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| **SESSION** | **MARCH 2023** |
| **PROGRAM** | **MASTER OF BUSINESS ADMINISTRATION (MBA)** |
| **SEMESTER** | **II** |
| **course CODE & NAME** | **DMBA202 FINANCIAL MANAGEMENT** |
| **CREDITS** | **4** |
| **nUMBER OF ASSIGNMENTS & Marks** | **02**  **30 Marks each** |

**Assignment Set – 1**

**1. Assuming wealth maximization to be the objective of financial management, show how the financing, investment and dividend decisions of the company can help to attain this objective.**

**Ans 1.**

Wealth maximization as an objective of financial management aims to increase the value of the firm over the long term, which in turn benefits shareholders through increased stock prices and dividends. The three primary financial management decisions -- financing, investment, and dividend -- play a crucial role in attaining this objective.

**Financing Decision:** This involves determining the best capital structure or the mix of debt and equity. The company needs to find the right balance where the cost of capital is minimized. By minimizing the cost of capital, a firm can increase its value as less cost means more profits, which can be

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**2. Surya Ltd. has the following book value capital structure:**

**Million (Rs.)**

**Equity Capital (10 million shares, Rs.10 par) 100**

**Preference Capital, 11% (100000 shares Rs.100) 10**

**Retained earnings 120**

**Debentures, 13.5% (500000 debentures Rs.100) 50**

**Term loans 12% 80**

**360**

**The next expected dividend per share is Rs.1.50. The dividend per share is expected to grow at the rate of 7%. The market price per share is Rs.20. Preference stock, redeemable after 10 years is currently selling for Rs.75 per share. Debentures, redeemable after 6 years are selling for Rs.80 per debenture. The tax rate for the company is 50%.**

**Calculate the weighted average cost of capital using:**

* **Book value proportions and**
* **Market value proportions.**

**Ans:**

**First identify the different costs and proportions.**

1. Cost of Equity (Ke): This will be calculated using the Gordon Growth Model. It's given by D1 / P0 + g, where D1 is the expected dividend, P0 is the market price of the share, and g is the growth rate.
2. Cost of Preference Capital (Kp): This can be calculated as D / P, where D is the dividend and P is the

**3. Examine the various techniques employed to adjust the time value of money.**

**Ans 3.**

There are two methods by which the time value of money can be calculated:

 Compounding technique

 Discounting technique

**Compounding**

**Assignment Set – 2**

**1. The following information has been extracted from the cost sheet of a company:**

**Rs. Per unit**

**Raw materials 45**

**Direct labour 20**

**Overheads 40**

**Total 105**

**Profit 15**

**Selling Price 120**

**The following further information is available:**

* **Raw materials are in stock on an average two months**
* **The materials are in process on an average for 4 weeks. The degree of completion is 50% in all respects**
* **Finished goods stock on an average is for one month**
* **Time lag in payment of wages and overheads is 1 ½ weeks.**
* **Time lag in receipt of proceeds from debtors is 2 months**
* **Credit allowed by suppliers is one month**
* **20% of the output is sold against cash.**
* **The company expects to keep a cash balance of Rs.10000**
* **Take 52 weeks per annum.**
* **Calculation of debtors may be made at a selling price.**
* **The company is poised to manufacture 14400 units in the year.**

**You are required to prepare a statement showing the working capital requirements of the company.**

**Ans 1.**To calculate the working capital requirements, we need to determine the company's current assets and current liabilities.

Current assets consist of:

1. Raw Material Stock

**2. Are there any considerations other than profitability to be made in managerial decisions about investment proposals? Explain these.**

**Ans 2.**

While profitability is indeed a key consideration in managerial decisions about investment proposals, it is far from being the only factor. Here are several other important considerations:

**Risk:** Every investment comes with a certain degree of risk. It's essential for managers to assess the level of risk and consider whether it aligns with the company's risk tolerance.

**Strategic Fit:** The investment proposal needs to align with the organization's strategic goals. Even a profitable

**3. “Efficient cash management will aim at maximizing the cash inflows and slowing cash outflows”. Elaborate the statement by highlighting the objectives of cash management.**

**Ans 3.**

**Objectives of Cash Management**

The major objectives of cash management in a firm are:

 Meeting payments schedule

 Minimising funds held in the form of cash balances

**Meeting payments schedule**

In the normal course of functioning, a firm has to make various payments by cash to its employees, suppliers and infrastructure bills. Firms will also receive cash through sales of its products and collection of receivables. Both of these do not occur simultaneously. The basic objective of cash