



# UNIVERSITY OF THE PUNJAB

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

Paper: Financial Management (Commerce)

Course Code: COMM-306 Part – I (Compulsory)

Time: 15 Min. Marks: 10

Roll No. in Fig. ....

Roll No. in Words. ....

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 choice.**

**(1x10=10)**

1- The sale of new security directly to an investor or group of investor is:

- a) Public offering
- b) Over the counter
- c) Private placement
- d) Non of these

2- \_\_\_\_\_ recognizes revenues and expenses only with respect to actual inflows and outflows of cash

- a) Accrual basis
- b) Cash basis
- c) Matching principle
- d) None of these

3- The likelihood that managers may place personal goals ahead of corporate goals is:

- a) Financial problem
- b) Market problem
- c) Operations problem
- d) Agency Problem

4- Decrease in any asset in cash flow indicates \_\_\_\_\_ of cash.

- a) Inflow
- b) Outflow
- c) No change
- d) Depreciation

5- If total assets = 150,000 fixed assets= 50,000 current liabilities= 40,000, NWC is:

- a) 60,000
- b) 70,000
- c) 80,000
- d) 90,000

6- The actual rate of interest charged by the supplier of funds and paid by demanders is:

- a) Nominal
- b) Real
- c) Fake
- d) Actual

**P.T.O**

7- Expected benefit on share is 6.5 and the current price of share is 50,  $k^*$  will be:

- a) 13%
- b) 14%
- c) 15%
- d) Non of these

8- If required return = 15%, constant zero growth dividend = 3, value of common stock is:

- a) 30
- b) 20
- c) 40
- d) Non of these

9- Beta usually measures \_\_\_\_\_ risk.

- a) Diversifiable
- b) Non diversifiable
- c) Convertible
- d) None of these

10- A \_\_\_\_\_ current ratio indicates a great degree of liquidity.

- a. Low
- b. High
- c. Medium
- d. None of these



# UNIVERSITY OF THE PUNJAB

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

Roll No. ....

Paper: Financial Management (Commerce)

Course Code: COMM-306 Part – II

Time: 2 Hrs. 45 Min. Marks: 50

## ATTEMPT THIS (SUBJECTIVE) ON THE SEPARATE ANSWER SHEET PROVIDED

Q. 2 Give Short answers of the following questions:

(10×2=20)

1. What do you mean by agency cost?
2. What is the difference between real interest rate and nominal interest rate?
3. Compute the net working capital if Total assets = 150,000 fixed assets = 50,000 Current liabilities = 40,000
4. Define investing cash flow.
5. What would be the gross profit margin if Cash Sales = 100,000 Credit sales = 200,000 Cost of goods sold = 80,000
6. If risk free rate= 8%, market return=13%, beta=0.90. Compute CAPM.
7. Define annuity.
8. What do you mean by financial services?
9. How would you explain corporate governance?
10. What is time series analysis?

Q.3 Newman Manufacturing is considering a cash purchase of the stock of Grips Tool. During the year just completed, Grips earned \$4.00 per share and paid cash dividends of \$2.50 per share (D0\$2.50). Grips' earnings and dividends are expected to grow at 25% per year for the next 4 years, after which they are expected to grow at 10% per year to infinity. What is the maximum price per share that Newman should pay for Grips if it has a required return of 15% on investments with risk characteristics similar to those of Grips? (10)

Q.4 Compute liquidity ratios and activity ratios.

Fox Manufacturing Company	
Income Statement	
For the Year Ended December 31, 2018	
Sales revenue	\$600,000
Less: Cost of goods sold	<u>460,000</u>
Gross profits	<u>\$ 140,000</u>
Less: Operating expenses	
General and administrative expenses	\$30,000
Depreciation expense	<u>30,000</u>
Total operating expense	<u>60,000</u>
Operating profits	\$ 80,000
Less: Interest expense	<u>10,000</u>
Net profits before taxes	<u>\$ 70,000</u>
Less: Taxes	27,100
Net profits after taxes (earnings available for common stockholders)	<u>\$ 42,900</u>
Earnings per share (EPS)	<u>\$2.15</u>

P.T.O

**Fox Manufacturing Company**  
**Balance Sheet**  
**December 31, 2003**

**Assets**

Cash	\$ 15,000
Marketable securities	7,200
Accounts receivable	34,100
Inventories	<u>82,000</u>
Total current assets	\$138,300
Net fixed assets	<u>\$270,000</u>
Total assets	\$408,300

**Liabilities and Stockholders' Equity**

Accounts payable	\$ 57,000
Notes payable	13,000
Accruals	<u>5,000</u>
Total current liabilities	\$ 75,000
Long-term debt	\$150,000
Stockholders' equity	
Common stock equity (20,000 shares outstanding)	\$110,200
Retained earnings	73,100
Total stockholders' equity	<u>\$183,300</u>
Total liabilities and stockholders' equity	<u>\$408,300</u>

Company made purchases of \$600,000 during the year. (10)

Q.5 An investment offers \$2,250 per year for 15 years, with the first payment occurring one year from now. If

the required return is 10 percent, what is the value of the investment? (10)