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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	2019 1 st Annual	Marks	100

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

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

- (i) Simple interest
- (ii) Annuity Due
- (iii) Preferred Stock Valuation
- (iv) Attitude towards risk
- (v) Profitability index
- (vi) Dividend stability
- (vii) CAPM
- (viii) Marketable securities
- (ix) Working Capital
- (x) Role of Financial Management

Q No 2: Write a note on the following:

- (i) Dividend Policy
- (ii) Tax and Financial Environment

Q No 3: You are considering investing equally in two assets. Asset A is an investment in gold and Asset B is an equity fund aiming at moderate growth. What would be the covariance of a portfolio for these two assets assuming the below probabilities that the four economic scenarios will occur?

Probability of Occurrence	Return on Investment A	Return on Investment B
0.1	8.0%	2.0%
0.3	3.0%	4.0%
0.4	-2.0%	10.0%
0.2	-4.0%	20.0%

Q No 4: You are thinking of buying a machine that has a 4 year useful life, and would require an initial outlay of \$120,000. The machine would be depreciated to a zero book value over four years on a straight-line basis, so depreciation would be \$30,000 per year. The machine would generate incremental

increase in operating income of \$50,000 per year in real terms before taxes, and the relevant tax rate is 40%. Inflation is expected to be 8% per year, and the project's required return in real terms would be 10%. What is the NPV of purchasing this machine?

Q No 5: The firm has \$400 million in outstanding debt and \$100 million in preferred stock. Its total value is \$800 million. Its cost of debt is 8%. Its cost of preferred stock is 9%, and its cost of common stock is 12%. The firm has recently had numerous depreciation tax shields as well as low earnings. Consequently, it does not pay taxes. What is its weighted average cost of capital (WACC) assuming it will continue to not pay taxes?

Q No 6: (a) Comment on the valuation of bonds and common stock.

(b) Explain the capital structure determinants with examples.

Q No 7: What is meant by leverage? Explain the operating leverage and financial leverage in detail with examples.

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