**Corporate Finance**

**April 2024 Examination**

**1. With the following information, calculate Degree of Operating, Financial and Total Leverage.**

**Sharma & Co. had a sales of Rs. 25, 00,000 in their jewelers making business. That year they sold 15,000 units. The cost of production was as follows:**

**Raw Material 450000**

**Labour 750000**

**Factory Overheads**

**Fixed 120000**

**Variable 85000**

**Further the company incurred Selling and Distribution expenses of Rs. 90,000, towards advertising and other marketing overheads. The company also had borrowed Rs. 12,00,000 @ 8% interest rate. (10 Marks)**

**Ans:**

To calculate the Degree of Operating, Financial, and Total Leverage, we must break down the costs and expenses and then compute the different components.

1. **The Degree of Operating Leverage** (DOL) determines the level of sensitivity of a company's operating income to modifications in its sales. It helps recognize how efficiently a company uses its set costs to generate earnings.

Mathematically, the formula for Operating Leverage is:

**Operating Leverage = Contribution Margin / Operating Income**

Where:

* Contribution Margin = Sales - Variable Costs

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**2. Parag is evaluating 3 options for investment of his surplus money of Rs. 5, 00,000/- for a period of 5 years.**

**i. Invest it in a FD which gives him a return of 8% compounded quarterly.**

**ii. Invest in a Corporate Deposit at a rate of 7% compounded monthly.**

**iii. Invest it in a Business Proposal which gives him the following returns.**

**Considering the risk involved, the discounting factor is considered @10%.**

**As his finance advisor which option would you suggest him. Provide reasons.**

**Year CF**

**1 1, 50,000**

**2 3, 20,000**

**3 3, 45,000**

**4 2, 75,000**

**5 2, 15,000**

**Ans:**

**Introduction:**

**Evaluation of Investment Options for Parag's Surplus Funds**

In the quest to make the best use of financial growth and sensible investment choices, Parag is entrusted with strategically assigning a surplus of Rs. 5, 00,000 for a five-year investment perspective. This evaluation aims to supply comprehensive insights and suggestions on three unique investment methods available to Parag.

The analysis compares three popular investment vehicles offering distinct recommendations and varying risk and possible returns. The options under consideration encompass typical financial instruments like Fixed Deposits (FDs) and Corporate Deposits, compared against a business

**3. a. A project is started with an initial investment of Rs. 6, 00,000. The cash flows generated over the next 4 years are Rs. 1,00,000 ; Rs. 2,50,000 ; Rs. 4,56,000 ; Rs. 5,74,000.**

**Calculate the NPV of the project at discounting rate of 11%**

**Also calculate the real discounting rate, when inflation is at 6% (5 Marks)**

**Ans:**

**Introduction:**

Net Existing Value (NPV) is a cornerstone in financial analysis and investment decision-making, representing a primary metric for analyzing the practicality and profitability of possible investments. NPV encapsulates the significance of the time value of money, assisting in

**b. M/s Tridev Limited issues bonds of Rs. 25,000/- at 10% interest rate for 10 years. Calculate its YTM is the bonds are issued:**

**a. At Par**

**b. At Discount of 8%**

**c. At premium of 12%**

**Make your inferences about the YTM for each option. (5 Marks)**

**Ans:**

**Introduction:**

In finance, bonds are critical financial instruments companies and governments use to raise capital. They represent financial obligation commitments wherein the provider borrows funds from capitalists for regular interest payments and the return of the principal amount at maturity. Accept Maturity (YTM) is an essential statistic used to evaluate the potential return a financier might earn from a bond if held until maturity. It is necessary because it considers the interest