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| **SESSION** | **FEB MARCH 2025** |
| **PROGRAM** | **BACHELOR OF BUSINESS ADMINISTRATION (BBA)** |
| **SEMESTER** | **II** |
| **COURSE CODE & NAME** | **DBB1208 FINANCIAL MANAGEMENT** |
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**Assignment Set – 1**

**Q1. A company issued bonds with a face value of $100, sold at a 10% discount, and are redeemable at a 10% premium. Calculate the effective cost of these bonds for the company considering:**

**a) A 5-year maturity period.**

**b) Perpetual bonds (no maturity).**

**The company's tax rate is 40%. 5+5**

**Ans 1.**

**a) A 5-Year Maturity Period**

**Given:**

* Face Value (FV) = $100
* Issue Price (IP) = $100 - 10% = $90
* Redemption Value (RV) = $100 + 10% = $110
* Maturity = 5 years
* Tax Rate = 40%
* Annual Interest = Assume 0% as not mentioned

**Step 1: Use Approximate Cost of Debt Formula:**

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**Q2. a) If an amount of ₹50,000 is invested at an annual interest rate of 12%, calculate the future value of the investment after 3 years.**

**b) Determine the present value of ₹50,000 to be received in the future, assuming a suitable discount rate and considering the concept of time value of money. 5+5 10**

**Ans 2.**

**Time Value of Money Calculations**

**a) Future Value of ₹50,000 invested at 12% for 3 years**

**Formula:**

**Where:**

* PV = ₹50,000
* r = 12% = 0.12
* n = 3

**Q3a) What is leverage in financial management? Explain how it contributes to maximizing shareholders' wealth**

**b) Explain the concept of wealth maximization and distinguish it from profit maximization, highlighting their key differences and implications for financial decision-making. 5+5**

**Ans 3.**

**a) Definition of Leverage**

Leverage in financial management refers to the use of fixed cost-bearing assets or funds—such as debt or preferred equity—in order to increase the potential returns to shareholders. Leverage amplifies both gains and losses. It can be broadly classified into three types: operating leverage, financial leverage, and combined leverage. Operating leverage is linked to the cost structure of the business, whereas financial leverage involves the use of debt

**Assignment Set – 2**

**Q4. Briefly explain and compare the following financial instruments, highlighting their key features and differences:**

**a) Financial Lease**

**b) Hire-Purchase Financing 5+5**

**Ans 4.**

**Financial Lease: Definition and Characteristics**

A financial lease is a long-term leasing arrangement in which the lessee is granted the right to use an asset for most or all of its useful life, in exchange for a series of fixed lease payments to the lessor. It is a non-cancellable agreement where the risks and rewards of asset ownership are transferred to the lessee, although legal ownership remains with the lessor. Financial leases are commonly used for capital-intensive assets such as machinery, vehicles, and heavy equipment. The lessee is responsible for maintenance, insurance, and other

**Q5. Critically analyze the major theories of capital structure, highlighting their key assumptions, implications, and relevance with appropriate examples 10**

**Ans 5.**

**Capital Structure**

Capital structure refers to the mix of debt and equity a firm uses to finance its operations and growth. It is a crucial aspect of financial management as it impacts the overall cost of capital, risk, and value of the firm. Several theories have been developed over the years to explain the optimal capital structure and how it influences the firm’s value and shareholders' wealth.

**Net Income (NI) Approach**

The Net Income approach, proposed by David Durand, assumes that the cost of debt is

**Q6. ABC Corp is evaluating a potential investment project involving an initial outlay of $200,000. The expected annual cash inflows are $50,000 for the next 3 years. Given a discount rate of 15%, calculate the Net Present Value (NPV) of the project and provide an assessment of its financial viability 10**

**To calculate the Net Present Value (NPV) of ABC Corp’s investment project, we will use the standard NPV formula and assess the project's financial viability.**

**Ans 6.**

**NPV Calculation**

**Given:**

* Initial Investment (Outlay): $200,000
* Annual Cash Inflows: $50,000 per year
* Time Period: 3 years
* Discount Rate: 15%

**NPV Formula:**