Time Allowed: 3 Hours **Maximum Marks: 100**

Financial Planning and Budgeting

Date: March 15, 2022 **AIBP (Core Subject)** **Roll No:**

Instructions:

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

SECTION B: SUBJECTIVE

Attempt ALL Questions. **(40 Marks)**

Q1. Blue Limited has annual credit sales of Rs. 1,000,000. Credit customers take 45 days to pay. Bad debts are 2% of sales. The company finances its trade receivables with a bank overdraft, on which interest is payable at an annual rate of 15%.

A factor has offered to take over administration of the receivables ledger and collections for a fee of 2.5% of the credit sales. This will be a non-recourse factoring service. It has also guaranteed to reduce the payment period to 30 days. It will provide finance for 80% of the trade receivables, at an interest cost of 8% per year.

Blue Limited estimates that by using the factor, it will save administration costs of Rs. 8,000 per year.

Required:

A. What would be the effect on annual profits if Blue Limited decides to use the factor's services? (Assume a 365-day year). **(06 marks)**

B. State any three advantages and disadvantages of using a factor. **(06 marks)**

Q2. Ochre is a company that is managed by the two individuals who set it up 12 years ago. In the current year the company was launched on the stock market. Previously, all of the shares had been owned by its two founders and certain employees. Now, 40% of the shares are in the hands of the investing public. The company's profit growth and dividend policy are set out below:

Year			
	Profit	**Dividend**	**Share Capital**
	Rs. in '000'	**Rs. in '000'**	**Rs.**
4 years ago	176	88	800,000
3 years ago	200	104	800,000
2 years ago	240	120	1,000,000

1 year ago	290	150	1,000,000
Current year	444	222 (proposed)	1,500,000

Will the continuation of the same dividend policy as in the past be suitable as now that the company is quoted on the stock market? **(06 marks)**

Q3. What are the main responsibilities of an Asset-Liability Committee (ALCO)? **(06 marks)**

Q4. In the light of the Guidelines on Interest Rate Risk Management 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? THREE each. **(06 Marks)**

B. What are the functions 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)**

Q5. Royal Toys is a manufacturer of toys and children's products. The following are selected items appearing in the recent balance sheet. **(06 Marks)**

	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 following:

A. Quick Ratio
B. Current Ratio
C. Working Capital
D. Debt Ratio

X ——— END OF PAPER ——— X