



UNIVERSITY OF THE PUNJAB

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

Roll No.

Paper: Financial Management (Commerce)

Course Code: COMM-306

Time: 3 Hrs. Marks: 60

THE ANSWERS MUST BE ATTEMPTED ON THE ANSWER SHEET PROVIDED

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

- a) Corporate Governance
- b) Ordinary annuity vs annuity due
- c) Yield to Maturity
- d) Institutional investors
- e) Insider trading
- f) Flexible budgeting

Answer the following questions. (3x10=30)

Q.2 As part of your personal budgeting process, you have determined that in each of the next 5 years you will have budget shortfalls. In other words, you will need the amounts shown in the following table at the end of given year to balance your budget. You expect to be able to earn 12% on your investments during the next 5 years and wish to fund the budget shortfalls over the next 5 years with a single amount today.

End of years	Budget shortfalls
1	\$12000
2	9000
3	8000
4	7000
5	6000

- a) How large must the single deposit today into an account paying 12% annual interest be to provide for full coverage of the anticipated budget shortfalls?
- b) What effect would a decrease in your earnings rate have on the amount calculated in part a) above? Explain

Q.3 Sufi Banaspati presently gives credit terms of "net 30 days". It has \$7 million in annual credit sales, and its average collection period is 40 days. Currently bad debts are 3% of sales. To stimulate sales, the company may give credit terms of 2/10, net 30 days". If it does instigate these terms, sales are expected to increase by 20%. After the change, the average collection period is expected to be 60 days. Bad debts will rise from 3% to 4% of sales. It is expected that 70% customers will avail this discount. Variable costs are \$0.80 for every \$1.00 of sales, and the company's before tax required rate on investment in receivables is 20 percent. Should the company extend its credit period? (There are 360 days in a year)

Q.4 Forecast sales and purchases from January and February 2024 of *The Clock Ltd.* are given below:

<u>Months</u>	<u>Sales</u>	<u>Purchases</u>
January	\$51000	\$25000
February	54000	27000

All sales are on credit basis and the company typically collects 20 percent of its sales in the month of sales, 60 percent in the subsequent month, and 20 percent in the second month after the sale. Actual sales of November and December are \$40000 and \$45000 respectively. Rent will be received \$6000 per month. Payment of purchases is made 45 percent in the month of purchase, 30 percent in the subsequent month, and remaining 25 percent in the second month after the purchase. Actual purchases of November and December are \$19000 and \$21000 respectively. General and admin expenses will amount to \$10000 each month and miscellaneous expenses will be \$5000 each month. A machine will be purchased in the month of January at a cost of \$23000. Cash on hand at January 1st is \$10000 and a minimum cash balance of \$10000 should be maintained throughout the cash budget period.

Prepare a monthly cash budget of The Clock Ltd. from January to February 2024