



UNIVERSITY OF THE PUNJAB

Seventh Semester – 2019

Examination: B.S. 4 Years Program

Roll No. in Fig.

Roll No. in Words.

PAPER: Corporate Finance (Finance Specialization)
Course Code: COMM-406 Part-I (Compulsory)

MAX. TIME: 15 Min.
MAX. MARKS: 10

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Signature of Supdt.:

Attempt this Paper on this Question Sheet only.

Please encircle the correct option. 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 right answer, cutting and overwriting is not allowed. (1x10=10)

1. The portion of an asset's risk that can be eliminated through diversification is:
 - a) Systematic risk
 - b) Non-systematic risk
 - c) Non diversifiable risk
 - d) Both a & b
2. The use of fixed operating costs to magnify the effects of changes in sales on the firm's earnings before interest and taxes is:
 - a) Financial leverage
 - b) Operating leverage
 - c) Financing leverage multiplier
 - d) Cost of capital
3. When required rate of return of the investor is less than coupon rate, the bond sells:
 - a) At par
 - b) At premium
 - c) At discount
 - d) At face value
4. If cost of capital decreases the NPV of a project:
 - a) Also increases
 - b) Decreases
 - c) Remains constant
 - d) NPV cannot be determined
5. The dividend paid in the form of shares is known as:
 - a) Cash dividend
 - b) Stock dividend
 - c) Property dividend
 - d) Both a and b
6. A lease contract which is long term and not cancelable is:
 - a) Operating lease
 - b) Financial lease
 - c) Leveraged lease
 - d) None of the above

P.T.O.



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PAPER: Corporate Finance (Finance Specialization)

Course Code: COMM-406 Part – II

MAX. TIME: 2 Hrs. 45 Min.

MAX. MARKS: 50

ATTEMPT THIS (SUBJECTIVE) ON THE SEPARATE ANSWER SHEET PROVIDED

Q.2. Give short answers of the following questions.

(5x4=20)

- a) Mutually exclusive projects vs independent projects
- b) Operating lease vs Financial lease
- c) Stock dividend vs stock split
- d) Residual theory of dividend
- e) Capital Asset Pricing Model (CAPM)

LONG QUESTIONS [10×3=30 Marks]

Q.3 ABC Company is considering a new product line to supplement its existing range line. It is estimated that the initial investment of \$100000 is made in the beginning for both projects A and B. The following table shows the estimated cash inflows of both the projects

Years	Project A-Inflows	Project B-Inflows
1	\$30000	\$25000
2	40000	40000
3	45000	40000
4	30000	20000
5	33000	42000

With cost of capital of 15% find out the following:

- a) Provide payback period for both the projects.
- b) Provide NPV for each and describe the feasibility of each project.
- c) Provide internal rate of return and its acceptability.

Q.4 As a CEO of The Leather Ltd. a garment chain, you have just received a letter from a major stockholder. The stockholder asks about the company's dividend policy. In fact, the stockholder has asked you to estimate the amount of the dividend that you are likely to pay next year. You have not yet collected all the information about the expected dividend payment but you do know the following: The Company follows a residual dividend policy. The total capital budget for next year is likely to be one of three amounts, depending on the results of capital budgeting studies that are currently under way. The capital expenditure amounts are \$2 million, \$4 million, \$7 million and \$10 million. The forecasted level of potential retained earnings next year is \$5 million. The target or optimal capital structure is a debt ratio of 30%. You have decided to respond by sending the stockholder the best information available to you by:

- a) Describe a residual dividend policy
- b) Compute the amount of the dividend (or the amount of new common stock needed) and the dividend payout ratio for each of the three capital expenditure amounts

Q.5 Your firm's cost analysis supervisor supplies you with the following revenue and cost data:

Sales	\$1500000
Variable costs	900000
Fixed operating costs	200000
Interest expenses	40000
Preferred dividend	50000

Income tax rate is 40%.

- 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