



# UNIVERSITY OF THE PUNJAB

**B.S. 4 Years Program :Third Semester – 2020**

Paper: Financial Management (Basic)

Course Code: BBA-202/BUS-21351Part – I (Compulsory) Time: 15Min. Marks: 10

Roll No. in Fig. ....

Roll No. in Words. ....

**Attempt this Paper on this Question Sheet only.**

**Division of marks is given in front of each question.**

**This Paper will be collected back after expiry of time limit mentioned above.**

Signature of Supdt.:

**Q.1. Encircle the right answer cutting and overwriting is not allowed. (10x1=10)**

1. What is the market value of a Rs.1,000 face-value bond with a 10 percent coupon rate when the market's rate of return is 9 percent?
  - a. More than its face value
  - b. Less than its face value
  - c. Rs. 1000
  - d. None of above
  
2. Interest paid (earned) on only the original principal borrowed (lent) is often referred to as  
\_\_\_\_\_
  - a. present value
  - b. simple interest
  - c. future value
  - d. compound interest
  
3. What is the present value of a Rs.1,000 ordinary annuity that earns 10% annually for an infinite number of periods?
  - a. Rs.100
  - b. Rs.900
  - c. Rs.1,000
  - d. Rs.10,000
  
4. According to the capital-asset pricing model (CAPM), a security's expected (required) return is equal to the risk-free rate plus a premium
  - a. equal to the security's beta
  - b. based on the unsystematic risk of the security.
  - c. based on the total risk of the security.
  - d. based on the systematic risk of the security.
  
5. With continuous compounding at 8 percent for 20 years, what is the approximate future value of a \$20,000 initial investment?
  - a. \$52,000
  - b. \$93,219
  - c. \$99,061
  - d. \$915,240

6. The formula for current ratio is
- Current assets/ Current liabilities
  - Current liabilities/ Current assets
  - Current assets/ Total assets
  - Current assets/ Total liabilities
7. An increase in the firm's receivable turnover ratio means that its cash sales have \_\_\_\_\_
- Decreased
  - Increased
  - Remained the same
  - None of the above
8. A project should be accepted
- If its NPV is greater than the cost of capital
  - If its NPV is greater than 0 percent
  - If its NPV is greater than Rs.0
  - If its NPV is equal to IRR
9. A firm's operating cycle is equal to its inventory turnover in days (ITD)
- Plus its receivable turnover in days (RTD).
  - Minus its RTD
  - Plus its RTD minus its payable turnover in days (PTD).
  - Minus its RTD minus its PTD
10. To increase a given future value, the discount rate should be adjusted \_\_\_\_\_.
- upward
  - downward
  - first upward and then downward
  - None of the above answers are correct; you should use PVIF.



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Part – II

Time: 2 Hrs. 45 Min. Marks: 50

**ATTEMPT THIS (SUBJECTIVE) ON THE SEPARATE ANSWER SHEET PROVIDED**

**Q.2. Give short answers of the following: (5x4=20)**

1. What is an annuity? Differentiate between ordinary annuity and annuity due.
2. What is the purpose of cash flow statement? Explain the three categories of cash flows in this statement.
3. What risk does beta measure? How can you find the beta of a portfolio?
4. What are the five steps involved in the capital budgeting process?
5. What is the difference between the firm's operating cycle and the cash conversion cycle?

**Q.3. Give brief answers of the followings. (3x10=30)**

1. Sahir Company produces toy balls and sells 400,000 balls a year. Each ball produced has a variable cost of Rs.0.84 and sells for Rs.1.00. Fixed operating costs are Rs.28,000. The firm has annual interest charges of Rs. 6,000, preferred dividends of Rs. 2,000 and a 40 percent tax rate.

- a. Calculate the operating break- even point in units.
- b. Use the degree of operating leverage (DOL) formula to calculate DOL.
- c. Use the degree of financial leverage (DFL) formula to calculate DFL.
- d. Use the degree of total leverage (DTL) formula to calculate DTL.

Marks 10

2. Saad Industries is in the process of choosing the better of two mutually exclusive capital expenditure projects namely M and N. The relevant cash flows for each project are given below. The firm's cost of capital is 14 percent.

	<b>Project M</b>	<b>Project N</b>
<b>Initial investment</b>	Rs. 28,500	Rs. 27,000
<b>Year</b>	<b>Cash inflows</b>	<b>Cash inflows</b>
1	Rs. 10,000	Rs. 11,000
2	Rs. 10,000	Rs. 10,000
3	Rs. 10,000	Rs. 9,000
4	Rs. 10,000	Rs. 8,000

- a. Calculate each project's Payback Period.
- b. Calculate the Net Present Value (NPV) for each project.
- c. Calculate the Internal Rate of Return (IRR) for each project.
- d. Based on above calculations and decision criteria for each technique which project would you recommend?

Marks 10

3. a. Technex Enterprises' bond currently sells for Rs.1150, has an 11% coupon rate of interest and Rs.1000 par value. The bond pays interest annually and has 18 years to maturity. Calculate the bond's yield to maturity (YTM) to the nearest whole percent using the hit and trial method. Estimate the bond's YTM using the approximate yield formula. Compare the two results.

Marks 5

b. Skytech corporation's most recent annual dividend was Rs. 1.80 per share. The firm's required rate of return is 11%. Find the market value of the firm's common shares when dividends are expected to grow at 8 % annually for 3 years followed by a 5 % constant annual growth rate in years 4 to infinity.

Marks 5