

GOVERNMENT COLLEGE UNIVERSITY, FAISALABAD

MODEL PAPER

M. Com.

Part –II

Course Code: MC-616

Course Title: **Corporate**

Finance

Time allowed: **3 Hours**

Marks: 100

Note: Question 1 is compulsory, attempt any 4 questions from the following each question carries equal marks.

Question 1 Answer the following Short questions.

- ✓ What is optimum capital structure?
- ✓ Write down the formula for profitability index?
- ✓ What do you mean by zero rated bonds?
- ✓ Define financial planning?
- ✓ Differentiate between operating lease and financial lease?
- ✓ What is primary market?
- ✓ Differentiate between forward and option contract?
- ✓ What is credit scoring?
- ✓ Differentiate between horizontal and vertical analysis?
- ✓ What is WMCC and WACC

Q. No. 02: Portfolio Analysis: table below have shown the return data of three financial assets-A, B and C over a period of 2005-2008.

Years	Asset (A)	Asset (B)	Asset (C)
2005	16 %	17 %	14 %
2006	17	16	15
2007	18	15	16
2008	19	14	17

Using these assets, you have isolated the above three investment alternatives shown in the following table:

Alternatives	Investment
1	100 % of asset A
2	50 % of assets A and 50 % of asset B
3	50% of asset A and 50 % of asset C

Requirement

- a. Calculate the expected return over the 4 years period for each of the three alternative
- b. Calculate the standard deviation of returns over the 4-year period of each three alternative
- c. Use your findings in part a and b to calculate the coefficient of variation of each of three alternative
- d. On the basis of your findings, which of the three investment alternative do you recommend? Why?

Q. No. 03: Analyzing Risk and Return

Flash technologies incorporation must choose between two assets purchases. The annual rate of return and related probabilities given in the following table summarize the firm's analysis to this point:

Project A		Project B	
Rate of return	Probability	Rate of return	Probability
-10 %	.01	10 %	.05
10	.04	15	.10
20	.05	20	.10
30	.10	25	.15
40	.15	30	.20
45	.30	35	.15
50	.15	40	.10
60	.10	45	.10
70	.05	50	.05
80	.04		
100	.01		

Requirement

For each project compute

1. Calculate:
 - a. Range of possible rates of return
 - b. The expected value of return
 - c. The standard deviation of the return
 - d. The coefficient of variation of the return
2. Construct a bar-chart of each distribution of rates of return
3. Which project would you consider less risky? Why?

Q. No 4 Dividend Policy. Lloyds Ltd. currently pays a dividend of \$1.65 per share on its common stocks; the company expects to increase the dividend at a 15% annual rate for the first 5-years and at 11% rate for the next three years. And grow the dividend at a 7.5% rate thereafter. This phased growth pattern is in keeping with the expected life cycle of earnings. You require a 16% return to invest in this stock. What value should you place on a share of this stock?

Q. No 5 Balance Sheet Analysis. Complete the balance sheet and sales information in the table that follows for Hoffmeister

Industries using the following financial data:

Debt ratio: 50%

Current ratio: 1.8

Total assets turnover: 1.5

Day's sales outstanding: 36.5 days

Gross profit margin on sales (sales – Cost of goods sold)/Sales = 25%

Inventory turnover ratio: 5

Calculation is based on a 365-day year.

BALANCE SHEET			
Cash	_____	Accounts Payable	_____
Accounts receivable	_____	Long-term debt	60,000
Inventories	_____	Common Stock	_____
Fixed asset	_____	Retained earnings	97,500
Total assets	<u>\$300,000</u>	Total liabilities & equity	<u>_____</u>
Sales	_____	Cost of goods sold	_____

Q. NO. 06. **Capital Structure.** Patton Paints Corporation has a target capital structure of 40 percent debt and 60 percent common equity. The company's before-tax cost of debt is 12 percent and its marginal tax rate is 40 percent. The current stock price is $P_0 = \$22.50$; the last dividend was $D_0 = \$2.00$; and the dividend is expected to grow at a constant rate of 7 percent. What will be the firm's cost of common equity and its WACC?

Q. NO. 07. **CAPM** for each of the cases shown in the following table, use capital asset pricing model to find the required return

Case	Risk-free rate of return	Market return	Beta, β
A	5 %	8 %	1.30
B	8	13	.90
C	9	12	-.20
D	10	15	1.00
E	6	10	.60