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| **SESSION** | **AUG-SEP’23** |
| **PROGRAM** | **MASTER OF BUSINESS ADMINISTRATION (MBA)** |
| **SEMESTER** | **II** |
| **COURSE CODE & NAME** | **DMBA202 FINANCIAL MANAGEMENT** |
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**Assignment Set – 1**

**1. a) Describe various functions of financial management.**

**Ans 1a.**

Financial management is a crucial aspect of any organization, playing a vital role in fiscal health and business success. Its functions encompass a wide range of activities, from planning and organizing to controlling and monitoring financial resources. Here's an overview of the various functions of financial management.

**1.**

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**b) Mr. Shivam Goyal deposits Rs. 2000 at the end of every year for five yearsinto his account. Interest is being compounded annually at a rate of 5%.Determine the amount of money he will have at the end of the fifth year.**

**Ans 1b.**

**Lets compute the future value of the deposit made end of every year :**

To calculate the amount of money Mr. Shivam Goyal will have at the end of the fifth year with an annual deposit of Rs. 2000 and an annual interest rate of 5% compounded annually, we can use the future value of an annuity formula :

FV=P×{(1+r)n−1)}/r

Where:

**2. Describe the factors that need to be considered while planning a company’s financial needs. Also, deliberate on the advantages and disadvantages of financial planning. 5+ 2.5+2.5**

**Ans 2.**

**Factors that need to be considered while planning a company’s financial needs**

Financial planning is a crucial aspect of managing a company's operations, ensuring its long-term viability and success. This process involves a detailed analysis and strategic implementation of various factors to effectively manage the company's financial resources. The following are key factors to

**3. Estimate and interpret the degree of operating, financial, and combined leverage of A Ltd. And B. Ltd. based onthe following data:**

|  |  |  |
| --- | --- | --- |
|  | **A Ltd. (Rs.)** | **B Ltd. (Rs.)** |
| **Sales** | **16,00,000** | **20,00,000** |
| **Fixed Costs** | **5,00,000** | **10,00,000** |

**Variable expenses are 40% of sales for firm A and 25% for firm B. Interest expenses are ₹ 1,60,000 for A Ltd. and ₹ 2,00,000 for B Ltd.**

**Ans 3.**

To estimate and interpret the degree of operating, financial, and combined leverage for A Ltd. and B Ltd., we can use the following formulas:

* Degree of Operating Leverage (DOL): DOL measures the sensitivity of a company's operating income (EBIT) to changes in sales. It is calculated as follows: DOL = Contribution Margin / EBIT Contribution Margin = Sales - Variable Expenses
* Degree

**Assignment Set – 2**

**4. a) You are planning to start a project. If the required initial outlay of the project is ₹ 70,000 and estimated annual cash inflows are ₹ 30,000, ₹ 20,000, ₹ 18,000, ₹ 18,000, and ₹ 15,000 for the next 5 years respectively. Estimate the payback period of the project. 5+5**

**Ans 4a.**

The payback period is a fundamental financial metric used in project evaluation and investment decision-making. It represents the time it takes for a project or investment to generate cash flows sufficient to recover the initial investment or outlay. It is a straightforward method that helps assess the risk and return associated with a project. In this scenario, we will calculate the payback period for

**4b) You have received a project proposal with a lifeexpectancy of 5 years:**

**Particulars Years Amount in ₹**

**Initial Investment 0 6,00,000**

**Cash inflows 1 1,20,000**

**2 1,20,000**

**3 1,80,000**

**4 1,80,000**

**5 2,20,000**

**Calculate the Net Present Value of the project using the discount rate of 9%.**

Ans 4b.

Net Present Value (NPV) is a financial metric used to assess the profitability of an investment or project. It calculates the difference between the present value of cash inflows and outflows over a specified period, typically discounted at a predetermined rate (such as the cost of capital or a required rate of return). A positive NPV indicates that the project is expected to generate more cash than it costs

**5a.) Explain various motives for holding cash in an organization.**

**Ans 5a.**

In an organization, cash management is a critical aspect of financial stability and operational efficiency. Holding cash reserves serves several key purposes, which are essential for the smooth functioning and long-term sustainability of a business. These motives can be broadly categorized under three main

**5b.) X Ltd. Produces a product which has an annual demand of 48000 units. The product requires a component beta which is produced at Rs.20. For every finished product, one unit of the component is required. The ordering cost is Rs.120 per order and the holding cost is 10% p.a. Execute EOQ Calculation.**

**Ans 5b.**

The Economic Order Quantity (EOQ) is a formula used to determine the optimal order quantity for a product that minimizes the total inventory costs, including ordering costs and holding costs. The EOQ formula is given by:

EOQ = √((2 \* D \* S) / H)

Where: EOQ = Economic Order Quantity D = Annual demand (48000 units) S = Ordering cost per order (Rs.

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

**Ans 6.**

Estimating the working capital requirements of an organization is a crucial aspect of financial planning and management. Working capital, the difference between a company's current assets and current liabilities, is vital for maintaining a company's operations and ensuring its financial stability. This comprehensive analysis will explore the key factors that must be considered when estimating these