



UNIVERSITY OF THE PUNJAB

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

Roll No.

Paper: Corporate Finance (Finance Specialization)

Course Code: COMM-406

Time: 3 Hrs. Marks: 60

THE ANSWERS MUST BE ATTEMPTED ON THE ANSWER SHEET PROVIDED

Q.1. Give short answers to the following terms: (6x5=30)

- a) Aging of account receivables
- b) Optimal capital structure
- c) Diversification
- d) Target payback period
- e) Risk adjusted discount rate
- f) Financial Lease vs operating lease

Answer the following questions. (3x10=30)

Q.2 Star Manufacturing Company is attempting to choose the better of two mutually exclusive projects for expanding the firm's warehouse capacity. The relevant cash flows for the projects are shown in the following table:

Initial Investment [CF ₀]	Project-A	Project-B
	\$(100000)	\$(100000)
Years	Cash Inflows	
1	\$38000	\$55000
2	38000	48000
3	38000	33000
4	38000	31000
5	38000	28000

The firm's cost of capital is 14%. Calculate:

- a) Payback period, Net Present Value (NPV) and Internal Rate of Return (IRR) of both the projects.
- b) Which project would you finally select?

Q.3 Your firm's cost analysis supervisor supplies you with the following revenue and cost data:

Sales	\$1000000
Variable costs	700000
Fixed operating costs	80000
Interest expenses	25000
Preferred dividend	28000

Income tax rate is 25%.

- 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

Q.4 Assume a company has earnings available to common stockholders \$10 million. Its target debt to equity ratio is 40%. Determine the amount of dividends paid, and dividend payout ratio by using residual theory of dividends when new investment opportunities are in the size range of:

- a) \$28 million
- b) \$22 million
- c) \$14 million
- d) \$12 million
- e) \$ 5 million