Financial Planning and Budgeting

The sample questions are related to the AIBP core subject “Financial Planning and Budgeting”. The students are advised to thoroughly read the exam guidelines and the course syllabus for this course before start studying for the paper. The questions are shared to give an idea to the student about the paper format and types of questions. For further information visit the IBP website www.ibp.org.pk

Multiple Choice Questions

Each MCQ carry one mark.

Q1. Which ratio measures an organization's liquidity?

A. Acid Test Ratio
B. Debt Ratio (Answer)
C. Return on Equity
D. Times Interest Earned

Q2. Which type of bank loans generally has the highest effective rate of interest?

A. Simple interest loan (Answer)
B. Discount interest loan
C. Installment loan
D. Loan with a compensating balance

Q3. Nanyang Ltd produces a single product. The selling price is £50 per unit and the variable cost is £30 per unit. The annual fixed cost of the business is £4,000. The company aims to make £10,000 profit during the forthcoming year. How many units must be sold to achieve this target?

A. 200
B. 280
C. 500
D. 700 (Answer)

Constructed Response Question

Each CRQ carry five marks.

Question:

Balance Sheet	Dec-14
Total non-current assets	1,290.132
Total Current Assets	4,454.942
Total assets	**5,745.074**
Total Non-Current Liabilities	200.402
Total Current Liabilities	3,428.660
Total Liabilities	***3,629.061***
Net Equity	***1,842.930***
Total Liabilities & Equity	**5,745.074**

Profit & Loss	Dec-14
Sales	6,299.228
Cost of Goods Sold	(5,347.876)
Gross Profit / Loss	**951.352**
Administrative Expenses	(87.895)
Distribution expenses	(257.294)
Other Operating Income	7.611
Operating Profit / Loss	**613.774**
Financial Charges	209.166
Taxation	63.763
Profit / (Loss) for the year	**340.844**

A. Calculate Leverage Ratios. **3 Marks**
B. Calculate Return on Equity using 3-step DuPont Formula **2 Marks**

Answer:
Part-A

Debt to Equity=1.97 Debt to Asset=0.63
Interest Coverage Ratio=0.34

Part-B

ROE = Profit Margin (Profit/Sales) x Total Asset Turnover (Sales/Assets) x Equity Multiplier (Assets/Equity)
=0.054 x 1.097 x 3.12= 0.184 = **18.4%**

Extended Response Question

Each ERQ carry ten marks.

Question:
The Mayo company has a capital budget of Rs 2,000 with an opportunity to invest it in five different projects. The initial investment and PV of Cash Flows are described below.

	Investment Outlay	PV of Cash Flows
Project F	-1,200	1,700
Project G	-1,000	1,480
Project H	-800	1,100
Project I	-450	600
Project J	-200	240

A. Calculate NPV of each Project? **5 Marks**

B. Determine in which projects the Mayo company should invest, based on the available capital? **5 Marks**

Answer:

Part-A

	Investment Outlay	PV of Cash Flows	NPV
Project F	-1,200	1,700	500
Project G	-1,000	1,480	480
Project H	-800	1,100	300
Project I	-450	600	150
Project J	-200	240	40

Part-B

All of the projects are profitable, but with a capital budget of only Rs 2,000, Mayo Company should choose Projects G, H, and J that have a combined NPV of Rs 820.