



ASSIGNMENT

DRIVE	WINTER 2014
PROGRAM	MBA/ MBADS/ MBAFLEX/ MBAHCSN3/ PGDBAN2
SEMESTER	II
SUBJECT CODE & NAME	MB0045 FINANCIAL MANAGEMENT
BK ID	B1628
CREDITS	4
MARKS	60

Note: Answer all questions. Kindly note that answers for 10 marks questions should be approximately of 400 words. Each question is followed by evaluation scheme.

Q.No	Questions	Marks	Total Marks
1	<i>Explain the liquidity decisions and its important elements. Write complete information on dividend decisions.</i>		
	Explanation of liquidity decisions with its important elements	5	10
	Explanation of dividend decisions	5	
2	<i>Explain about the doubling period and present value. Solve the below given problem: Under the ABC Bank's Cash Multiplier Scheme, deposits can be made for periods ranging from 3 months to 5 years and for every quarter, interest is added to the principal. The applicable rate of interest is 9% for deposits less than 23 months and 10% for periods more than 24 months. What will be the amount of Rs. 1000 after 2 years?</i>		
	Explanation of doubling period	2	
	Solving the problem	3	10
	Explanation of present value	5	
3	<i>Write short notes on: a) Operating Leverage b) Financial leverage c) Combined leverage</i>		
	Explanation of operating leverage	4	10
	Explanation of financial leverage	4	
	Explanation of combined leverage	2	

4	<p>Explain the factors affecting Capital Structure. Solve the below given problem:</p> <p>Given below are two firms, A and B, which are identical in all aspects except the degree of leverage employed by them. What is the average cost of capital of both firms?</p> <p style="text-align: center;">Details of Firms A and B</p> <table><tr><td></td><td>Firm A</td><td>Firm B</td></tr><tr><td>Net operating income EBIT</td><td>Rs. 1, 00, 000</td><td>Rs. 1, 00, 000</td></tr><tr><td>Interest on debentures I</td><td>Nil</td><td>Rs. 25, 000</td></tr><tr><td>Equity earnings E</td><td>Rs. 1, 00, 000</td><td>Rs. 75, 000</td></tr><tr><td>Cost of equity Ke</td><td>15%</td><td>15%</td></tr><tr><td>Cost of debentures Kd</td><td>10%</td><td>10%</td></tr><tr><td>Market value of equity S = E/Ke</td><td>Rs. 6, 66, 667</td><td>Rs. 5,00, 000</td></tr><tr><td>Market value of debt B</td><td>Nil</td><td>Rs. 2, 50, 000</td></tr><tr><td>Total value of firm V</td><td>Rs. 6, 66, 667</td><td>Rs. 7, 50, 000</td></tr></table>				Firm A	Firm B	Net operating income EBIT	Rs. 1, 00, 000	Rs. 1, 00, 000	Interest on debentures I	Nil	Rs. 25, 000	Equity earnings E	Rs. 1, 00, 000	Rs. 75, 000	Cost of equity Ke	15%	15%	Cost of debentures Kd	10%	10%	Market value of equity S = E/Ke	Rs. 6, 66, 667	Rs. 5,00, 000	Market value of debt B	Nil	Rs. 2, 50, 000	Total value of firm V	Rs. 6, 66, 667	Rs. 7, 50, 000
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	Explanation of factors affecting capital structure	6	10																											
	Solution for the problem	3																												
	Interpretation	1																												
5	<p>Explain all the sources of risk in capital budgeting with examples.</p> <p>Solve the below given problem:</p> <p>An investment will have an initial outlay of Rs 100,000. It is expected to generate cash inflows. Cash inflow for four years.</p> <table><tr><td>Year</td><td>Cash inflow</td></tr><tr><td>1</td><td>40000</td></tr><tr><td>2</td><td>50000</td></tr><tr><td>3</td><td>15000</td></tr><tr><td>4</td><td>30000</td></tr></table> <p>If the risk free rate and the risk premium is 10%,</p> <p>a) Compute the NPV using the risk free rate</p> <p>b) Compute NPV using risk-adjusted discount rate</p>			Year	Cash inflow	1	40000	2	50000	3	15000	4	30000																	
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	Explanation of risk in capital budgeting with examples	5	10																											
	Solution for the problem with interpretation	5																												
6	<p>Explain the objectives of Cash Management. Write about the Baumol model with their assumptions.</p>																													

	Explanation of objectives of cash management	5	10
	Explanation of Baumol model with assumptions	5	