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| **SESSION** | **FEB-MARCH 2025** |
| **PROGRAM** | **BACHELOR OF BUSINESS ADMINISTRATION (BBA)** |
| **SEMESTER** | **III** |
| **COURSE CODE & NAME** | **DBB2104 FINANCIAL MANAGEMENT** |
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**Assignment Set – 1**

**Q1 An investor deposits Rs 1000 in a bank account for 5 years at 8 per cent interest. Find out the amount which he will have in his account if interest is compounded:**

**(a) annually**

**(b) semi-annually**

**(c) quarterly**

**(d) monthly**

## **Ans 1.**

## **Compound Interest Calculation**

**Given:**

* Principal (P) = ₹1000
* Time (t) = 5 years
* Annual Interest Rate (r) = 8% or 0.08

We will use the **Compound Interest formula**:

$$A=P\left(1+\frac{r}{n}\right)^{nt}$$

Where:

* $A$ = Amount
* $P$ = Principal amount
* $r$ = Annual interest rate (decimal)
* $n$ = Number of times interest is compounded per year

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**Q2 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 dividend is constant.**

**Ans 2.**

**Given:**

* Face value of equity share = ₹100
* Issue price with 10% premium = ₹100 + ₹10 = ₹110
* Expected dividend (D₁) = 15% of face value = ₹15
* Dividend growth rate (g) = 8% or 0.08
* Current market price (P₀) = ₹110

now calculate the cost of equity under two scenarios: **(a)** When the dividend grows annually (using **Gordon Growth Model**) **(b)** When the dividend remains constant (using **Dividend Discount Model with zero growth**)

### **(a) When Dividend Grows Annually**

#### **Formula (Gordon Growth Model):**

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

**Q3 ABC Ltd is investing in a project with an initial investment of $250,000 that is expected to produce $60,000 annually for the next 6 years. The discount rate is 18%. Evaluate the viability of this project by using the following methods:**

**1. Net Present value (NPV) Method**

**2. Pay Back Period Method (Standard payback is 5 year) 5+5**

**Ans 3.**

**Given:**

* Initial investment = ₹250,000
* Annual cash inflow = ₹60,000
* Project duration = 6 years
* Discount rate = 18%
* Standard payback period = 5 years

### **1. Net Present Value (NPV) Method**

NPV is the difference between the present value (PV) of future cash inflows and the initial investment.

#### **Formula:**

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

Where:

**Assignment Set – 2**

**Q4 Discuss various short-term and long-term sources of finance for firm. 10**

**Ans 4.**

**Business Financing**

Every business requires finance for its operations, growth, and survival. These financial needs can be broadly categorized into **short-term** and **long-term**, depending on the duration and purpose. While short-term finance typically supports working capital and day-to-day operations, long-term finance is used for acquiring fixed assets, expansion, and strategic investments. Selecting the right source of finance is crucial for maintaining liquidity,

**Q5 For ABC Ltd Company, which earns Rs 10 per share, capitalized at 10%, and has a 20% return on investment:**

**a) Calculate the share price at a 20% dividend payout ratio, using**

**Walter’s model.**

**b) Determine if this is the optimal payout ratio as per Walter’s theory. 5+5**

#### **Ans 5.**

#### **Walter’s Model**

Walter’s model is a dividend valuation model that helps determine the market price of a share based on the relationship between the company’s return on investment (r) and its cost of equity (kₑ). According to this model, the dividend policy of a firm does affect the value of the firm. The model assumes internal financing, constant return and cost of capital, and infinite life of the firm.

The formula used in Walter’s model is:

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

Where:

* $P$ = Market price per share
* $D$ = Dividend per share

**Q6 What are the objectives of inventory management? Discuss various Inventory Management Techniques. 5+5**

**Ans 6.**

**Objectives of Inventory Management**

**Ensuring Continuous Production:** One of the primary objectives of inventory management is to ensure an uninterrupted flow of materials and supplies required for production. By maintaining adequate stock levels, businesses can avoid production delays due to shortages, thereby meeting delivery deadlines and customer demand consistently.

**Minimizing Inventory Costs:** Effective inventory management aims to reduce costs associated with inventory, including storage costs, insurance, handling charges, and