



UNIVERSITY OF THE PUNJAB

Third Semester – 2019

Examination: B.S. 4 Years Program

Roll No. in Fig.

Roll No. in Words.

PAPER: Financial Management (Basic)

MAX. TIME: 15 Min.

Course Code: BBA-202/BUS-21351 Part-I (Compulsory)

MAX. MARKS: 10

Signature of Supdt.:

Attempt this Paper on this Question Sheet only.

Please encircle the correct option. 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 right answer, cutting and overwriting is not allowed. (1x10=10)

1. The long-run objective of financial management is to
 - a. Maximize earnings per share.
 - b. Maximize the value of the firm's common stock
 - c. Maximize return on investment
 - d. Maximize market share.
2. The decision function of financial management can be broken down into the _____ decisions.
 - a. Financing and investment
 - b. Investment, financing, and asset management
 - c. Financing and dividend
 - d. Capital budgeting, cash management, and credit management
3. A project should be accepted
 - a. If its IRR is greater than the cost of capital
 - b. If its IRR is greater than 0 percent
 - c. If its IRR is greater than Rs.0
 - d. If its IRR is equal to zero
4. A firm is evaluating an investment proposal which has an initial investment of Rs.5,000 and cash flows presently valued at Rs.4,000. The net present value of the investment is
 - a. -Rs.1,000
 - b. Rs.0
 - c. Rs.1,000
 - d. Rs.1.25
5. Which of the following best describes liquidation value?
 - a. The price a security "ought to have" based on all factors bearing on valuation.
 - b. The amount a firm could be sold for as a continuing operating business.
 - c. The amount of money that could be realized if an asset or a group of assets is sold separately from its operating organization.
 - d. The market price at which an asset trades

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6. An annuity which is for _____ time, called perpetuity.
- Limited
 - Fixed
 - Unlimited
 - None of the above
7. A special form of ownership having a fixed periodic dividend that must be made prior to payment to ordinary shareholders :
- Common stock
 - Preferred stock
 - Constant growth stock
 - None of the above
8. The conflict of interest between management and shareholders is called
- Agency issue
 - Financial issue
 - Critical issue
 - None of the above
9. The formula of debt ratio is:
- Total assets / total liabilities
 - Total liabilities / total assets
 - Debentures / Total equity
 - None of the above
10. _____ control the financial activities of the firm.
- Controller
 - Owner
 - Treasure
 - None of the above



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PAPER: Financial Management (Basic)

Course Code: BBA-202/BUS-21351 Part – II

MAX. TIME: 2 Hrs. 45 Min.

MAX. MARKS: 50

ATTEMPT THIS (SUBJECTIVE) ON THE SEPARATE ANSWER SHEET PROVIDED

Q.2. Questions with short answers.

(5 x 4 = 20)

1. What is the money market? How does it work?
2. What is the purpose of cash budget? What role does the sales forecast play in its preparation?
3. What relationship exists between the size of the standard deviation and the degree of asset risk?
4. What is meant by the term leverage? How are operating leverage, financial leverage and total leverage related to the income statement?
5. What is the difference between the vertical merger and the horizontal merger? Explain with the help of examples.

Q.3. Questions with brief answers.

(3 x 10 = 30)

1. Zain 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.

	Project M	Project N
Initial investment	Rs. 28,500	Rs. 27,000
Year	Cash inflows	Cash inflows
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. Based on above calculations, which project would you recommend?
2. (a) Suppose Rs.1000 bond has a price today of Rs.800, a coupon rate of 4%, and six years remaining to maturity. If interest is paid annually, calculate the bond's yield to maturity (YTM)

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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) Technex common stock pays an annual dividend of Rs. 1.80 per share. The required return on common stock is 12 %. Estimate the value of common stock under each of the following growth rate assumptions.

- i. Dividends are expected to grow at an annual rate of 0% to infinity.
- ii. Dividends are expected to grow at an annual rate of 5% to infinity. Marks 5

3. Saeed Corporation is interested in measuring its overall cost of capital. Current investigation has gathered the following data. The firm is in 40 percent tax bracket.

Debt: The firm can raise an unlimited amount of debt by selling Rs. 1,000 par value, 10 percent coupon rate, 10-years bonds on which annual interest payments will be made. To sell the issue, an average discount of Rs. 30 per bond must be given. The firm also pays flotation costs of Rs. 20 per bond.

Preferred Stock: The firm can sell 11 percent (annual dividend) preferred stock at its Rs. 100-per share par value. The flotation costs are expected to be Rs. 4 per share.

Common Stock: The firm's common stock has a par value of Rs. 80 per share. The firm expects to pay cash dividend of Rs. 6 per share next year. The firm's dividends have been growing at an annual rate of 6 percent and this rate is expected to continue in future. The stock will have to be under-priced by Rs. 4 per share and flotation costs are expected to be Rs. 4 per share.

Source of Capital	Weight
Long-term debt	40 %
Preferred Stock	15
Common Stock	45
Total	100 %

- a. Calculate the specific cost of each source of financing.
- b. Calculate the weighted average cost of capital (WACC) for the firm based on the above capital structure.