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| **SESSION** | **JULY - AUGUST 2024** |
| **PROGRAM** | **BACHELOR OF COMMERCE (B.COM)** |
| **SEMESTER** | **III** |
| **COURSE CODE & NAME** | **DCM2102 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 5+5**

#### Ans 1.

#### a. Present Value of an Annuity

To calculate the present value (PV) of an annuity, the formula is:

$$PV=P×\left(1-\frac{1}{\left(1+r\right)^{n}}\right)÷r$$

Where:

* $P$ = Annual cash inflow (Rs 120,000)
* $r$ = Discount rate (15% or 0.15)
* $n$ = Number of years (10)

**Calculation:**

1. Substitute the given values into the formula:

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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 2.

#### a. Valuation of ABC Corporation

The firm’s valuation is calculated using the following formula under the Modigliani-Miller approach:

$$Value=\frac{EBIT×\left(1-Tax Rate\right)}{Cost of Equity}$$

Where:

* EBIT = \300,000 $
* $Tax Rate=25\% \left(0.25\right)$
* $Cost of Equity=10\% \left(0.10\right)$
* Debt = \800,000 $

**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 8+2**

**Ans 3.**

### Net Present Value (NPV) Calculation for PQR Ltd

#### Formula for NPV:

$$NPV=∑\left(\frac{CF\_{t}}{\left(1+r\right)^{t}}\right)-C\_{0}$$

Where:

* $CF\_{t}$ = Cash inflow at time $t$ ($60,000 annually)
* $r$ = Discount rate (18% or 0.18)
* $t$ = Time period (years)
* $C\_{0}$ = Initial investment ($250,000)

#### Step-by-Step Calculation:

1. **Identify Parameters:**
	* Initial Investment ($C\_{0}$) = $250,000
	* Annual Cash Inflows ($CF\_{t}$) = $60,000

**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. 5+5**

**Ans 4.**

### Cost of Equity Calculation for X Ltd

#### Formula for Cost of Equity ($k\_{e}$):

1. **When Dividends Grow Annually (Gordon Growth Model):**

$$k\_{e}=\frac{D\_{1}}{P\_{0}}+g$$

* Where:
	+ $D\_{1}$ = Expected dividend at year-end (Rs 15, i.e., 15% of Rs 100)
	+ $P\_{0}$ = Current market price of the share (Issued at 10% premium = Rs 100 + 10% of Rs 100 = Rs 110)

**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. 7+3**

**Ans 5.**

### Analysis of Dividend Policy for X Company Using Walter's Model

Walter’s model provides a framework for determining the value of a company’s shares based on its dividend payout policy. It considers the return on investment (ROI), cost of equity, and dividend payout ratio.

#### Formula for Walter’s Model:

$$P=\frac{D+\left(\frac{r}{k\_{e}}×\left(E-D\right)\right)}{k\_{e}}$$

Where:

* $P$ = Market price per share
* $D$ = Dividend per share ($D=Payout Ratio×E$)

**6. Differentiate between:**

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

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

**Ans 6.**

### Differentiation Between Various Concepts of Working Capital

Working capital is a critical aspect of financial management, representing the funds available for the day-to-day operations of a business. It ensures smooth functioning by maintaining a balance between current assets and liabilities. The distinctions between different types of working capital provide a deeper understanding of its components and applications.

#### (a) Gross Working Capital and Net Working Capital

**Gross Working Capital:**

Gross working capital refers to the total value of a company's current assets. These assets