UNIVERSITY OF THE PUNJAB

B.S. 4 Years Program / Eighth Semester – 2020

Roll No. in Fig. …………………

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Signature of Supdt.:

Paper: Financial Management (Advanced)
Course Code: BBA-413 Part – I (Compulsory) Time: 15 Min. Marks: 10

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.

Q.1. Encircle the correct option. (10x1=10)

1. **A company makes payments to its creditors of RS 3 Million a year at an equal rate each day. Each time it converts its investment into cash it pays truncation charges Rs150. The opportunity cost of holding cash rather than investing it is 6% per year. Using the Baumol model, the quantity of investments sold whenever more cash is needed is?**

a) Rs 193,649

b) Rs 145,148

C) Rs 122,474

d) Rs 312,141

2. **Purple is offered a 2% settlement discount if it pays invoices from Supplier X in ten days rather than after the normal 30-day credit period. It can borrow on its overdraft at 12% per annum. The value of the settlement discount is:**

a) 35%

b) 18.3%

c) 52%

d) 44.6%

3. **An all-equity company has a market value of Rs.60 million and a cost of equity of 8%. It borrows Rs.20 million of debt finance, costing 5%, and uses this to buy back and cancel Rs.20 million of equity. the market value of the company after the change in its capital structure The rate of taxation on company profits is 25%.**
   a) Rs.45 million
   b) Rs.22 million
   c) Rs.12 million
   d) Rs.70 million

4. **A company's share price is Rs.8.20. The company has just paid an annual dividend of Rs.0.70 per share, and the dividend is expected to grow by 3.5% The next annual dividend will be paid in one year's time. The cost of equity in the company can be estimated as**
   a) 35%
   b) 51%
   c) 12.3%
   d) 68.5%

5. **Prior charge capital is :**
   a) The appropriated capital for Asset lien
   b) The part of equity substituted with hybrid financing
   c) Any redeemable capital with floating rate marked
   d) Capital with priority precedence over ordinary distributable earnings
6. **When calculating the weighted average cost of capital which of the following is the preferred choice of weights?**
   a) Book values of debt and equity
   b) Average level of market values of debt and equity (ignoring reserves) over 5 years
   c) Current market value of debt and equity (ignoring reserve)
   d) Current market value of debt and equity (including reserve)
7. **The residual theory of dividend dictates :**
   a) The preferred stock and bond payment take priority before dividend
   b) The dividend payment should be deemed appropriate after acceptable opportunities
   c) The company contingency reserve will fund the dividend
   d) The company will announce dividend after it achieves a optimal capital structure
8. **The optimal capital structure :**

a) Maximizes firm value and minimizes the firm weighted average cost of capital
b) Minimizes the interest rate on debts and maximizes expected earnings per share
c) Maximizes value to the shareholders and minimize cost of borrowing
d) Maximizes firm profit and minimize cost of operating

9. **The management of Kodak company wants to acquire Polaroid company, which of the following is the *Least likely* to be the reason for merger.**

a) Kodak management believe that the external growth will grow revenue faster than organic growth
b) Kodak management has large tax losses on its balance sheet, which could be set off against gains of Polaroid Company.
c) Kodak management has geared capital structure and with polaroid equity the capital structure could be balanced
d) Kodak management sought operational diversification through acquisition of polaroid which will lessen the degree of leverage

10. **A leveraged leasing is an arrangement whereby.**

a) Lessor and lessee equally share the burden of asset payment
b) Lessor participate 20-40% and rest financed by outside financer
c) Lessee participate 20-40% and rest financed by outside finance
d) Lessor participate 20-40% and rest financed by lessee

UNIVERSITY OF THE PUNJAB

B.S. 4 Years Program / Eighth Semester – 2020

Roll No. …………….

Paper: Financial Management (Advanced)
Course Code: BBA-413 Part – II **Time: 2 Hrs. 45 Min. Marks: 50**

ATTEMPT THIS (SUBJECTIVE) ON THE SEPARATE ANSWER SHEET PROVIDED

Q.2. Answer the following questions in brief. (10x2=20)

1. In what sense is the treatment of bond and preferred stock same when it comes to valuation?
2. Distinguish between" temporary "and ''permanent '' working capital?
3. Do inventories represent an investment in the same sense as fixed Asset?
4. With a dividend discount model how do you estimate cost of equity capital?
5. How might a company bond rating influence capital structure decision?
6. What is targeted dividend payout ratio?
7. How does a chattel mortgage differ from conditional sale contract with respect to asset financing ?
8. What is congeneric merger?
9. If a firm chooses to change its credit policy from" 2/10, net 90" to" 2/10,net 30",what will be implication on firm liquidity ?
10. Compare the similarities between Risk adjusted discount rate (RADR) and Capital asset pricing model (CAPM)?

Solve the following. (3x10=30)

Q.3.

The Howdy Company's stakeholder account is as follow

Common stock (400,000 shares at $4 par)	$1,600,000
Paid-in capital in excess of par	1,000,000
Retained earnings	1,900,000
Total stockholders' equity	$4,500,000

The earnings available for common stockholders from this period's operations are $100,000, which have been included as part of the $1.9 million retained earnings.

a. What is the *maximum dividend per share* that the firm can pay? (Assume that legal capital includes *all* paid-in capital.)
b. If the firm has $160,000 in cash, what is the largest per-share dividend it can pay without borrowing?
c. Indicate the accounts and changes, if any, that will result if the firm pays the dividends indicated in parts a and b.
d. Indicate the effects of an $80,000 cash dividend on stockholders' equity.

Q.4.

Cleveland corporation is interested in acquiring Lewis tools company by swapping 0.4 shares of its stock for each share of Lewis stock. Financial data pertaining to both of the companies is given below

Item	Cleveland Corporation	Lewis Tool
Earnings available for common stock	$200,000	$50,000
Number of shares of common stock outstanding	50,000	20,000
Earnings per share (EPS)	$4.00	$2.50
Market price per share	$50.00	$15.00
Price/earnings (P/E) ratio	12.5	6

Cleveland has sufficient authorized but unissued shares to carry out the proposed merger.

a. How many new shares of stock will Cleveland have to issue to make the proposed merger?
b. If the earnings for each firm remain unchanged, what will the *postmerger earnings per share* be?
c. How much, effectively, has been earned on behalf of each of the original shares of Lewis stock?
d. How much, effectively, has been earned on behalf of each of the original shares of Cleveland Corporation's stock?

Q.5.

Carol kerb is considering buying 100 shares of the sooner products company at $62 per share. Because she has read that the firm will probably soon receive certain large orders from abroad, she expects the price of Sooner to increase to $70 per share. As an alternative, Carol is considering purchase of a call option for 100 shares of Sooner at a strike price of $60. The 90-day option will cost $600. Ignore any brokerage fees or dividends.

a. What will Carol's profit be on the stock transaction if its price does rise to $70 and she sells?
b. How much will Carol earn on the option transaction if the underlying stock price rises to $70?
c. How high must the stock price rise for Carol to break even on the option transaction?
d. Compare, contrast, and discuss the relative profit and risk associated with the stock and the option transactions.