**Financial Management**

**June 2023 Examination**

**Q1. From the below-given data calculate the overall cost of capital (WACC) for Business Scanner Ltd. (10 Marks)**

|  |  |
| --- | --- |
| **Equity Capital** | **20,00,000** |
| **11% Debt** | **30,00,000** |
| **Tax Rate** | **30%** |
| **The risk-free rate of return** | **6%** |
| **Sensex yearly return** | **15%** |
| **Beta** | **1.4** |

**Ans 1.**

**Introduction**

The weighted average price of capital consists of shared shares, favored shares, securities & different varieties of responsibilities. It's by far the regular after-overtax price of funding for a business. WACC is the interest amount an enterprise will likely need to reimburse to endow its assets. The WACC is often applied to estimate the desired charge of return (RRR) since it represents a single value of the rate of interest required to capitalize the business via bondholders and shareholders. Investors are searching out advanced revenues, so a business’s WACC may be advanced if its stock fee is risky or

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**Q.2 Ramadheer wants to invest 10,00,000 for 5 years and he is having 2 investments option. (10 Marks)**

**Option 1 Investment in a mutual fund with a return of 12%**

**Option 2 50% investment in shares with a return of 14% and**

**50% investment in bonds with a return of 10%**

**Find out which option should be considered.**

**Ans:**

**Introduction**

Ramadheer’s desire to invest his hard-earned 10,00,000 rupees for five years is a wise financial decision. But, with more than one funding option, he is faced with a dilemma on which choice to remember. The two options available to him are investing in a mutual fund with a go-back of 12% or a 50% investment in stocks with a go-back of 14% and a 50% investment in bonds with a return of 10%. About investing, the return on funding (ROI) is a crucial aspect to recall. In this situation, if

**Q.3 Adani has two alternative proposals under consideration. Project Food Chain requires a capital outlay of Rs. 50, 00,000, and Project Ice Cream Parlor requires Rs. 100, 00,000. Both are estimated to provide a cash flow for five years:**

**Project Chai Rs. 18, 00,000 per year, and Project Ice Cream Parlor Rs. 35, 00,000 per year. The cost of capital is 14%. Show which of the two projects is preferable from the viewpoint of**

1. **Net present value method (5 marks)**

**Ans:**

**Introduction**

The present fee is used for the assessment of future profitability. The summation of all upcoming money movements over the lifespan of the capital decreased to the current well worth represents the present value of the money. While making a price range, businesses regularly use NPV calculations to decide wherein and how they spend their cash. Financial

1. **Profitability Index (5 marks)**

**Ans:**

**Introduction**

The success directory, occasionally named the worth asset relation or income asset proportion, assesses the association amid the prices & welfare of a future scheme. By using keeping apart the plan’s early asset by the present worth of the expected upcoming money