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| **SESSION** | **September 2022** |
| **PROGRAM** | **MASTER OF BUSINESS ADMINISTRATION (MBA)** |
| **SEMESTER** | **II** |
| **course CODE & NAME** | **DMBA202 & FINANCIAL MANAGEMENT** |

**Assignment Set – 1st**

**Questions**

**1. “Financial Planning aims to frame financial policies in relation to procurement, investment and administration of funds of an enterprise”. In the light of above statements highlight the objectives, advantages and limitations of financial planning.**

**Ans: Objectives of financial planning:-**

Financial planning is a process by which funds required for each course of action is decided. Financial planning means deciding in advance the financial activities to be carried on to achieve the basic objective of the firm. The basic objective of the firm is to get maximum profit with minimum losses or risk. So, the basic purpose of the financial planning is to make

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**2. Siyaram Ltd. has the following capital structure:**

**Equity share capital (200000 shares) Rs.40,00,000**

**6% Preference shares Rs.10,00,000**

**8% Debentures Rs.30,00,000**

 **Rs.80,00,000**

**The market price of the company’s equity share is Rs.20. It is expected that company will pay a dividend of Rs.2 per share at the end of current year, which grow at 7% for ever. The tax rate may be presumed at 50%. You are required to compute the following:**

1. **Weighted average cost of capital based on existing capital structure.**
2. **The new weighted average cost of capital, if the company raises an additional Rs.20, 00,000 debts by issuing 10 percent debentures. This would result in increasing the expected dividend to Rs.3 and leave the growth unchanged but the price of share will fall to Rs.15 per share.**

 **c) The cost of capital if in (b) above, growth rate increases to 10 percent.**

**3. “Operating risk is associated with cost structure, whereas financial risk is associated with capital structure of a business concern.” Critically examine this statement.**

**Ans:** As operating leverage can be favourable or unfavourable, high risks are attached to higher degrees of leverage. As DOL considers fixed expenses, a larger amount of these expenses increases the operating risks of the company and hence, a higher DOL. Higher operating risk can be taken when income levels of companies are rising and should not be

**Assignment Set – 2nd**

**Questions**

**4. The board of directors of Sugandha mills limited request you to prepare a statement showing the working capital requirements for a level of activity of 30,000 units of output for the year.**

**The cost structure for the company’s product for the above-mentioned activity level is given below.**

|  |  |
| --- | --- |
|  | **Cost per Unit (Rs.)** |
| **Raw materials** | **20** |
| **Direct labour** | **5** |
| **Overheads** | **15** |
| **Total** | **40** |
| **Profit** | **10** |
| **Selling price** | **50** |

**(a) Past experience indicates that raw materials are held in stock, on an average for2 months.**

**(b) Work in progress (100% complete in regard to materials and 50% for labour and over heads) will be half a month’s production.**

**(c) Finished goods are in stock on an average for 1 month.**

**(d) Credit allowed to suppliers: 1 month.**

**(e) Credit allowed to debtors: 2 months.**

**(f) A minimum cash balance of Rs 25,000 is expected to be maintained.**

**Prepare a statement of working capital requirements.**

**5. Discuss the factors that determine the credit policy of an enterprise? What are the financial implications of liberalized credit policy?**

## Ans: In any manufacturing firm, the Production Manager controls a major part of the investment in the form of equipment, materials, and men. He should organise his department in such a way that the equipments under his or her control are used most productively, the

**6. Discuss the assumptions and arguments used by Modigliani and Miller in support of the irrelevance of dividends. Are dividends** **really irrelevant? If not, what are the arguments for relevance of dividend policy?**

**Ans: Miller and Modigliani** criticise traditional approach that the cost of equity remains unaffected by leverage up to a reasonable limit and K0 remains constant at all degrees of leverage. They state that the relationship between leverage and cost of capital is elucidated as in NOI approach.

Table depicts the assumptions regarding Miller and Modigliani (MM) approach: perfect