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| **SESSION** | **JUL-AUG 2024** |
| **PROGRAM** | **MASTER OF BUSINESS ADMINISTRATION (MBA)** |
| **SEMESTER** | **3** |
| **COURSE CODE & NAME** | **DPRM303 AND PROJECT FINANCE AND BUDGETING** |
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**Assignment Set – 1**

**1. Describe working capital and its types. Also explain how the Earned Value Technique aids in project cost control.**

**Ans 1.**

**Working Capital and Earned Value Technique in Project Cost Control**

Working capital is a financial metric that represents the operational liquidity available to a business. It is calculated as the difference between a company's current assets and current liabilities. Effective management of working capital ensures that a company can meet its short-term obligations and continue its operations without disruption. Working capital is crucial for day-to-day business activities, such as paying suppliers, employees, and other operational expenses. Its efficient management is vital for maintaining a healthy financial balance within

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**2. Why is a project company formed, and what role does an SPV play? Describe the importance of key project documents in project finance.**

**Ans 2.**

A project company is a legal entity established specifically to execute a single project. It is often formed to isolate the risks and responsibilities associated with the project from the parent organization. By creating a separate legal structure, the project company ensures that the project's liabilities do not affect the parent company's financial standing or other ongoing operations. This approach is especially common in large-scale infrastructure, real estate, and energy projects, where risks are significant, and financing needs are substantial.

**3. XYZ company expects the following net cash inflows for the next five years: Rs 15,000, Rs.20,000, Rs.25,000, Rs.35,000, and Rs.40,000 respectively from the Project. The initial investment of project is Rs.60,000**

**Calculate:**

**a. Payback period**

**b. Post payback profitability**

**c. Net present value when the discount rate is 10%. 3+3+4**

**Ans 3.**

### XYZ Company Cash Flow Analysis

#### Given Data:

* Initial Investment: ₹60,000
* Cash Inflows: ₹15,000, ₹20,000, ₹25,000, ₹35,000, ₹40,000 for years 1 to 5.
* Discount Rate: 10%

### 1. Payback Period

The **Payback Period** is the time it takes for the initial investment to be recovered through cumulative cash inflows.

#### Formula:

$$Payback Period=Years before full recovery+\frac{Unrecovered amount at the beginning of the year}{Cash inflow in that year}$$

#### Steps:

1. Calculate cumulative cash inflows year by year.
2. Identify the year in which cumulative inflows equal or exceed the initial investment.

| Year | Cash Inflow (₹) | Cumulative Cash Flow (₹) |
| --- | --- | --- |
| 1 | ₹15,000 | ₹(60,000 - 15,000) = -₹45,000 |
| 2 | ₹20,000 | ₹(45,000 - 20,000) = -₹25,000 |
| 3 | ₹25,000 | ₹(25,000 - 25,000) = ₹0 |

**Assignment Set – 2**

**4. Define project finance and its features. Discuss the role of project sponsors and their impact on project success.**

**Ans 4.**

**Project Finance and Its Features**

Project finance is a method of funding large-scale infrastructure, industrial, or public-service projects, wherein the financing is secured primarily through the project's future cash flows. Unlike traditional corporate finance, which relies on the balance sheet and creditworthiness of the parent company, project finance creates a standalone legal entity, often a Special Purpose Vehicle (SPV), to isolate project risks and manage financing. This structure is common in

**5. Explain the components of project cash flows, including cash inflows and outflows. How does an optimal capital structure affect project outcome?**

**Ans 5.**

**Components of Project Cash Flows**

Project cash flows are the lifeblood of any project, determining its financial viability and long-term sustainability. These cash flows are broadly categorized into inflows and outflows. Cash inflows represent the revenues and funding sources generated during the project's lifecycle. The primary inflows typically include revenues earned from the sale of goods or services produced by the project. For instance, in a toll road project, the cash inflows are derived from toll collections, while in a power generation project, they come from the sale of electricity.

**6. What is the BOOT model, and how is it structured? Discuss the challenges of BOOT projects and provide examples.**

**Ans 6.**

**The BOOT Model and Its Challenges**

The Build-Own-Operate-Transfer (BOOT) model is a public-private partnership (PPP) framework widely used in infrastructure development. Under this model, a private entity is responsible for financing, designing, constructing, owning, and operating a project for a predetermined concession period. During this time, the private entity generates revenues, typically through user charges, such as tolls, tariffs, or service fees, depending on the nature of the project. At the end of the concession period, the ownership and operation of the project are