**Corporate Finance**

**December 2023 Examination**

**Q1. XYZ Ltd. is considering to acquire an additional computer to supplement its time share computer services. It has options**

**A .To purchase the computer for Rs.45,00,000**

**B. To lease the computer for 3 years from a leasing company for Rs.10,00,000 as annual lease rent plus 15% of gross time share revenue.**

**Lease rents are payable at the year end and the computer revers to the lessor at the end of three years.**

**The company estimates that the computer under review will be worth Rs.15 lakhs at the end of the 3rd year. Forecast revenues are**

**Year 1 Rs.47,50,000**

**Year 2 Rs.55,00,000**

**Year 3 Rs.50,00,000**

**Under both the options, annual operating costs (excluding depreciation) are estimated at Rs.18 lakhs with an additional Rs.2 lakhs for start up and training costs at the beginning of the first year.**

**These costs are borne by the lessee under both the options. The company will borrow @**

**14% interest to finance the acquisition of the computer. Repayments are to be made according to the following schedule**

|  |  |  |  |
| --- | --- | --- | --- |
| **Year end** | **Principal (Rs.)** | **Interest (Rs.)** | **Total (Rs.)** |
| **1** | **15,00,000** | **6,30,000** | **21,30,000** |
| **2** | **15,00,000** | **4,20,000** | **19,20,000** |
| **3** | **15,00,000** | **2,10,000** | **17,10,000** |

**The company depreciates its assets on straight line method and tax rate applicable to the company is 25%**

**Decide on the better option (10 marks)**

**Ans 1.**

**Introduction**

A cash market is one in which the securities or commodities purchased are paid for and received at the point of sale. For instance, an inventory alternate is a cash market because buyers and traders get hold of shares immediately in trade for cash.

Spot markets are also called cash markets due to the fact their transactions are settled " at the coins, which means on the spot." this can be contrasted with derivatives markets, including futures markets, wherein purchasers pay for the right to receive a product, such as a barrel of oil, at a specific date.

The coins market needs to be outstanding from the cash market, which includes buying and selling in

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**Q2. Following is the condensed income statement of a company for the year 2022-2023**

|  |  |
| --- | --- |
|  | **Rs. lakhs** |
| **Sales revenue** | **750** |
| **Less** |  |
| **Operating costs** | **400** |
| **Interest** | **40** |
| **Earnings before tax** | **360** |
| **Less Tax @30%** | **108** |
| **Earnings after tax** | **252** |

**The company’s existing capital consists of Rs.200 lakh equity funds having 14% cost and Rs.400 lakhs 10% debt.**

**Determine the economic value added in 2022-2023 (10 marks)**

**Ans 2.**

**Introduction**

The economic profit (EVA) monetary fee delivered is a measure based totally on the (RIT) Residual income method that shows venture profitability. Its underlying premise is that profitability occurs while extra wealth is EARNED for shareholders and that projects should GENERATE returns above their capital fee.

**Computing (NOPAT) Net Operating Profits after Tax**

One essential attention for this product is the adjustment of the interest value. The value of interest is involved in the finance charge (WACC\*capital) that is subtracted from (net operating earnings after tax) NOPAT inside the EVA calculation and may be attained in two

**Q3. (a) Paramount Cement Company has given you the following information for the year 2022-2023.**

|  |  |  |  |
| --- | --- | --- | --- |
| **Assets** | **Amt. (Rs. Lakhs)** | **Liabilities** | **Amt. (Rs. Lakhs)** |
| **Equity Share Capital (including** | **400** | **Fixed Assets** | **250** |

|  |  |  |  |
| --- | --- | --- | --- |
| **Reserves)** |  |  |  |
| **Debentures** | **200** | **Inventories** | **100** |
| **Accounts Payable** | **60** | **Accounts**  **Receivables** | **150** |
|  |  | **Cash and Bank** | **50** |
|  | **660** |  | **550** |

**Sales for the year 2022-2023 was Rs.800 lakhs**

**Sales for the year 2023-2024 is expected to be Rs.1200 lakhs.**

**Determine the working capital requirement for the year 2023-2024 using % of Sales method (5 marks)**

**Ans 3a.**

**Introduction**

Working capital, also called internet operating capital, is the difference between an organization's modern liabilities, which includes money owed payable and debts, and a company's current assets—such as coins, customers unpaid bills/accounts receivable, and inventories of finished goods and raw material. It's a usually used measurement to gauge the fast-time period fitness of

**Q3 (b)The outgoings of Gemini Ltd. are estimated to be Rs. 12,00,000 per annum, spread evenly throughout the year. The company has sufficient funds held as deposits in a bank on which it earns interest @10% p.a. Calculate the optimum amount to be withdrawn each time, from this deposit account for meeting its cash requirement according to Baumol Model. The cost per conversion is Rs.300. (5 marks)**

**Ans 3b.**

**Introduction**

The sales maximization version is an alternative model for income maximization. This version was advanced by using Prof. Boumol, an American economist. This alternative goal has assumed more importance in the context of the growth of Oligopolistic companies.

Baumol's income revenue maximization version states that the number one goal of a corporation is to maximize its income rather than earnings maximization. It says the company