**Financial Management**

**April 2024 Examination**

**Q1. Enumerate/Elaborate about perpetuity and annuity with the help of examples. Also, explain the different formula, which are used for calculating perpetuity and annuity. (10 marks)**

**Ans 1.**

**Introduction**

In the vast expanse of financial management, understanding the concepts of perpetuity and annuity is paramount for both individuals and organizations aiming to make informed investment and financing decisions. These financial tools, though simple in their essence, form the bedrock for complex financial calculations and strategies. Perpetuity refers to an endless sequence of cash flows that continue infinitely, often used to value assets that generate consistent returns over time without an end, such as dividends from preferred stocks. Annuity, on the other hand, is a series of fixed payments made over a specified period. It is a fundamental concept in retirement planning, loans, and insurance policies, where regular payments or receipts occur over time. Both concepts utilize distinct formulas to calculate the

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**Q2. As per the latest annual report Godrej Ltd, the company has an outstanding debt of Rs. 25, 00,000 and equity capital valued at Rs. 5, 00,000. During that period, the company has incurred Rs. 200,000 as interest expense on its debt. The risk-free rate of return is 5%, the market return is 12% and the company’s beta is 1.5x. Calculate WACC based on the given information and if the tax rate is 30% (10 marks)**

**Ans 2.**

**Introduction**

The Weighted Average Cost of Capital (WACC) is a fundamental financial metric used by companies to evaluate the cost of securing funding through both debt and equity. This calculation is crucial for making informed investment decisions, as it helps in determining the minimum return a company must earn on its existing asset base to satisfy its creditors, owners, and other capital providers. In the context of Godrej Ltd, a leading conglomerate with a diverse portfolio, understanding the WACC is particularly significant. The company's financial structure, as revealed in its latest annual report, indicates an outstanding debt of Rs.

**Q3. Solve the below given cases:**

**a. At the age of 40 years, Nirmit will receive Rs. 20,000,000. He is currently**

**30 years old. If the current interest rate is 7%, calculate the present value. (5 marks)**

**Ans 3a.**

**Introduction:**

In financial planning, understanding the concept of present value is crucial for evaluating future cash flows. Present value calculations allow individuals to assess the current worth of future sums of money, factoring in the time value of money. In this case, Nirmit, aged 30, is set to receive Rs. 20,000,000 at the age of 40. Given an interest rate of 7%, we aim to

**b. If Rajeev invests Rs. 10, 00,000 in a PPF that yields 18% interest, what is the future value of the PPF after ten years? (5 marks)**

**Ans 3b.**

**Introduction:**

Investing in financial instruments like Public Provident Fund (PPF) is a popular choice for individuals looking for secure long-term investments with attractive returns. In this scenario, Rajeev invests Rs. 10,00,000 in a PPF account with an interest rate of 18%. The future value of his investment after ten years is essential for Rajeev to assess the growth of his wealth over time. By understanding the concept of compound interest and the workings of PPF, we can