# UNIVERSITY OF THE PUNJAB

**B.S. 4 Years Program / Third Semester – Spring 2022**

**Roll No. .....**

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

**THE ANSWERS MUST BE ATTEMPTED ON THE ANSWER SHEET PROVIDED**

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

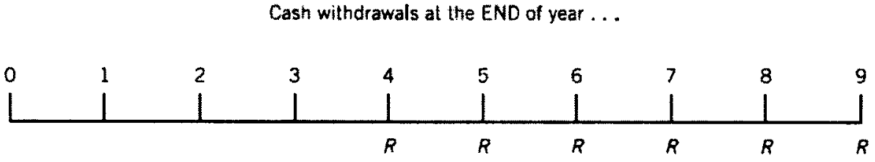
a) Define risk and elaborate its types
b) What are types of financial markets
c) Explain just in time (JIT) inventory management method
d) Eloborate the process of capital budgeting process
e) What are three parts/components of a cashflow statement?
f) Managerial options in capital budgeting

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

**Question 2:**
You plan to invest $2,000 (onetime payment) in a pension fund account today at a nominal annual rate of 8%, which is expected to apply to all future years.

a) How much will you have in the account at the end of 10 years if interest is compounded
(i) annually? (ii) Semi-annually?
b) What is the effective annual rate, EAR, for both compounding period in part (a)? Interpret this.
c) How much greater will your account balance be at the end of 10 years if interest is compounded semi-annually rather than annually?

**Question 03:**
Assume that you will be opening a savings account today by depositing $100,000. The savings account pays 5 percent compound annual interest, and this rate is assumed to remain in effect for all future periods. Four years from today you will withdraw *R* dollars. You will continue to make additional annual withdrawals of *R* dollars for a while longer – making your last withdrawal at the end of year 9 – to achieve the following pattern of cash flows over time. (*Note*: Today is time period zero; one year from today is the end of time period 1; etc.)




How large must *R* be to leave you with exactly a zero balance after your final *R* withdrawal is made at the end of year 9?

**Question 04:**
BBA Company is considering the purchase of a new high speed widget grinder to replace the existing grinder. The existing grinder was purchased five years ago for $60,000 and has been depreciated under 5-year property class of MACRS (Existing grinder don't have any book value). The new grinder costs $105,000 and requires $5,000 for insurance and carriage inward. The 5-Year MACRS depreciation system is applicable on the new grinder. The existing grinder can be sold for $70,000 now without any other expense. The new grinder would provide before tax and before depreciation revenues of $43,000 per year whereas working capital level will be increased by $90,000. The salvage value of new machine is zero and corporate tax rate on company income and capital gains is 35%.

***Required:***

1. Calculate after tax relevant initial, interim incremental and terminal cash flows.
2. Depict on a time-line the relevant cash flows associated with the replacement project.
3. Make a decision regarding the selection of the replacement project by using NPV and PI if discount rate is 12%