UNIVERSITY OF THE PUNJAB

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

Roll No. ……………

Paper: Corporate Finance (Finance Specialization)
Course Code: COMM-406

Time: 3 Hrs. Marks: 60

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

- **a)** Financial vs operating Risk
- **b)** Enlist disadvantages of payback period
- **c)** Required rate of return
- **d)** Capital structure
- **e)** Five C's of credit
- **f)** Financial Lease vs operating lease

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

Q.2 A metal Manufacturing Company is attempting to choose the better of two mutually exclusive projects for expanding the firm's warehouse capacity. The relevant cash flows for the projects are shown in the following table:

	Project A	**Project B**
Initial Investment [CFo]	$(100000)	$(100000)
Years	**Cash Inflows**	
1	$34000	$50000
2	34000	40000
3	34000	30000
4	34000	25000
5	34000	20000

The firm's cost of capital is 12%. Calculate:

- **a.** Payback period, Net present value (NPV), and Internal rate of return (IRR) of both the projects
- **b.** Which project would you finally select?

Q.3 Your firm's cost analysis supervisor supplies you with the following revenue and cost data:

Sales	$1100000
Variable costs	770000
Fixed operating costs	125000
Interest expenses	20000
Preferred dividend	25000

Income tax rate is 30%.

- **a)** Calculate the firm's degree of operating, financial and combined leverages?
- **b)** Determine the total amount of sales if the firm wants to double its EBIT

Q.4 Assume a company has earnings available to common stockholders $10 million. Its target debt ratio is **40%.** No of outstanding common shares are 1 million. Determine the amount of dividends paid, and dividend per share by using residual theory of dividends when new investment opportunities are in the size range of:

- **a)** $25 million
- **b)** $20 million
- **c)** $15 million
- **d)** $ 10 million
- **e)** $0 million