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| **SESSION** | **JUL/AUG 2021** |
| **PROGRAM** | **MASTER OF BUSINESS ADMINISTRATION (MBA)** |
| **SEMESTER** | **II** |
| **COURSE CODE & NAME** | **DMBA202 - FINANCIAL MANAGEMENT** |
| **CREDITS** | **4** |
| **NUMBER OF ASSIGNMENTS &**  **MARKS** | **02**  **30 Marks each** |

**Set – I**

**Q 1. What are the steps involved in Financial Planning? What factors need to be taken into consideration while financial planning? 5+5**

**Ans 1.**

**Steps in Financial Planning:**

There are six steps involved in financial planning. Figure depicts the steps involved in financial planning.

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**Q2A) Explain Operating leverage and financial leverage with their application. 5+2+2+1**

**B) Shivam Ltd. has Total Capital of ₹ 60 Lakh. Out of which ₹ 20 Lakh is Equity Capital and ₹ 40 lakh is debt. Rate of interest payable on debt is 12%. The Sales Revenue of YZ Ltd is ₹ 100 lakh. Variable cost is 20% of Sales revenue and ₹ 30 lakh is the fixed cost of operation.**

**Required: Calculate Financial, Operating and Combined Leverages.**

**Ans 2a.**

**Operating Leverage**

Operating leverage arises due to the presence of fixed operating expenses in the firm’s income flows. It has a close relationship to business risk. Operating leverage affects business risk factors, which can be viewed as the uncertainty inherent in estimates of future operating income.

The operating leverage takes place when a change in revenue produces a greater change in Earnings Before Interest and Taxes (EBIT). It indicates the impact of changes in sales on operating income. A firm with a high operating leverage has a relatively greater effect on EBIT for small changes in sales. A small rise in sales may enhance profits considerably,

**Q 3. Write short note on (any two) 5+5 10**

**1. Profit Maximization Vs. Wealth maximization**

**2. Time value of Money- Compounding and Discounting technique**

**3. Cost of different sources of Finance**

**Ans:**

**Wealth maximisation vs. profit maximisation**

Wealth maximisation is superior to profit maximization:

* Wealth maximisation is based on cash flow. It is not based on the accounting profit as in the case of profit maximisation.
* Through the process of discounting, wealth maximisation takes care of the quality of cash flow. Converting uncertain distant cash

**Set – II**

**Q 4a. Explain various inventory management techniques in detail.**

**b. Describe relevant model of Dividend policy in detail by explaining Walter and Gordon Model. 5+5**

**Ans 4a.**

**Inventory Management Techniques:**

The importance of effective inventory management is directly influenced by the size of investment in inventory. While the total ordering costs can be decreased by increasing the order size. The carrying cost increases with the increase in order size indicating the need for proper balancing of these two types of costs behaving in opposite directions with changes in size of order.

There are many techniques of management of

**Ans 4b.**

**Dividend relevance models support the view that the dividend policy of the firm has a bearing on share valuation.**

Under this section we examine two theories:

 Walter Model

 Gordon Model

**Walter model**

Prof. James E. Walter considers that dividend pay-outs are relevant and have a bearing on the share prices of the firm. He further states

**Q 5 A limited company is considering investing a project requiring a capital outlay of 2,00,000. Forecast for annual income after depreciation but before tax is as follows: 2+2+2+2+2**

|  |  |
| --- | --- |
| **Year** | **Rs.** |
| **1** | **100000** |
| **2** | **100000** |
| **3** | **80000** |
| **4** | **80000** |
| **5** | **40000** |

**Depreciation may be taken as 20% on original cost and taxation at 50% of net income.**

**You are required to evaluate the project according to each of the following methods:**

**a) Pay-back method**

**b) Average Rate of return on original investment method**

**c) Net present value index method at 10% discount factor**

**d) Profitability index**

**e) Internal rate of return method.**

**Ans 5.**

**Q 6. a) Describe in detail the factors that need to be taken into consideration while estimating working capital requirements by an organization.**

**b) How working capital requirements can be estimated by an organization? 5+5**

**Ans A.**

A large number of factors influence working capital needs of a firm. The basic objective of a firm’s working capital management is to ensure that the firm has adequate working capital for its operations, neither too much nor too little. Figure depicts factors that determine the working