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| **SESSION** | **FEB-MARCH 2025** |
| **PROGRAM** | **MASTER OF BUSINESS ADMINISTRATION (MBA)** |
| **SEMESTER** | **II** |
| **COURSE CODE & NAME** | **DMBA208 FINANCIAL MANAGEMENT** |
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**Assignment Set – 1**

**Q1. Explain in detail the theory of the MM approach to capital structure in the presence and absence of taxes.**

**Ans 1.**

**Introduction to MM Approach**

The Modigliani and Miller (MM) approach to capital structure is a foundational theory in corporate finance, developed by Franco Modigliani and Merton Miller in 1958. It focuses on the relationship between a firm’s value and its capital structure—the proportion of debt and equity used to finance the firm. According to MM, under certain conditions, the capital structure of a firm is irrelevant to its overall value. The theory was introduced in two

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**Q2. Describe the sources of Finance in detail.**

**Ans 2.**

**Introduction to Sources of Finance**

Sources of finance refer to the various channels through which a business raises funds to meet its short-term and long-term operational and strategic needs. Depending on the nature, size, and objectives of the business, companies may opt for internal or external sources of finance. These sources are critical for funding working capital, expansion, innovation, and debt repayment.

**Internal Sources of Finance**

**1. Retained Earnings** This is the portion of net profits that a company keeps instead of

**Q3. Given below is the data of two companies:**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **A Ltd.** | **B Ltd.** |
| **Sales**  | **400000** | **350000** |
| **Variable cost** | **40% of sales**  | **40% of sales**  |
| **Fixed Cost** | **25000** | **30000** |
| **Interest**  | **140000** | **80000** |

**Calculate the operating leverage, financial leverage and Combined leverage of both companies 4+4+2**

**Ans 3.**

To calculate the Operating Leverage (OL), Financial Leverage (FL), and Combined Leverage (CL) for both companies, we will use the following formulas and solve step by step.

#### Step 1: Key Formulas Used

1. Contribution = Sales – Variable Cost
2. Operating Leverage (OL) = Contribution / EBIT
3. Financial Leverage (FL) = EBIT / EBT
4. Combined Leverage (CL) = OL × FL = Contribution / EBT

### **For A Ltd.**

#### 1. Calculate Contribution

**Assignment Set – 2**

**Q4. Subhashish Ltd. is deciding about purchasing a Machine X. Following is the cash flow information available in this regard to the purchase of Machine X:**

|  |  |  |
| --- | --- | --- |
| **Years** | **Anticipated Cash flows** | **Discount factor@10%** |
| **1** | **150000** | **0.909** |
| **2** | **180000** | **0.826** |
| **3** | **1375000** | **0.751** |
| **4** | **962000** | **0.683** |
| **5** | **412000** | **0.621** |

**Based on the above information, calculate Net Present Value (NPV) and comment on whether the company should purchase Machine X with a discount factor@10%. The purchase cost of the machine is Rs.17,18,750 and has an anticipated life of 5 years. 8+2**

#### **Ans 4.**

#### Given Data:

* Purchase Cost of Machine X = ₹17,18,750
* Discount Rate = 10%
* Life of Machine = 5 Years
* Anticipated Cash Flows and Discount Factors:

| Year | Cash Flow (₹) | Discount Factor @10% | Present Value (₹) |
| --- | --- | --- | --- |
| 1 | 150,000 | 0.909 | 150000 × 0.909 = 136,350 |
| 2 | 180,000 | 0.826 | 180000 × 0.826 = 148,680 |

**Q5. Enumerate the factors affecting the receivables of the firm. Also, discuss the important components of credit policy variables that a company needs to consider while strategizing on receivables management. 5+5**

**Ans 5.**

**Factors Affecting the Receivables of a Firm**

Receivables are the outstanding amounts due from customers to whom goods or services have been sold on credit. Effective management of receivables is critical for ensuring healthy cash flow and working capital efficiency. Several factors influence the level and behavior of receivables in a firm.

**1. Nature of Business and Industry Practices**

Firms operating in industries where credit sales are the norm, such as manufacturing,

**Q6. A. Calculate the economic order quantity for material X and the number of orders placed in a year. The following details are furnished:**

**Annual usage: 90000 units**

**Buying cost per order = Rs. 10**

**Cost of carrying inventory = 10% of cost**

**Cost per unit= Rs.50**

**B. “Risk and uncertainty are quite inherent in capital budgeting decisions," Discuss**

**2.5+2.5+5**

#### **Ans 6a.**

#### **Given Data:**

* Annual Usage (D) = 90,000 units
* Ordering Cost per Order (S) = ₹10
* Cost per Unit = ₹50
* Carrying Cost = 10% of Cost = 10% of ₹50 = ₹5 per unit per annum

#### **Step 1: EOQ Formula**

$$EOQ=\sqrt{\frac{2DS}{H}}$$

###

### **Ans 6b.**

#### **Understanding Risk and Uncertainty in Capital Budgeting**

Capital budgeting refers to the process of evaluating and selecting long-term investments that are in line with the firm's strategic objectives. These decisions involve large financial commitments, and their outcomes are spread over several years. As a result, capital budgeting is fraught with risk and uncertainty, which are critical elements that can significantly impact the success or failure of investment decisions.

#### **Nature of Risk in Capital Budgeting**

Risk refers to situations where the decision-maker knows the possible outcomes and can assign