**Financial Management**

**December 2023 Examination**

**Q1. From the given below calculate Weighted Average Cost of Capital. (10 marks)**

|  |  |
| --- | --- |
| **Cost of Debt** | **15 %** |
| **Tax Rate** | **25%** |
| **Amount of Debt Outstanding** | **Rs.1500lakh** |
| **Risk-free Rate of Return** | **5%** |
| **Required Return of the Market** | **12%** |
| **Stock Price** | **Rs.20** |
| **Shares Outstanding** | **100 lakh** |
| **Beta** | **1.2** |

**Ans 1.**

**Introduction**

The Weighted Average Cost of Capital (WACC) represents the average rate of return a company is expected to pay to its stakeholders for using their capital. It provides a key metric to determine the company's cost of financing and gives an insight into the average rate of return required by its investors (both equity and debt holders). Given the importance of WACC in capital budgeting decisions, financial performance assessments, and investment evaluations, understanding its components and calculation methodology is crucial. The provided data contains information about the company's debt structure, equity valuation, and market expectations. By utilizing this data, we can compute the WACC which can serve as a

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**Q2. The Ambani has two alternative proposals under consideration. Project Ghee requires a capital outlay of Rs. 25,00,000 and Project Oil requires Rs. 50,00,000. Both are estimated to provide a cash flow for five years:**

**Project Ghee Rs. 9,00,000 per year and Project Oil Rs. 17,50,000 per year. The cost of capital is 14%. Show which of the two projects is preferable from the view point of**

**(i) Net present value method (5 marks)**

**(ii) Profitability Index (5 marks)**

**Ans 2.**

**Introduction**

The art of investing in projects requires an understanding of the time value of money and the expected returns from those projects. In the business world, firms constantly face decisions regarding which projects to undertake and which ones to forego. In the case of the Ambani, two projects – Ghee and Oil – have presented themselves for consideration, with different capital outlays and expected cash flows. Making the right decision will not only affect the company’s immediate financial health but its long-term profitability. To aid in such decisions, financial managers often turn to capital budgeting techniques, which help them evaluate the

**Q3a. Mr. Rajeev wants to invest 20, 00,000 for 10 years and he is having 2 investments option.**

**Option 1: Investment in SIP with return of 24%**

**Option 2 : 50% investment in shares with return of 28% and 50% investment in bonds with return of 20%**

**Find out which option should be considered? (5 marks)**

**Ans 3a.  
Introduction**

Investment decisions are crucial for individuals aiming for wealth growth and financial security. For Mr. Rajeev, the choice between two distinct investment options can significantly impact his financial outcome over a 10-year period. While both options promise attractive returns, the decision involves weighing the potential returns against the risks and

**b. From the given below calculate the present value of future cash flows.**

**What amount you will receive today, if I give you 15000 after 3 years, interest rate is 8%. (5 marks)**

**Ans 3b.**

**Introduction**

Understanding the present value of future cash flows is fundamental in the realm of finance and investment. It aids individuals and businesses in determining the current worth of a sum of money to be received or paid in the future, given a particular interest rate. In this case, we are examining what an amount of ₹15,000, to be received after 3 years, is worth today if the