Roll No.________________ Reg. No.______________ Date____________
Sing._________________

GOVERNMENT COLLEGE UNIVERSITY, FAISALABAD

MODEL PAPER

M. Com. Part I

Course Code: **MC-503** Course Title: **Financial Management and Analysis of Financial Statements**

Objective Part Time Allowed: **30** Minutes
Marks:**20**

Note: Question No. 1 is compulsory and its all parts carry equal marks. Please attempt the answers on the same paper and return it to the center superintendent within the time allowed.

Q. No. 1 Tick the correct choice (20X1)

1-To increase a given present value, the discount rate should be adjusted
(a) upward. (b) downward.
(c) No effect (d) Interest rate cannot be change

2-In a typical loan amortization schedule, the dollar amount of interest paid each period ____ .
(a) increases with each payment
(b) decreases with each payment
(c) remains constant with each payment
(d) It depends upon loan amount

3-A Co.'s debt-to-total assets (D/TA) ratio is .4. What is its debt-to-equity (D/E) ratio?
(a) 0.2 (b) 0.6
(c) 0.667 (Correct) (d) 0.5

4-If a firm has a DOL of 5 at Q units, this tells us that:
(a) if sales rise by 5%, EBIT will rise by 5%.
(b) if sales rise by 1%, EBIT will rise by 1%.
(c) if sales rise by 5%, EBIT will fall by 25%.
(d) if sales rise by 1%, EBIT will rise by 5%.

5-In calculating the costs of the individual components of a firm's financing, the corporate tax rate is important to which of the following component cost formulas?
(a) common stock
(b) debt
(c) preferred stock
(d) none of the above

6-The trade terms "2/15, net 30" indicate that:
(a) a 2% discount is offered if payment is made within 15 days
(b) a 15% discount is offered if payment is made within 30 days
(c) a 2% discount is offered if payment is made within 30 days
(d) a 30% discount is offered if payment is made within 15 days

7-Which of the following would be consistent with a more aggressive approach to financing working capital?
(a) Financing short-term needs with short-term funds
(b) Financing permanent inventory buildup with long-term debt.

(c) Financing seasonal needs with short-term funds
(d) Financing some long-term needs with short-term funds

8-Net working capital **refers to**
(a) total assets minus fixed assets
(b) current assets minus current liabilities
(c) current assets minus inventories
(d) current assets

9-Which of the following is NOT a cash outflow for the firm?
(a) depreciation.
(b) dividends
(c) interest payments.
(d) taxes

10-The risk-free security has a beta equal to __________, while the market portfolio's beta is equal to ___________.
(a) one; more than one
(b) one; less than one
(c) zero; one
(d) less than zero; more than zero

11-A major advantage of the corporate form of organization is:
(a) reduction of double taxation
(b) limited owner liability
(c) legal restrictions
(d) ease of organization

12-Interest rates and bond prices
(a) move in the same direction
(b) move in opposite directions
(c) sometimes move in the same direction, sometimes in opposite directions
(d) have no relationship with each other (i.e., they are independent).

13-In proper capital budgeting analysis we evaluate incremental
(a) accounting income
(b) cash flow
(c) earnings.
(d) operating profit

14-Retained earning are
(a) an indication of a company's liquidity
(b) the same as cash in the bank
(c) not important when determining dividends
(d) the cumulative earnings of the company after dividends

15-The financial ratio measured as net income divided by total assets is known as the firm's:

(a) Profit margin.
(b) Return on assets.
(c) Return on equity.
(d) Asset turnover

16-Coupon bonds make the annual payments which are called as _________.
(a) Annual payments
(b) Fixed payments
(c) Coupon payments
(d) Maturity payment

17-Which of the following method can be used to forecast the sales of a firm?
(a) Price – earning ratio
(b) Cash flow estimation
(c) Fundamental Analysis
(d) Regression Analysis

18-The formula for the break-even quantity of output (QBE), given the price per unit (P), fixed costs (FC), and variable cost per unit (V), is:

(a) $Q_{BE} = (P - V)/FC$.
(b) $Q_{BE} = (P/FC) - V$.
(c) $Q_{BE} = (FC/P) - V$.
(d) $Q_{BE} = FC/ (P - V)$.

19-What is true about the relationship between standard deviation and risk?
(a) Greater the standard deviation greater will be the risk
(b) Greater the standard deviation lower will be the risk
(c) Greater the standard deviation risk remains the same
(d) No relation between them

20-Which of the following would generally have unlimited liability?
(a) A limited partner in a partnership
(b) A shareholder in a corporation
(c) The owner of a sole proprietorship
(d) A member in a limited liability company (LLC)

GOVERNMENT COLLEGE UNIVERSITY, FAISALABAD

MODEL PAPER

M. Com. Part I Course Code: **MC-503**

Course Title: ***Financial Management and Analysis of Financial Statements***

Subjective Part	Time Allowed: 02:30 Hours	Marks:80

Note: Attempt any four questions and each question carries equal marks.

Q. No. 2 Complete the 2003 balance sheet for ABC Industries using the information that follows it.

Cash	$30,000	Accounts payable	$120,000
Marketable securities	25,000	Notes payable	________
Accounts receivable	________	Accruals	20,000
Inventories	________	Total current liabilities	________
Total current assets	________	Long-term debt	________
Net fixed assets	________	Stockholders' equity	$ 600,000
Total assets	$	Total liabilities and stockholders' equity	$

The following financial data for 2003 are also available:

(1) Sales totaled $1,800,000.
(2) The gross profit margin was 25%.
(3) Inventory turnover was 6.0.
(4) There are 360 days in the year.
(5) The average collection period was 40 days.
(6) The current ratio was 1.60.
(7) The total asset turnover ratio was 1.20.
(8) The debt ratio was 60%.

Q. No. 3 2- (A) You would like to have $75,000 in 15 years. To accumulate this amount, you plan to deposit each year an equal sum in the bank, which will earn 8 percent interest compounded annually. Your first payment will be made at the end of the year.
a. How much must you deposit annually to accumulate this amount?
b. If you decide to make a large lump-sum deposit today instead of the annual deposits, how large should this lump-sum deposit be? (Assume you can earn 8 percent on this deposit.)

(B) You have been offered a note with four years to maturity, which will pay $3,000 at the end of each of the four years. The price of the note to you is $10,200. What is the implicit compound annual interest rate you will receive (to the nearest whole percent)?

Q. No. 4 **(A)** Define Operating and Financial Leverage and are calculated?
(B) Shah, Ltd., has a DOL of 2 at its current production and sales level of 10,000 units. The resulting operating income figure is $1,000.
a. If sales are expected to increase by 20 percent from the current 10,000-unit sales position, what would be the resulting operating profit figure?
b. At the company's new sales position of 12,000 units, what is the firm's "new" DOL
/
figure?

Q. No. 5 The General Supply Company needs to increase its working capital by $4.4 million. The following three financing alternatives are available (assume a 365-day year):
a. Forgo cash discounts (granted on a basis of "3/10, net 30") and pay on the final due date.
b. Borrow $5 million from a bank at 15 percent interest. This alternative would necessitate maintaining a 12 percent compensating balance.
c. Issue $4.7 million of six-month commercial paper to net $4.4 million. Assume that new

paper would be issued every six months.
Assuming that the firm would prefer the flexibility of bank financing, provided the additional cost of this flexibility was no more than 2 percent per annum, which alternative should this company select? Why?

Q. No. 6 You are considering a project with an initial cash outlay of $160,000 and expected free cash flows of $40,000 at the end of each year for six years. The required rate of return for this project is 10 percent.

a. What is the project's payback period?
b. What is the project's *NPV?*
c. What is the project's *PI?*
d. What is the project's *IRR?*

Q. No. 7 **(A)** Nishat Limited's WACC is 14 percent and its tax rate is 33 percent. Nishant's pre-tax cost of debt is 12 percent and its debt-equity ratio is 2:1. The risk-free rate is 8 percent and the market risk premium is 6 percent. What is the beta of Nishat's equity?

(B) The Manx Company was recently formed to manufacture a new product. It has the following capital structure in market value terms:

Debentures	$ 6,000,000
Preferred stock	2,000,000
Common stock (320,000 shares)	8,000,000

The company has a marginal tax rate of 40 percent. A study of publicly held companies in this line of business suggests that the required return on equity is about 17 percent. (The CAPM approach was used to determine the required rate of return.) The Manx Company's debt is currently yielding 13 percent, and its preferred stock is yielding 12 percent. Compute the firm's present weighted average cost of capital.