



The Institute of
Bankers Pakistan

Time Allowed: 3 Hours

Maximum Marks: 100

Financial Planning and Budgeting

Date: December 12, 2019

AIBP (Core Subject)

Roll No:

Instructions:

- Attempt ALL questions;
- Answers must be neat, relevant and brief;
- In marking the question paper, the examiners take into account clarity of exposition, logic of arguments, presentation and language;
- Read the instructions printed inside the top cover of answer script CAREFULLY before attempting the paper;
- DO NOT write your Name, Access No. or Roll No. etc. anywhere inside the answer script(s);
- Candidates are advised not to mark any of the objective answer on the question paper, otherwise their paper will be cancelled;
- Question Paper must be returned to invigilator before leaving the examination hall.

SECTION B: SUBJECTIVE

All the questions from Section B are compulsory.

(40 Marks)

Q1. Bluestone company has the following budgeted activity for the next month:

Sales	Rs. 1,800,000
Gross profit as percentage of sale	30%
Increase in inventory during January	Rs. 26,000
Increase in accounts receivable during January	Rs. 40,000
Increase in accounts payable during January	Rs. 4,000

- Total selling and administrative expenses are Rs. 177,500 per month plus 10% of total sales.
- Included in the total for selling and administrative expenses is Rs. 100,000 per month of depreciation expenses.
- Selling and administrative expenses include a charge for uncollectible accounts of 1% of sales.

Required:

Compute the estimated Cash Receipts and Cash Payments for the next month.

(05 Marks)

Q2. Comfort Furniture Company is considering adding a new line to its product mix and the capital budgeting analysis is being conducted by Miss. Shamsa Ali. The production line would be set up in unused space in Comfort's main plant. The machinery's invoice price would be approximately Rs. 1,300,000; another Rs. 40,000 in shipping charges would be required and it would cost an additional Rs. 160,000 to install the equipment. The machinery has an economic life of 5 years with zero salvage value. The company uses straight line method for depreciation of machinery.

The new line would generate incremental sales of 2,500 units per year for 5 years at an incremental variable cost of Rs. 900 per unit. The fixed cost of the project excluding depreciation is Rs. 350,000. Each unit can be sold for Rs. 1,500. The firm's tax rate is 35% and its weighted average cost of capital is 18%.



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Required:

Determine the Operating Cash Flows on the basis of above data.

(10 Marks)

Q3. Interest Rate Risk is the exposure of a bank's financial condition to adverse movements in interest rates. Briefly describe the following main components of interest rate risk in Assets Liabilities Management (ALM):

A. Repricing or Maturity Mismatch Risk

(02 Marks)

B. Yield Curve Risk

(02 Marks)

C. Basis Risk

(02 Marks)

D. Options Risk

(02 Marks)

Q4. Estimates of the possible one-year returns from investment in the ordinary shares of APL Corporation are as follows:

Possibility of Occurrence	0.1	0.2	0.4	0.2	0.1
Possible Return	-10%	5%	20%	35%	50%

Required:

Calculate the Expected Return and Standard Deviation from the above data.

(05 Marks)

Q5. Extracts from the Statement of Profit or Loss Account and Statement of Financial Position of two companies of Frozen Food industry are summarized below:

	Alpha Ltd	Beta Ltd
Sales	Rs. 1,000,000	(d)
Net income	Rs. 50,000	Rs. 60,000
Total Assets	Rs. 200,000	(e)
Total Asset turnover	(a)	(f)
Profit margin	(b)	0.4%
Return on total assets (ROA)	(c)	2%

Required:

Calculate the missing data of the two companies.

(12 Marks)

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