



The Institute of
Bankers Pakistan

Time Allowed: 3 Hours

Maximum Marks: 100

Financial Planning and Budgeting

Date: November 23, 2022

AIBP (Core Subject)

Roll No:

Instructions:

- Attempt ALL questions;
- Answers must be neat, relevant and brief;
- In marking the answer sheet, 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

Attempt ALL Questions.

(40 Marks)

Q1. Royal Toys is a manufacturer of toys and children's products. The following are selected items appearing in the recent balance sheet.

	Rs. in Million
Cash and short-term investments	94.6
Receivables	319.4
Inventories	144.6
Prepaid expenses	64
Total current liabilities	260.2
Total liabilities	558.8
Total shareholders' equity	688

Required:

Compute the (a) quick ratio (b) current ratio (c) working capital and (d) debt ratio.

(07 Marks)

Q2. XYZ Ltd is a rapidly growing company in the beverage industry. Here is the firm's market value capital structure, which we assume to be optimal as on 30 June, 2022:

Market Value Capital Structure		
	Rs.	
Long-term debt	41,990,000	47%
Preferred stock	7,273,000	8.2%
Common equity	40,000,000	44.8%
	89,263,000	100.00%

The company is in process of calculating weighted average cost of capital to be used for appraisal of the investment projects having the same risk class as the firm's existing average assets. The relevant facts are as under:

- The long-term debt consists of 20 year, semiannual payment, TFCs of Rs. 1,000 with a coupon rate of 8%. Currently, these TFCs provide a 12% yield to investors.

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- XYZ Ltd's perpetual preferred stock has Rs.100 par value. The company pays a quarterly dividend of Rs. 2 purchase, and has 11% yields to investors. New perpetual preferred stock would have to provide the same yield to investors, and the company would incur a 5% flotation cost to sell it.
- The security analysts have calculated beta as 1.50. The risk free rate is 10%; and estimated return of the market is 15%.
- XYZ Ltd falls under 40% tax bracket.

Required:

- A. Determine the cost of each component of capital structure. (Calculate the cost of equity using, CAPM) **(03 Marks)**
- B. What is the company's weighted average cost of capital (WACC)? **(02 Marks)**

Q3. Best Ways Ltd is considering three mutually exclusive investment projects as under:

Project	X	Y	Z
Estimated cost on plant and machinery (Rs.)	2,800,000	4,800,000	1,200,000
Unit sales per annum	75,000	80,000	120,000
Selling price per unit (Rs.)	80	50	100
Total Variable cost per unit (Rs.)	62	24	91

Working capital @ 20% of the expected annual sales will be required immediately in each case and will be recovered in full when the projects end in five years' time. The company's cost of capital is 18%.

Required:

Calculate the NPV of each project and suggest which project the company should accept. Ignore taxation. **(09 Marks)**

Q4. Rehan Foods Ltd practices a strict residual dividend policy and maintains a capital structure of 60% debt, 40% equity. Earnings after interest and tax for the year are Rs. 2,500,000.

Required:

- A. What is the maximum amount of capital expenditures possible without raising new equity? **(02 marks)**
- B. Suppose that planned investment outlays for the coming year are Rs. 4,000,000. Will Rehan Foods Ltd. be paying a dividend? If so, how much? **(02 marks)**
- C. What is the dividend yield ratio if market price of Rehan Foods Ltd.'s share price is 20 and the company has 500,000 shares outstanding? **(02 marks)**

Q5. Alpha Ltd has a portfolio of Stock A and Stock B. The projections of a year for the portfolio is as under:

State of economy	Probability of state of economy	Rate of Return if state occurs	
		Stock A	Stock B
Recession	0.80	-20%	30%
Boom	0.20	70%	10%
	1.00		

Required:

Calculate the expected return of Stock A and Stock B? **(05 Marks)**

Q6. In the light of the Interest Rate Risk Management Guidelines by SBP, answer the following:

- A. What are the quantitative factors and qualitative factors which an independent reviewer should consider in making interest rate risk assessment? TWO each. **(04 Marks)**



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- B.** What is the function of interest rate risk measurement system in relation to both earnings and economic values that are consistent with the scope of bank's activities? Any FOUR. **(04 Marks)**

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