



# UNIVERSITY OF THE PUNJAB

B.S. 4 Years Program : Third Semester – Spring 2023

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)

- Multiple compounding in Time value of money
- What risk does beta measure?
- Use of liquidity ratios
- How turnover ratios are useful in analyzing company productivity
- Difference between MIRR and IRR
- Motives of Cash holding

Answer the following questions. (3x10=30)

### Question 02:

The Borowiak Rose Water Company expects with some degree of certainty to generate the following net income and to have the following capital expenditures during the next five years (in thousands of dollars):

	YEAR				
	1	2	3	4	5
Net income	\$2,000	\$1,500	\$2,500	\$2,300	\$1,800
Capital expenditures	\$1,000	\$1,500	\$2,000	\$1,500	\$2,000

The company currently has 1 million shares of common stock outstanding and pays annual dividends of \$1 per share.

- Determine dividends per share and external financing required in each year if dividend policy is treated as a residual decision.
- Determine the amounts of external financing that will be necessary in each year if the present annual dividend per share is maintained.
- Determine dividends per share and the amounts of external financing that will be necessary if a dividend-payout ratio of 50 percent is maintained.
- Under which of the three dividend policies are aggregate dividends (total dividends over five years) maximized? External required financing (total financing over five years) minimized?

### Question 03:

Lakson Industries' most recent annual dividend was \$1.80 per share ( $D_0 = \$1.80$ ), and the firm's required rate of return is 11%. Find the market value of Lakson's shares when dividends are expected to grow at 8% annually for 3 years followed by zero percent growth in years 4 to infinity.

### Question 04:

Dave Hirsh publishes his own manuscripts and is unsure which of two new printers he should purchase. He is a novelist. Having slept through most of his Finance course in college, he is unfamiliar with cash flow analysis. He enlists the help of the finance professor at the local university to assist him. Together they estimate the following expected initial investment (a negative cash flow) and net positive cash flows for years 1 through 3 for each machine. Dave only needs one printer and estimates it will be worthless after three years of heavy use. Dave's required rate of return for this project is 10 percent.

Year	<u>Expected Net Cash Flow</u>	
	Cal's Project	Aron's Project
0	\$(2,000)	\$(2,500)
1	900	1,500
2	1,100	1,300
3	1,300	800

- Calculate the payback period for each printer.
- Calculate the net present value for each printer.
- Calculate the internal rate of return for each printer.
- Which printer do you think Dr. French will recommend? Why?