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| **SESSION** | **JUL - AUG 2024** |
| **PROGRAM** | **BACHELOR OF BUSINESS ADMINISTRATION (BBA)** |
| **SEMESTER** | **III** |
| **COURSE CODE & NAME** | **DBB2104 FINANCIAL MANAGEMENT** |
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**Assignment Set – 1**

**1a. A company expects to receive Rs 120,000 annually for the next 10 years. If the discount rate is 15%, what is the present value of this annuity?**

**b. Describe different sources of long-term financing available to a company**

**Ans 1a.**

To calculate the present value of an annuity, we use the following formula:

Where:

* = Present value of the annuity
* = Annual cash inflow (Rs 120,000)
* = Discount rate (15% or 0.15)
* = Number of years (10)

**Step-by-Step Calculation:**

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**2a. ABC Corporation forecasts an annual EBIT of $300,000. With $800,000 in 8% bonds and a 10% cost of equity capital, along with a corporate tax rate of 25%, determine the firm's value.**

**b. Discuss the advantage of the wealth maximization objective of financial management over profit maximization.**

**Ans 2a.**

To determine the firm's value, we will use the **Modigliani and Miller (MM) Proposition I with Taxes** formula:

Where:

* = Value of the leveraged firm
* = Value of the unleveraged firm
* = Corporate tax rate (25% or 0.25)
* = Value of debt (bonds)
* , where is the cost of equity (10% or 0.10).

**3. PQR Ltd is evaluating a $250,000 investment project that is anticipated to produce $60,000 annually for the next four years. With a discount rate of 18%, compute the NPV and provide a recommendation on the project’s financial viability**

**Ans 3.**

**Net Present Value (NPV) Calculation**

The **Net Present Value (NPV)** is calculated using the following formula:

Where:

* = Cash flow in year
* = Discount rate (18% or 0.18)
* = Year
* = Initial investment ($250,000)

**Step 1: Given Data**

* Initial investment () = $250,000
* Annual cash inflow () = $60,000
* Discount rate () = 18% or 0.18
* Project duration = 4 years

**Step 2: Calculate Present Value of Cash Inflows**

**Assignment Set – 2**

**4. Calculate the cost of equity for X Ltd, which issued Rs 100 equity shares at a 10% premium. The expected dividend at year-end is 15%, growing annually at 8%. Also, find the cost of equity if dividends do not grow.**

**Ans 4.**

**Cost of Equity Calculation**

The **cost of equity** represents the return required by investors for investing in the equity of a company. It can be calculated under two scenarios: with dividend growth and without dividend growth. Here, we calculate the cost of equity for X Ltd, which issued equity shares at a premium.

**Given Data**

* Face Value of Share () = Rs 100
* Premium = 10% of face value = Rs 10

**5. For X Company, which earns Rs 5 per share, capitalized at 10%, and has an 18% return on investment:**

**a. Calculate the share price at a 25% dividend payout ratio using Walter’s model.**

**b. Determine if this is the optimal payout ratio per Walter’s theory.**

**Ans 5.**

**Walter’s Model Calculation**

**Given Data:**

* Earnings per share () = Rs 5
* Cost of equity capital () = 10% or 0.10
* Return on investment () = 18% or 0.18
* Dividend payout ratio = 25% or 0.25

**Formula:**

Walter’s model for share price is:

Where:

* = Price per share
* = Dividend per share =

**6. Differentiate between:**

**a. Gross Working Capital and Net Working Capital.**

**b. Permanent Working Capital and Temporary Working Capital.**

**Ans 6.**

**a. Gross Working Capital vs. Net Working Capital**

**Gross Working Capital**

Gross Working Capital refers to the total current assets of a company. Current assets include cash, accounts receivable, inventories, marketable securities, and other assets that can be converted into cash within a year. It represents the funds invested in short-term assets to ensure smooth operations. Gross Working Capital emphasizes the company’s ability to meet short-term obligations and manage liquidity. For instance, if a company has current assets of Rs 500,000, this amount is considered its Gross Working Capital.

Gross Working Capital is particularly significant in industries where managing current assets