

	<b>FINAL TERM EXAMINATION</b> SPRING 2006 MGT201 - FINANCIAL MANAGEMENT (Session - 1 )	Marks: 60 Time: 120min
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StudentID/LoginID: \_\_\_\_\_

Student Name: \_\_\_\_\_

Center Name/Code: \_\_\_\_\_

Exam Date: Tuesday, August 22, 2006

**Please read the following instructions carefully before attempting any question:**

- All questions are compulsory.
- This exam consists of **15** Multiple Choice Questions (MCQ's), **5** True/False Questions, **5** Fill in the Blanks, **5** Short Questions and **2** Numerical Questions.
- Question No.1-15 are MCQs carrying **1** Mark each, Question No.16-20 are fill in the blanks carrying **1** Mark each, Question No.21-25 True/False Questions carrying **1** Mark each, Question No.26-30 are short questions carrying **3** Marks each and Question No.31-32 are numerical questions carrying **10** Marks each.
- For each MCQ, read the choices available carefully and select the choice which you consider is the most suitable, by clicking on the appropriate check box.
- Save your answer before proceeding to the next question.
- Do not click the **“Finish button”** while solving your paper. Once you clicked the “Finish” button, you will not be able to access your paper again. *Click it only at the end after solving the whole paper, which will be an indication that you have submitted your complete paper.*
- You are required to show all the working of short questions as well as Numerical questions.
- The use of calculator and financial tables is allowed.
- **A clock has been given in the exam software. Software will automatically be closed after 150 minutes.**
- Remember do not spend too much time on any one MCQ. Since all MCQ's carry equal marks, it is

important to manage your time and responses to test questions effectively.

- Failure to comply with the supervisor's directions will result in your test being cancelled. Please comply with supervisor's directions to avoid any unpleasant event.

For Teacher's use only											
Question Marks	1	2	3	4	5	6	7	8	9	10	Total
Question Marks	11	12	13	14	15	16	17	18	19	20	
Question Marks	21	22	23	24	25	26	27	28	29	30	
Question Marks	31	32									

Question No: 1 ( Marks: 1 ) - Please choose one

EBIT is usually the same thing as:

- ▶ Funds provided by
- ▶ Earnings before taxes.
- ▶ Net income.
- ▶ Operating profit

Question No: 2 ( Marks: 1 ) - Please choose one

A major advantage of the corporate form of organization

- ▶ Reduction of double

- ▶ Limited owner's liability.
- ▶ Legal restrictions.
- ▶ Ease of organization

Question No: 3 ( Marks: 1 ) - Please choose one

A profitability index of 0.85 for a project means that:

- ▶ The present value of benefits is 85% greater than the project's
- ▶ The project's NPV is greater than zero.
- ▶ The project returns 85 cents in present value for each current dollar
- ▶ The payback period is less than one year.

Question No: 4 ( Marks: 1 ) - Please choose one

The ultimate ownership of the firm resides:

- ▶ With management
- ▶ With common shareholders
- ▶ With preferred shareholders

- ▶ With bondholders

Question No: 5 ( Marks: 1 ) - Please choose one

----- refers to the financial projection of cash disbursements and receipts during the next planning period.

- ▶ Cash investment plan
- ▶ Cash budget
- ▶ Capital budgeting
- ▶ None of the given

Question No: 6 ( Marks: 1 ) - Please choose one

An arrangement whereby a firm sells land, buildings, or equipment and simultaneously leases property back for a specified period under specific terms is called

- ▶ Service lease
- ▶ Capital lease.
- ▶ Sale and leaseback.
- ▶ Lessor agreement.

Question No: 7 ( Marks: 1 ) - Please choose one

The market price of a share of common stock is determined by:

- ▶ The board of directors of the firm.
  
- ▶ The stock exchange on which the stock is
  
- ▶ The president of the
  
- ▶ Individuals buying and selling the

Question No: 8 ( Marks: 1 ) - Please choose one

The controller's responsibilities are primarily \_\_\_\_\_ in nature, while the treasurer's responsibilities are primarily related to \_\_\_\_\_.

- ▶ Operational; financial
  
- ▶ Financial management;
  
- ▶ Accounting; financial
  
- ▶ Financial management;

Question No: 9 ( Marks: 1 ) - Please choose one

Current assets that a firm must carry even at the trough of sales are \_\_\_\_\_, while current assets that fluctuate with seasonal or cyclical variations in sales are

- ▶ Temporary assets; permanent assets

- ▶ Permanent assets; temporary assets
  
- ▶ Matched assets; non-matched assets
  
- ▶ Non-matched assets; matched

Question No: 10 ( Marks: 1 ) - Please choose one

An expression of creditworthiness of a firm based on its present financial condition and past history is called -----.

- ▶ Credit rating
  
- ▶ Trade credit
  
  
- ▶ Liquidity
  
- ▶ All of the given options

Question No: 11 ( Marks: 1 ) - Please choose one

A stock split:

- ▶ Does not change the amount in the common stock
  
- ▶ Is treated by accountants just like a stock dividend
  
  
- ▶ Reduces retained earnings
  
- ▶ None of the given options

Question No: 12 ( Marks: 1 ) - Please choose one

Syndicated Loan is a large loan arranged by a group of ----- that form a syndicate, headed the lead manager.

- ▶ Bond holders
- ▶ Individuals
- ▶ Brokers
- ▶ Banks

Question No: 13 ( Marks: 1 ) - Please choose one

-----merger takes place when firms operating in different industries combine

- ▶ Conglomerate
- ▶ Vertical
- ▶ Co generic
- ▶ Horizontal

Question No: 14 ( Marks: 1 ) - Please choose one

In breakeven analysis, if fixed costs rise, then the breakeven point will -----.

- ▶ Fall
- ▶ Rise
- ▶ Stay the same
  
- ▶ None of the given

Question No: 15 ( Marks: 1 ) - Please choose one

A firm that operates in an integrated fashion in a number of countries is called a:

- ▶ Spot corporation.
- ▶ Future Corporation.
- ▶ Domestic Corporation.
- ▶ A multinational

Question No: 16 ( Marks: 1 )

----- is the graphical representation of the linear relationship between a security's systematic risk and its expected return in a financial

Question No: 17 ( Marks: 1 )

----- refers to the mixture of debt and equity maintained by a

Question No: 18 ( Marks: 1 )

A portfolio that offers the highest possible yield for a given level of risk, or the lowest possible for a given yield level is known as -----.



Question No: 19 ( Marks: 1 )

In finance, the costs associated with buying or selling of financial instruments are called -----  
-----.

Question No: 20 ( Marks: 1 )

In ----- plan firms give stockholders option to automatically reinvest cash dividends by more of the same stock.

Question No: 21 ( Marks: 1 ) - Please choose one

The most commontype of spontaneous financing is a commercial bank

- ▶ True
- ▶ False

Question No: 22 ( Marks: 1 ) - Please choose one

All other things being the same, if the firm raises funds by selling common stock, it will its degree of financial leverage.

- ▶ True
- ▶ False

Question No: 23 ( Marks: 1 ) - Please choose one

The hedging approach to financing involves matching maturities of debt with specific needs.

- ▶ True
- ▶ False

Question No: 24 ( Marks: 1 ) - Please choose one

Generally, a greater margin of safety would be provided by more current assets and fewer liabilities.

▶ True

▶ False

Question No: 25 ( Marks: 1 ) - Please choose one

A service company would be a good candidate for an

▶ True

▶ False

Question No: 26 ( Marks: 3 )

Differentiate between intrinsic value and market value of a common

Question No: 27 ( Marks: 3 )

According to signaling theory if a firm's future genuinely looks good then management will choose to raise financing through Debt. Why?

Question No: 28 ( Marks: 3 )

Why spontaneous financing is a cheap source of financing for a firm? Name some sources of spontaneous financing.

Question No: 29 ( Marks: 3 )

In which ways financial lease is different from operating lease? Explain.

Question No: 30 ( Marks: 3 )

Following are given the capital structures of two companies A and

Company A  
Bonds = Rs.5.6 Billion  
Preferred stocks = 3.4 Billion  
Common stocks = 1 Billion  
Total = Rs.10 Billion

Company B  
Debenture = Rs.1.3 Billion  
Preferred stocks = 1.7 Billion  
Common stocks = 7 Billion  
Total = Rs.10 Billion

Analyze capital structures of both the companies and identify that which Company has high of financial leverage, and why?

Question No: 31 ( Marks: 10 )

An individual is considering two different savings plans. The first plan would have her deposit Rs.500 every six months, and she would receive interest at a 7% annual rate, compounded semi-annually.

Under the second plan she would deposit Rs.1000 every year with a rate of interest 8%, compounded annually. The initial deposit of the first plan would be made six months from now and that of second plan one year

Required: Calculate future value of both the saving plans at the end of 10 years.(5)

Question No: 32 ( Marks: 10 )

Suppose you are working as a financial analyst in an investment bank. Currently your bank is considering to invest in the common stocks of Pak Cement Company Limited. Following information is available to you.

The Pak Cement Company Limited common stocks have a beta of 1.45. The risk free rate is 5% and the expected return on the market portfolio is 13%. The company presently pays a dividend of Rs. 2 per share, and it is expected that it will grow at 10% per annum for many years to come.

required rate of return would you suggest for this investment? The company policy is to use the asset pricing model (CAPM) to calculate required rate of return on stocks. Based on your rate of return what present market price would you place on each share, using perpetual growth model? (5+5)