

## Corporate Finance (FIN722) Non-Graded Questions for Practice

### Dear Student,

Here are some practice questions for your course FIN722 from lecture # 3-9. Purpose of this activity is to enhance your understanding regarding the concepts that have been discussed in these lectures. It will provide you an opportunity to **get yourself prepared for your mid-term exams**.

Before comprehending and attempting these questions, we would like you to note the following important points:

- **Lecture number has been mentioned against each question** in which the concept has been discussed. It is advised you to watch the relevant video lecture in detail. Consult its updated PPTs by downloading from VULMS of the course along with additional material (if provided any) and recommended book(s).
- Read the questions twice, thrice or even more times in order to comprehend it in its true spirit before preparing the solution. Believe it that you are capable enough to prepare the solution by yourself so just give it a try.
- **Solution of all these questions is also available on VULMS**. However, first solve these questions yourself and thereafter, self-assess your solved questions by comparing with the solution uploaded by us.

### **IMPORTANT:**

**DON'T send us the solutions via E-mail; however, you are most welcome to consult for guidance wherever you feel any difficulty while attempting the questions.**

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### Practice Questions

**Q1:** Mr. Ali finds an opportunity which requires Rs. 20,000 to invest today at the rate of 12%. How much time period this investment opportunity will take to generate a cash inflow of Rs. 60,000?

*(Q#1 is from lecture # 3)*

**Q2:** Mr. Hassan is currently 30 years old. He wants to invest in a pension fund that provides interest rate of 15%. After the age of 50 years, this fund will start generating Rs. 60,000 per annum for Mr. Hassan forever? How much he should invest today for this opportunity?

*(Q#2 is from lecture # 3)*

**Q3:** An investment opportunity offers cash inflow of Rs. 10,000 at end of each year up to five years at rate of 15%. How much amount this opportunity is required today to invest?

*(Q#3 is from lecture # 3)*

**Q4:** There are following two bond issues:

	Face Value (Rs.)	Maturity period (Years)	Coupon Rate (paid semiannually)	Market Required Return
<b>Bond # 1</b>	Rs. 1,000	5	8%	10%
<b>Bond # 2</b>	Rs. 1,000	5	12%	10%

**Required:**

- a) Analyze whether bonds are issued at premium or discount by providing appropriate reasoning.
- b) Calculate current value of each bond.

*(Q#4 is from lecture # 4&5)*

**Q5:** Latif Manufactures Limited- manufacturer of sports balls- has declared expected dividend of Rs. 2 per share at the growth rate of 6%. If company's stock is currently trading at Rs. 50 then what will be the investor's required rate of return.

*(Q#5 is from lecture # 6&7)*

**Q6:** In continuation of Question # 5, Latif Manufacturer is using 40% loan in its capital structure at interest rate of 12%. If tax rate is 40% then:

- a) Calculate after tax cost of debt
- b) Also calculate WACC (weighted average cost of capital) by using the investor's required return (also known as cost of equity and calculated in question # 5) and by using cost of debt calculated in part "a" of Question # 6.

*(Q#6 is from lecture # 9- need to consult the topic of WACC)*