UNIVERSITY OF THE PUNJAB

B.S. 4 Years Program / Eighth Semester – Spring 2022

Roll No. ....

Paper: Financial Management (Advanced) **Course Code: BBA-413** **Time: 3 Hrs. Marks: 60**

THE ANSWERS MUST BE ATTEMPTED ON THE ANSWER SHEET PROVIDED

Q.1. Answer the following short questions. (15x2=30)

1. Define financial leverage?
2. What is a firm's capital structure?
3. What is hedging principle?
4. What factors influence the dividend policy of the firm?
5. What is congeneric merger?
6. Differentiate between cash conversion cycle and operating cycle?
7. What is revolving credit agreement?
8. What are the two major sources of spontaneous short-term financing for a firm?
9. What is meant by pyramiding?
10. What is futures contract?
11. What is operating lease?
12. What is cryptocurrency?
13. Differentiate between mortgage and hypothecation?
14. What is an option?
15. What is capital budgeting?

Q.2. Answer the following Questions. (3x10=30)

1. **GTech Enterprises had sales of Rs.50,000 in March and Rs.60,000 in April. Forecast sales for May, June, and July are Rs.70,000, Rs.80,000, and Rs.100,000, respectively. The firm has a cash balance of Rs.5,000 on May 1 and wishes to maintain a minimum cash balance of Rs 5,000. (1) The firm makes 20% of sales for cash, 60% are collected in the next month, and the remaining 20% are collected in the second month following sale. (2) The firm receives other income of Rs.2,000 per month. (3) The firm's actual or expected purchases, all made for cash, are Rs.50,000, Rs.70,000, and Rs.80,000 for the months of May through July, respectively. (4) Rent is Rs.3,000 per month. (5) Wages and salaries are 10% of the previous month's sales. (6) Cash dividends of Rs.3,000 will be paid in June. (7) Payment of principal and interest of Rs.4,000 is due in June. (8) A cash purchase of equipment costing Rs.6,000 is scheduled in July. (9) Taxes of Rs.6,000 are due in June.**
   - **a.** Given the above data, prepare and interpret a cash budget for the months of May, June, and July.
   - **b.** Assuming that the firm wishes to maintain a minimum cash balance of Rs.5,000, determine the required total financing or excess cash balance for each month, May through July.
   - **c.** If the firm were requesting a line of credit to cover the needed financing for the period May through July, how large would this line have to be? Explain your answer.

2. Zain Corporation is considering the acquisition of Saad Enterprises. Zain Corporation believes that the acquisition would increase its cash inflows by Rs. 250,000 for each of the next 5 years and Rs. 500,000 for each of the following 5 years. Saad has high financial leverage and Zain Co. can expect its cost of capital to increase from 12 to 15% if the merger is undertaken. The cash price of Saad Enterprises is Rs. 1,250,000.

a. Would you recommend the merger?
b. Would you recommend the merger if Zain Corporation use the Rs. 1,250,000 to purchase equipment returning cash inflows of Rs. 400,000 per year for each of the next ten years?
c. If the cost of capital does not change with the merger, would your decision in (b) be different? Explain.

3. Zakir Industries turns over its inventory 6 times each year; it has an average collection period of 45 days and an average payment period of 30 days. The firm's annual operating-cycle investment is Rs.3 million. Assume a 360-day year.

a. Calculate the firm's cash conversion cycle, its daily cash operating expenditure, and the amount of resources needed to support its cash conversion cycle.
b. Find the firm's cash conversion cycle and resource investment requirement if it makes the following changes simultaneously. (1) Shortens the average age of inventory by 5 days. (2) Speeds the collection of accounts receivable by an average of 10 days. (3) Extends the average payment period by 10 days.
c. If the firm pays 13% for its resource investment, by how much, if anything, could it increase its annual profit as a result of the changes in part b?
d. If the annual cost of achieving the profit in part c is Rs.35,000, what action would you recommend to the firm? Why?