# UNIVERSITY OF THE PUNJAB

**Second Year A/2015**
**Examination: B.B.A. (Hons.)**

Roll No. ....................

**Subject: Financial Management (Basic)** **TIME ALLOWED: 3 hrs.**
**PAPER: 2** **MAX. MARKS: 100**

***NOTE: (i) Answer any FIVE (5) questions. Question No. 1 is compulsory.***
***(ii) Extra attempt will not be considered.***

## Section 1.

Q 1 a) write short notes on the following (5*4=20 marks)

a) Time value of money
b) Wealth maximization
c) Compound interest
d) Sinking fund
e) Liquidity

b) Briefly answer the following questions (4*5=20 marks)

a) Differentiate between Accounting and Finance
b) Differentiate between simple and compound interest
c) Differentiate between liquidity ratios and solvency ratios
d) Differentiate between debenture and share

## Section 2

NOTE: ATTEMPT ANY FOUR QUESTIONS.

**Question 2.** (15 marks)

a) What is the present value of Rs. 10000 to be received after 10 years if investor required rate of return is 10%?
b) What is the future value of Rs. 3000 invested for 3 years and compounded at 15% per annum?
c) In how many years Rs. 10000 will be converted into Rs. 27000 compounded at the rate of 12% per annum?
d) What will be the rate of interest if Rs. 8000 becomes 36000 in 12 years?

**Question 3.**

Following is the detail of financial data of a company: (15 marks)

| | | |
|---|---|---|
| Cash= Rs. 50000 | Marketable securities= Rs. 30000 | Accounts receivable = Rs. 25000 |
| Inventories= Rs. 75000 | Fixed assets= Rs. 550000 | Current liabilities= Rs. 110000 |
| Long term liabilities= Rs. 120000 | sales= Rs. 350000 | |

Requirement: calculate the following ratios

a) Quick ratio
b) Current ratio

P.T.O.

c) Working capital
d) Debt equity ratio
e) Assets turnover ratio

**Question 4.** (15 marks)

a) You want to purchase a retirement annuity that will pay you Rs. 15000 at the end of every year for the next 15 years. The annual interest rate is 8% per annum. What is the price of annuity to be paid today?
b) If you deposit Rs. 5000 at the end of each year for the next 20 years compounded at 12% per annum, what will be the future value?
c) Calculate the loan installment at the end of each year for a loan of Rs. 1500000 for 5 years compounded at the rate of 14% per annum?
d) What is ordinary annuity?

**Question 5.** A company has issued 50,000 corporate bonds of Rs. 100 each at a premium of 5%. The coupon rate is 15%. The bond will be redeemed after 3 years at par value. (15 marks)

Requirements:

a) Annual interest payment
b) How much company will receive at the time of issuance of bonds
c) How much company will have to pay at the time of redemption
d) After tax cost of debt to the company if tax rate is 30%

**Question 6.** (15 marks)

a) If cost of goods sold is Rs. 750000 and inventory turnover ratio is 5 times, what is the value of average inventory?
b) If current liabilities Rs. 60000, quick ratio is 1.50:1 and closing inventory is Rs. 30000, calculate the value of current assets?
c) If fixed assets are Rs. 350000, currents assets are Rs. 150000, total liabilities are 70000, calculate the value of equity?
d) What is the importance of working capital?

**Question 7.** Upon completion of her introductory finance course, Marla Lee was so pleased with the amount of useful and interesting knowledge she gained that she convinced her parents, who were wealthy alums of the university she was attending, to create an endowment. The endowment is to allow three needy students to take the introductory finance course each year in perpetuity. The guaranteed annual cost of tuition and books for the course is $600 per student. The endowment will be created by making a single payment to the university. The university expects to earn exactly 6% per year on these funds.

**a.** How large an initial single payment must Marla's parents make to the university to fund the endowment?
**b.** What amount would be needed to fund the endowment if the university could earn 9% rather than 6% per year on the funds? (15 marks)

**Question 8.** Briefly describe the concept of junk bond, coupon bond, zero coupon bond and floating rate bond? (15 marks)