

College Name: \_\_\_\_\_

Student Name: \_\_\_\_\_ Seat No: \_\_\_\_\_

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**KARACHI UNIVERSITY BUSINESS SCHOOL**  
**UNIVERSITY OF KARACHI**  
**FINAL EXAMINATION DECEMBER 2016; AFFILIATED COLLEGES**  
**FINANCIAL MANAGEMENT: BA (H) – 551**  
**BBA – V**

**Date: January 13, 2017****Max Time: 2 Hrs****Max Marks: 40****INSTRUCTIONS:**

- 1. Attempt 4 Questions, where Q6 is compulsory.**
- 2. Do not write anything on the question paper, EXCEPT Initials Mentioned Above.**
- 3. Mobile Phone(s) or any other communicating device will not be allowed in the examination room. Students will have to remove the batteries of these devices before entering the examination hall.**

- Q1 Dobson Dairies has a capital structure which consists of 60 percent long-term debt and 40 percent common stock. The company's CFO has obtained the following information:
- The before-tax yield to maturity on the company's bonds is 8 percent.
  - The company's common stock is expected to pay a \$3.00 dividend at year end ( $D_1 = \$3.00$ ), and the dividend is expected to grow at a constant rate of 7 percent a year. The common stock currently sells for \$60 a share.
  - Assume the firm will be able to use retained earnings to fund the equity portion of its capital budget.
  - The company's tax rate is 40 percent.
- What is the company's weighted average cost of capital (WACC)?
- Q2 A 6-year bond which pays 8 percent interest semiannually sells at par (\$1,000). Another 6-year bond of equal risk pays 8 percent interest annually. Both bonds are non-callable and have a face value of \$1,000. What is the price of the bond which pays annual interest?
- Q3 A Corporation expects to have net income of Rs.800,000 during the next year its target and current capital structure is 40% debt and 60% common equity the Director has determined that the optimal capital budget for next year is Rs.1.2 million if Co uses the residual dividend model to determine next year's dividend payout, What is the expected Payout ratio?
- Q4 You have recently been hired to improve the performance of Muzzamil Corporation, which has been experiencing a severe cash shortage. As one part of your analysis, you want to determine the firm's cash conversion cycle. Using the following information and a 365-day year, what is your estimate of the firm's current cash conversion cycle?

Current inventory = Rs. 120,000.

Annual sales = Rs. 600,000.

Accounts receivable = Rs. 157,808.

Accounts payable = Rs. 25,000.

Total annual purchases = Rs. 365,000.

Purchases credit terms: net 30 days.

Receivables credit terms: net 50 days.

Q5 You have been given the following projections for Danish Corporation for the coming year.

Sales	=	10,000 units
Sales price per unit	=	Rs 10
Variable cost per unit	=	Rs 5
Fixed costs	=	Rs 10,000
Bonds outstanding	=	Rs 15,000
$r_d$ on outstanding bonds	=	8%
Tax rate	=	40%
Shares of common stock outstanding	=	10,000 shares
Beta	=	1.4
$r_{RF}$	=	5%
$r_M$	=	9%
Dividend payout ratio	=	60%
Growth rate	=	8%

Calculate the current price per share for Danish Corporation.

Q6 Fahad.com is considering the following two projects:

	Project 1	Project 2
<u>Year</u>	<u>Cash Flow</u>	<u>Cash Flow</u>
0	-\$100	?
1	30	30
2	50	90
3	40	70
4	50	70

The two projects have the same payback. What is Project 2's IRR AND Profitability Index, if discount rate is 5%?

**END OF SUBJECTIVE PAPER**