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Composed & Solved by Iftikhar Ali Lecturer Statistics, Finance & Accounting

Paper	Financial Management	**Standard**	MCOM
Board/University	University of Sargodha	**Code**	MCM-507
Year	2018 1st Annual	**Marks**	100

Note: Question # 1 is compulsory. Attempt any four questions from the remaining. All questions carry equal marks.

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Q No1: Explain the following terms (10 x 2= 20)

a. Role of financial management
b. Continuous Compounding
c. Preferred Stock Valuation
d. Accounts Receivable
e. Profitability Index
f. Operating Leverage
g. Total Value Principle
h. Stock Split
i. Business
j. Marketable Securities

Q No 2: Write a note on the followings:
a. Valuation of Long Term Securities **b.** Working Capital Management

Q No 3: What is meant by cost of capital of firm? Explain the CAPM: project-specific and group-specific rate of returns.

Q No 4: ABC Company is a distributor of air filters to retail stores. It buys its filters from several manufacturers. Filters are ordered in lot sizes of 1,000, and each order costs $40 to place. Demand from retail stores is 20,000 filters per month, and carrying cost is $0.10 a filter per month.
a. What is the optimal order quantity with respect to so many lot sizes (that is, what multiple of 1,000 units should be ordered)?
b. What would be the optimal order quantity if the carrying cost were cut in half to $0.05 a filter per month?
c. What would be the optimal order quantity if ordering costs were reduced to $10 per order?

Q No 5: NBS currently pays a dividend of $1.60 per share on its common stock. The company expects to increase the dividend at a 20 percent annual rate for the first four years and at a 13 percent rate for the next four years, and then grow the dividend at a 7 percent rate thereafter. This phased-

growth pattern is in keeping with the expected life cycle of earnings. You require a 16 percent return to invest in this stock. What value should you place on a share of this stock?

Q No 6: (i) Comment on the Tax and Financial Environment
(ii) Capital Structure determinants and explain presence of market imperfections and incentive issues

Q No 7: XYZ Company currently gives credit terms of "net 30 days." It has $60 million in credit sales, and its average collection period is 45 days. To stimulate demand, the company may give credit terms of "net 60 days." If it does instigate these terms, sales are expected to increase by 15 percent. After the change, the average collection period is expected to be 75 days, with no difference in payment habits between old and new customers. Variable costs are $0.80 for every $1.00 of sales, and the company's before-tax required rate of return on investment in receivables is 20 percent. Should the company extend its credit period? (Assume a 360-day year.)

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