UNIVERSITY OF THE PUNJAB

B.S. 4 Years Program / Eighth Semester – Spring 2023

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. What is operating leverage?
2. What is the major benefit of debt financing?
3. What is financial risk?
4. Define Miller and Modigiliani theory?
5. What is a horizontal merger?
6. What is aggressive strategy to finance working capital?
7. What is targeted dividend payout ratio?
8. What is a commodity exchange?
9. What is meant by Leveraged Buyouts?
10. What is derivatives market?
11. Differentiate between technical insolvency and bankruptcy?
12. Discuss two advantages of leasing versus purchase of fixed assets?
13. Define calls and puts?
14. What is cryptocurrency?
15. What is capital budgeting?

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

1. Sky company is interested in acquiring Tech by swapping 1.375 shares of its stock for each share of Tech stock. Certain financial data on these companies are given in the following table.

Item	Sky	Tech
Earnings available for common stock	Rs.500,000	Rs.100,000
No. of shares of common stock outstanding	125,000	20,000
Earnings per share (EPS)	Rs. 4.00	Rs. 5.00
Market price per share	Rs. 80.00	Rs. 75.00
Price/earnings P/E ratio	20	15

a. How many new shares of stock will Sky have to issue to make the proposed merger?
b. If the earnings for each firm remain unchanged, what will the post merger earnings per share be?
c. How much effectively, has been earned on behalf of each of the original shares of Tech stock?
d. How much effectively, has been earned on behalf of each of the original shares of Sky Company stock?
e. Calculate the expected earnings per share for Sky for each of the next five years without merger given a 3 % growth rate in earnings?
f. Calculate the expected earnings per share for Sky for each of the next five years post merger given a 3 % growth rate in Sky earnings and a 7 % growth rate in Tech's earnings?
g. Comment on your results in (e) & (f).

2. Shams Enterprises is considering relaxing its credit standards to increase its currently sagging sales. As a result of the proposed relaxation, sales are expected to increase by 5% from 60,000 to 63,000 units during the coming year; the average collection period is expected to increase from 30 to 45 days; and bad debts are expected to increase from 1% to 2% of sales. The sale price per unit is Rs.10, and the variable cost per unit is Rs.6. The firm's total fixed costs are Rs. 120,000. The firm's required return on equal-risk investments is 15%. Evaluate the proposed relaxation, and make a recommendation to the firm.

3. Green Company currently makes all sales on credit and offers no cash discount. The firm is considering offering a 2% cash discount for payment within 10 days. The firm's current average collection period is 30 days, sales are 60,000 units, selling price is Rs.10 per unit, and variable cost per unit is Rs.6. The firm expects that the change in credit terms will result in an increase in sales to 63,000 units, that 60% of the sales will take the discount, and that the average collection period will fall to 15 days and bad debts are expected to drop from 1% to 0.5% of sales. If the firm's required rate of return on equal-risk investments is 15%, should the proposed discount be offered?