UNIVERSITY OF THE PUNJAB

B.S. 4 Years Program / Eighth Semester – 2019

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

Roll No. in Fig. …………………

Roll No. in Words. …………

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Signature of Supdt.:

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 is offering its customers a choice of a cash discount of 2% for payment within 10 days of the invoice date or paying in full within 40 days. What is the effective annual interest rate of cash discount?**

a) 20.2%

b) 27.9%

C) 44.9%

d) 78.2%

2. **AD Co announced its intention to make a rights issue of one share at $1.45 for every four existing shares. After the announcement of the issue the share price fell by 40c to $2.20. The price per share just prior to the rights issue is $2.45 ex dividend. What is the theoretical ex rights price per share?**

a) $2.05

b) $2.25

c) $2.37

d) $2.45

3. **A Rs. 1,000, 10% irredeemable bond, denominated in rupees, pays interest every six months. The interest yield required by investors in the bonds is 8% per annum. What is the market value of these bonds**
   a) 1620
   b) 3952
   c) 1250
   d) 6314

4. **Which of the following is not a benefit , to the borrower , of an overdraft as opposed to short term loan**
   a) Flexible repayment schedule
   b) Only charged for the amount drawn
   c) Easy to arrange
   d) Low interest rate

P.T.O.

5. **What does an enhanced scrip dividend means**
    a) In addition to the scrip dividend cash is also paid
    b) Bonus shares are paid in compensation for pay out delay
    c) More than \$1 shares are offered as alternative to \$1 dividend to be paid.
    d) A high scrip dividend is offered to limited share holders

6. **Who suffers financial risk as financial gearing increase and why?**
    a) Lenders because they are less likely to be repaid
    b) Lenders because there are few assets to be offered as security.
    c) Shareholders as their return lower
    d) Shareholders as their dividend becomes vulnerable

7. **A company gearing is 1:1 debt: equity. The industry average is 1:5. The company is looking for raising finance for investment in a new project and they are considering both debt and equity options. According to the traditional view**
    a) They should take debt finance for tax saving.
    b) They should equity finance as the gearing is beyond optimal.
    c) It does not matter as it won't affect the return generated by project
    d) More information is needed for decision

8. **Increasing the credit period from 30 to 60 days in response to a similar action taken by all of over competitors' wood likely result in.**

a) An increase in the average collection period.
b) A decrease in the bad debs
c) A decrease in average collection period
d) No of the above

9. **The use of fixed financing cost to magnify the effects of changes in earning before interest and taxes on the firms earnings per share is.**

a) Financial leverage
b) Operating Leverage
c) Financing Leverage multiplier
d) Cost of Capital

10. **The attitude in which investors required an increased return for an increase in risk is known as.**

a) Risk seeking
b) Risk averse
c) Risk indifferent
d) None of the above

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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. Give short answer of the following questions. (10x2=20)

1. Define operating cycle?
2. Write down the factors which effects dividend policy?
3. Define ratio of exchange in market price with formula?
4. What is meant by simulation and leverage buyout?
5. Define Baumol Model?
6. What does cost of factoring service comprised of ?
7. What is meant by pyramiding?
8. Define the constant pay-out ratio dividend policy?
9. What is conservative funding policy and what are the benefits?
10. Define financial leverage?

LONG QUESTIONS(3x10=30)

Q.3.

Data check is considering two capital structures. The key information is shown in the following table. Assume a 40% tax rate.

Source of Capital	Structure A	Structure B
Long term debt	\$100,000 at 16% coupon rate	\$200,000 at 17%coupon rate
Common stock	4,000 shares	2,000 shares

a. Calculate two EBIT-EPS coordinates for each of the structures by selecting any two EBIT values and finding their associated EPS values.
b. Plot the two capital structures on a set of EBIT-EPS axes.
c. Indicate over what EBIT range, if any, each structures is preferred.
d. Discuss the leverage and risk aspects of each structure.
e. If the firm is fairly certain that its EBIT will exceed \$75,000, which structure would you recommended? Why?

P.T.O.

Q.4.

Benson Oil is being considered for acquisition by Dodd Oil. The combination, Dodd believes, would increase its cash inflows by $25,000 for each of the next 5 years and by $50,000 for each of the following 5 years. Benson has high financial leverage, and Dodd can expect its cost of capital to increase from 12% to 15% if the merger is undertaken. The cash price of Benson is $125,000.

a. Would you recommend the merger?

b. Would you recommend the merger if Dodd could use the $125,000 to purchase equipment that will return cash inflows of $40,000 per year for each of the next 10 years?

c. If the cost of capital did not change with the merger, would your decision in part b be different? Explain.

Q.5.

The Borowiak Rose Water Company expects with some degree of certainty to generate the following net income and to have the following capital expenditures during the next five years (in thousands of dollars):

	YEAR				
	1	2	3	4	5
Net income	$2,000	$1,500	$2,500	$2,300	$1,800
Capital expenditures	1,000	1,500	2,000	1,500	2,000

The company currently has 1 million shares of common stock outstanding and pays annual dividends of $1 per share.

a. Determine dividends per share and external financing required in each year if dividend policy is treated as a residual decision.

b. Determine the amounts of external financing that will be necessary in each year if the present annual dividend per share is maintained.

c. Determine dividends per share and the amounts of external financing that will be necessary if a dividend-payout ratio of 50 percent is maintained.

d. Under which of the three dividend policies are aggregate dividends (total dividends over five years) maximized? External required financing (total financing over five years) minimized?