**DMBA202 Financial Management**

**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.

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.

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.

**Assignment Set – 2**

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

|  |  |  |  |
| --- | --- | --- | --- |
| Cash Flows (in ₹) | Projects |  |  |
|  | Q | R | S |
|  | -25000 | -25000 | -25000 |
|  | 10000 | 7000 | 10000 |
|  | 13000 | 11000 | 10000 |
|  | 11000 | 13000 | 10000 |
|  | 7000 | 10000 | 10000 |

represents initial investment and *, ,* and 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 |

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

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.

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