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

Paper	Financial Management	**Standard**	MCOM
Board/University	University of Sargodha	**Code**	MCM-507
Term/Year	Term 2nd/2016	**Marks**	100

Objective part is compulsory. Attempt any three questions from subjective part.

Objective Part

Q No1: Explain the following terms (16 x 2= 32)

1. Aging Accounts Receivable
2. Bond Discount
3. Call Price
4. Capitalization Rate
5. Covariance
6. Default
7. Expected Return
8. Factoring
9. Going-Concern Value
10. Invoice
11. Leverage
12. Order Point
13. Present Value
14. Seasonal dating
15. Stockout
16. Systematic Risk

Subjective Part

Q.No.2 Vernal Equinox wishes to borrow $10,000 for three years. A group of individuals agrees to lend him this amount if he contracts to pay them $16,000 at the end of the three years. What is the implicit compound annual interest rate implied by this contract (to the nearest whole percent)?

Q.No.3 Delphi Products Corporation currently pays a dividend of $2 per share, and this dividend is expected to grow at a 15 percent annual rate for three years, and then at a 10 percent rate for the next three years, after which it is expected to grow at a 5 percent rate forever. What value would you place on the stock if an 18 percent rate of return was required?

Q.No.4 Porras Pottery Products, Inc., spends $220,000 per annum on its collection department. The company has $12 million in credit sales, its average collection period is 2.5 months, and the percentage of bad-debt losses is 4 percent. The company believes that, if it were to double its collection personnel, it could bring down the average collection period to2 months and bad-debt losses to 3 percent. The added cost is $180,000, bringing total collection expenditures to $400,000 annually. Is the increased effort worthwhile if the before-tax opportunity cost of funds is 20 percent? If it is 10 percent?

Q.No.5 Carbide Chemical Company is considering the replacement of two old machines with a new, more efficient machine. It has determined that the relevant after-tax incremental operating cash flows of this replacement proposal are as follows:

	END OF YEAR			
	0	1	2	3
Cash flows	−$404,424	$86,890	$106,474	$91,612

	END OF YEAR				
	4	5	6	7	8
Cash flows	$84,801	$84,801	$75,400	$66,000	$92,400

What is the project's net present value if the required rate of return is 14 percent? Is the project acceptable?

Q.6 Fazio Pump Corporation currently has 1.1 million shares of common stock outstanding and $8 million in debt bearing an interest rate of 10 percent on average. It is considering a$5 million expansion program financed with common stock at $20 per share being realized (option 1), or debt at an interest rate of 11 percent (option 2), or preferred stock with a10 percent dividend rate (option 3). Earnings before interest and taxes (EBIT) after the new funds are raised are expected to be $6 million, and the company's tax rate is 35 percent.

a. Determine likely earnings per share after financing for each of the three alternatives.

b. What would happen if EBIT were $3 million? $4 million? $8 million?

c. What would happen under the original conditions if the tax rate were 46 percent? If the interest rate on new debt were 8 percent and the preferred stock dividend rate were7 percent? If the common could be sold for $40 per share?