UNIVERSITY OF THE PUNJAB

B.S. 4 Years Program : Third Semester – Fall 2021

Roll No. ……………

Paper: Financial Management (Basic) **Course Code: BBA-202** **Time: 3 Hrs. Marks: 60**

Q.1. Answer the following short questions: **(6x5=30)**

a) What is the difference between average vs effective tax rate? Give example.
b) Define and differentiative between a preferred stock and a common/ordinary stock
c) What is meant by sunk cost in estimating cashflows for capital projects? How is it treated?
d) What is meant by a merger and an acquisition? Given example.
e) Managerial options in capital budgeting
f) Yield curve and its use

Answer the following questions. **(3x10=30)**

Question 2:

Mr. A has decided to start saving for his retirement. Beginning on his twenty-first birthday, Mr. A plan to invest $2,000 each birthday into a savings investment earning a 7% compound annual rate of interest. He will continue this savings program for a total of 10 years and then stop making payments. But his savings will continue to compound at 7 percent for 35 more years, until Mr. A retires at age 65. His colleague, Ms. B, also plans to invest $2,000 a year, on each birthday, at 7%, and will do so for a total of 35 years. However, she will not begin her contributions until her thirty-first birthday. How much will Mr. A and Ms. E's savings programs be worth at the retirement age of 65? Who is better off financially at retirement, and by how much?

Question 3:

The A&M Hobby Shop carries a line of radio-controlled model racing cars. Demand for the car is assumed to be constant @ 40 cars/month. The cars cost $60 each, and ordering costs are approx. $15/order, and annual holding cost rate is 20%.

- Determine the EOQ and total annual cost under the assumption that no backorders are permitted.
- What will be the reorder level if the lead time is 7 days?

Question 4:

Mactor Pharma is considering relaxing its credit standards to increase its currently sagging sales. As a result of proposed credit standards relaxation, sales are expected to increase by 10% from $400,000 to $600,000. The average collection period is expected to increase from 45 days to 60 days. The sale price per unit is $40 and the variable cost per unit is $31 per unit. If the firm's required rate of return on equal-risk investment is 25%, evaluate the proposed relaxation, and make a recommendation to the firm.