Finance for business

Q-1. 13 years ago you deposited 2400 $ into Superannuation Fund. 8 years ago added an additional 1000 $ to this a/c. you Earned 8 % Compounded annually for first 5 years. and 6 % Compounded Semi-annually for last 8 years.

(a) Compute Effective Annual int. Rate.

(b) How much money be in your ale Today.

(c) if you wish to have $ 10,000 in the Super annuation fund today, what would be int. Rate (Compounding annually) be in the last 8 year?

(d) Assume that from now on, you will put Exactly $ 5000 into the Superannuation fund at the End of each year Compute the amount of money you would accumulate at the End of year 10 by that Cash flow only if the rate of returns is 9 %, semi-annually Compounding.

(e) Compute the amount of money you would accumulate by that Cash flow in 15 year if the $ 5000 is put into your a/c at the beginning of each year. The same int rate of 9 % semi-annually Compounding still applies.

(f) When you retire if the fund starts to pay you the income of $ 25,000 per year forever Compute P.V. of that Income flow at the 1st day of your retirement if rate is 5 %.

P.T.

Q-② You are financial investor. Who actively buys and sell in securities mkt. all blue chip. share $ 1160 shares of A, $ 780 of share B, $ 14,900 shares of C, $ 3200 of shares D.

(a) Calculate the weight of assets.

(b) if your portfolio with Ret. 7.6%, 12.2%, -4.7% & 13.4% over the past 4 years. respectively Calculate GAR of portfolio. for this period.

(c) A is 15.2% (Exp. Return), Risk Premium is 4.8%, Beta is 1.3 & inflation is 4.7%. find risk free ret. using CAPM

(d) Two shareholder 1200 Golden Sand & 400 silver Beach

	Golden sand	silver Beach
ER.	12%	17%
S.D.	20%	40%
Correlation of Coeff (ρ)	0.6%	

Find Exp. Return of portfolio.

(e) Exp. Risk (S.D.) of portfolio.

(f) Two share, 2 years ago with total investm 16,000 $ Golden Sand paid a div. of 4.4 $/share per year. & silver beach paid a div. of 7.5 $/share per year. Calculate Capital gain of this portfolio if you today can sell Gordon sand for $ 12/share & silver beach for $ 18/share

Q-3. Billalbong ltd. Currently has following capital structure

Debt : 4,000,00 $ o/s. Bond paid annual 9% Coupon rate. with an annual before tax yield to maturity of 8%. bond issue has face value of 1000 $ & will mature in 15 years.

Ordinary shares :

60,000 o/s. ordinary shares firm expects to pay $ 8.50 div. per share 1 year from now & is experience a 5% annual growth rate in div. which expects continue.

Marginal Tax Rate is 30%.

(a) find current price of Bond.

(b) Calculate current price of ordinary shares if avg return of shares in same industry is 11%.

(c) Current total Market value of firm ?

(d) Capital structure of firm by identify weight of debt financing & weight of share financing

(e) Compute the weighted avg. cost of Capital under the traditional system for the firm, using the dividend constant growth module for calculation of the Cost of Equity.

Q-4. Black Gold Ltd. B planning a new investment proj. that requires a cost of 5,000,00. firm currently have net income of $ 3,500,000.

To undertaken the investment projects. two options are under the firms. Consideration option A & B firm can accept either Option A or B but not both Each proj. option will last 5 years. and have no salvage value at the End, company required rate of Return for all investment proj. is 8%. followings are Cash flows

	Option A	Option B.
Cost.	$ 178000	$ 187000
Future Cash flow.		
1	40,000	47000
2	52000	64000
3	55,000	52000
4	57000	54000
5	43500	36000

(a) Determind dividend payout ratio

(b) Calculate div. payout ratio.

(c) which proj. accept based on payback period if baseline for payback is max. 3.5 years

(d) identify which proj. should Co. accept based on NPV. method. (Round up Ans. 6 digit)

(e) if Considering both methods which option Co. should choose ? why ?