**Financial Management**

**April 2025 Examination**

**1. In the context of financial management, examine its relationship with other accounting disciplines. How does this interconnectedness enhance decision-making? Additionally, discuss the evolving role of the CFO in aligning financial strategies with corporate objectives (Student can make any assumptions to further explanation of their view point). (10 Marks)**

**Ans 1.**

**Introduction**

Financial management is a crucial aspect of business operations that focuses on the planning, organizing, controlling, and monitoring of financial resources to achieve an organization’s objectives. It is deeply interlinked with various accounting disciplines, such as financial accounting, managerial accounting, cost accounting, and auditing, all of which provide essential data and insights for financial decision-making. The integration of these disciplines enhances a company’s ability to strategize effectively, optimize financial performance, and mitigate risks. Moreover, the evolving role of the Chief Financial Officer (CFO) has expanded beyond traditional

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**2. Mr. X, aged 30, wants to retire at 60 and plans to save for his retirement systematically. He expects to live for 20 years post-retirement and wants to withdraw ₹8,00,000 annually to cover his expenses during retirement. The expected annual return on investments before retirement is**

**10%, and during retirement, it reduces to 6% due to lower risk exposure. Calculate the amount Mr. X needs at the age of 60 to sustain his annual withdrawals for 20 years, annual deposit he needs to make at the end of each year from age 30 to 60 to accumulate the required retirement corpus and verify the annual withdrawal amount of ₹8,00,000 using the corpus calculated. (10 Marks)**

#### **Ans 2.**

#### **Introduction**

Retirement planning is a crucial aspect of financial management that ensures financial stability and security during the post-retirement years. It involves systematic savings, strategic investments, and optimal withdrawal strategies to maintain a desired standard of living. In this case, Mr. X, aged 30, plans to retire at 60 and sustain himself for 20 years post-retirement. He aims to withdraw ₹8,00,000 annually for his expenses, while his investments yield 10% before retirement and 6% after retirement. To achieve this goal, it is necessary to determine the corpus required at retirement, the annual savings he needs to make during his working years, and

**3. A firm is analyzing its financing options to achieve the lowest possible WACC. Currently, the firm's capital is financed with leveraged capital of debt and equity in 2:3 ratio with the cost of debt and equity are 6% and 12% respectively.**

**Management is considering a revised capital mix of 50% debt, where the cost of debt would rise to 7%, and the cost of equity would increase to 14%, due to increased financial risk. [Tax rate = 30%].**

**a) Compute the WACC for both the existing and proposed financing structures. (5 Marks)**

**Ans 3a.**

**Introduction**

The Weighted Average Cost of Capital (WACC) is a crucial financial metric that represents the overall cost a firm incurs to finance its operations using a mix of debt and equity. It is essential in capital structuring decisions as it influences investment decisions, valuation, and financial stability. The firm currently has a debt-to-equity ratio of two to three, with the cost of debt at six percent and

**b) Evaluate which capital structure minimizes the WACC. Discuss the potential trade- offs between reducing the cost of capital and increasing financial risk under the proposed scenario. (5 Marks)**

**Ans 3b.**

**Introduction**

Capital structuring is a strategic decision that involves balancing debt and equity to achieve the lowest possible cost of financing while maintaining financial stability. A lower Weighted Average Cost of Capital (WACC) enhances profitability by reducing financing expenses, but an increased reliance on debt introduces greater financial risk. The firm is currently considering increasing its debt proportion, which could lower financing costs through tax advantages but