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| **SESSION** | **JUL - AUG 2024** |
| **PROGRAM** | **MASTER OF BUSINESS ADMINISTRATION (MBA)** |
| **SEMESTER** | **II** |
| **COURSE CODE & NAME** | **DMBA202 FINANCIAL MANAGEMENT** |
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**Assignment Set – 1**

**1. “Financial planning is essential for any organization or individual looking to achieve financial stability and growth. The process involves a series of structured steps that help in setting, monitoring, and adjusting financial goals”. Explain in detail the steps involved in financial planning, highlighting how each step contributes to a successful financial strategy of a company. Additionally, discuss the various factors that can impact the financial plan of an organization.**

**Ans 1.**

**Financial Planning: Steps and Contributing Factors**

Financial planning is essential for organizations to achieve financial stability and growth. It provides a structured approach to managing resources, setting goals, and adapting to dynamic environments. A successful financial plan ensures optimal use of funds and prepares organizations to tackle uncertainties. Below are five key steps in financial planning and five factors influencing its effectiveness.

**Five Key Steps in Financial Planning**

1. **Assessment of Current Financial Situation** The first step involves analyzing the organization's financial position by evaluating assets, liabilities, income, and expenses. This provides a baseline for understanding available resources and identifying strengths

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**2a. XYZ India Ltd.’s share is expected to be Rs.450 one year from now. The company is expected to declare a dividend of Rs. 25 per share. What is the price at which an investor would be willing to buy if his or her required rate of return is 15%?**

**b. Differentiate between Operating and Financial leverage.**

**Ans 2.**

**a. Determining the Share Price**

To calculate the price at which an investor would be willing to buy XYZ India Ltd.’s share today, we use the **Dividend Discount Model (DDM)**. The DDM considers the future dividend and share price, discounted at the investor’s required rate of return. The formula is as follows:

P0= (D1+P1) / (1+r)

Where:

* P0​: Current price of the share (what the investor is willing to pay).
* D1​: Dividend expected after one year (Rs.25).

**3. A company has the following capital structure:**

**Equity Capital: 10 crore shares of Rs.10 each, fully paid up.**

**9% Preference Capital: 1 lakh shares of Rs.100 each, fully paid up, redeemable after 8 years.**

**15% Debentures: 2 lakh debentures of Rs.100 each, redeemable after 5 years.**

**12% Term Loans: Rs.20 crores.**

**Additional information:**

**The next expected dividend on equity shares is Rs.4 per share, with an annual growth rate of 6%. The market price per equity share is Rs.50.**

**The market price of the preference shares is Rs.90 per share.**

**The market price of debentures is Rs.85 per debenture.**

**The company’s income tax rate is 35%.**

**Requirement: Compute the Weighted Average Cost of Capital (WACC) using the market value approach.**

**Ans 3.**

To calculate the **Weighted Average Cost of Capital (WACC)** using the **market value approach**, follow these steps:

### 1. Compute the cost of each capital component

#### a. Cost of Equity (Ke):

The cost of equity is calculated using the **Dividend Discount Model (DDM)**:

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

Where:

* $D\_{1}$: Next expected dividend = Rs. 4 per share
* $P\_{e}$: Market price of equity = Rs. 50

**Assignment Set – 2**

**4. A company is considering, the following mutually exclusive projects:**

|  |  |
| --- | --- |
| **Cash Flows (in ₹)** | **Projects** |
|  | **Q** | **R** | **S** |
| $C\_{0}$ | **-25000** | **-25000** | **-25000** |
| $C\_{1}$ | **10000** | **7000** | **10000** |
| $C\_{2}$ | **13000** | **11000** | **10000** |
| $C\_{3}$ | **11000** | **13000** | **10000** |
| $C\_{4}$ | **7000** | **10000** | **10000** |

**C0 represents initial investment and C1, C2, C3, and C4 are annual cash inflows in the year 1,2,3 and 4 respectively.**

**Assuming a 12% discount factor, estimate the net present value of projects Q, R, and S. Which project should be recommended under the net present value (NPV)method?**

**The present value factor (PVF) @ 12% is as follows:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Year** | **1** | **2** | **3** | **4** |
| **12%** | **0.893** | **0.797** | **0.712** | **0.636** |

**Ans 4.**

**Net Present Value (NPV) Method: Overview**

The **Net Present Value (NPV)** is a widely used method in capital budgeting to evaluate the profitability of an investment or project. It calculates the difference between the **present value of cash inflows** and the **initial investment cost**. A positive NPV indicates that the project is expected to generate a net gain, while a negative NPV implies a loss.

**Key Features of NPV Method**

**Time Value of Money**: NPV accounts for the time value of money by discounting future cash

**5. Explain in detail the theory of the MM approach to capital structure in the presence of taxes and absence of taxes. 8+2**

**Ans 5.**

The Modigliani-Miller (MM) approach to capital structure is a fundamental theory in corporate finance that explores the relationship between a firm’s value and its capital structure. Franco Modigliani and Merton Miller proposed this theory, arguing that under specific assumptions, the value of a firm is independent of its capital structure. Their propositions are divided into two scenarios: the absence of taxes and the presence of taxes, offering insights into how debt

**6. Efficient cash management will aim at maximizing the cash inflows and slowing cash outflows. Discuss the statement in light of effective cash planning opted by the organizations.**

**Ans 6.**

Efficient cash management is a critical aspect of financial management for any organization. It involves the strategic handling of cash inflows and outflows to ensure liquidity while maximizing profitability and minimizing financial risks. The statement that efficient cash management aims at maximizing cash inflows and slowing cash outflows reflects the dual objectives of maintaining sufficient working capital and optimizing the use of available funds.

Organizations must focus on maximizing cash inflows as part of their cash management