  |  |
| --- | --- |
| Debtors | 500,000 |
| Cash and Bank | 200,000 |
| Inventory | 400,000 |
| Trade Payables | 150,000 |
| Bank OD | 50,000 |

**Ans 3b.**

**Introduction**

 The current ratio, also known as the WCR, measures the capability of a company to fulfill its quick-term duties, which can be due within 12 months. The ratio considers the weight of total cutting-edge assets versus total current liabilities. It suggests a company's financial health and how it can maximize the liquidity of its modern property to settle debt and payables. The present ratio formulation (beneath) can easily degree a company's