

National Institute of Banking & Finance, Pakistan

Time Allowed: 3 Hours

Maximum Marks: 100

Financial Planning and Budgeting

Date: December 06, 2024

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;
- Ensure that you shade your choice on the Optical Mark Reader sheet correctly. Only **ONE** circle must be shaded as shown below:

Correct way ☐ A ☒ B ☐ C ☐ D (Choice B is selected)

Incorrect ways ☐ A ☐ B ☒ C ☒ D

SECTION B: SUBJECTIVE

(Total: 40 Marks)

- Q2.** Rehan Ltd. most recently sold 200,000 units at Rs. 40.00 each; its variable operating costs are Rs. 15 per unit and its fixed operating costs are Rs. 2,500,000. Annual interest expenses are Rs. 800,000 and the company has 40,000 preferred shares outstanding. The company is required to pay dividend on preference shares amounting to Rs. 400,000. The Company's paid-up capital comprised of 200,000 ordinary shares. Assume that the company has a 40% tax rate.

Required:

- A.** What is the breakeven point in units? (02 Marks)
- B.** Calculate the company's earnings per share (EPS) at the current level of sales and at 240,000 unit sales level. (07 Marks)

- Q3.** Shan Foods Ltd. practices a strict residual dividend policy and maintains a capital structure of 50% debt, 50% equity. Earnings after interest and tax for the year are Rs. 5,000,000.

Required:

- A.** What is the maximum amount of capital expenditures possible without raising new equity? (03 marks)
- B.** Suppose that planned investment outlays for the coming year are Rs. 8,000,000. Will Shan Foods Ltd. be paying a dividend? If so, how much? (02 marks)

- Q4.** A company has a debt-to-equity ratio of 2.5 and an interest coverage ratio of 4. The company decides to take on additional debt at the same interest rate as of previous debt, which increases its debt-to-equity ratio

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to 3.5. Calculate the new interest coverage ratio assuming there is no change in the profitability of the company other than the debt and its interest and analyze what the result indicates about the company's financial risk. **(06 marks)**

Q5.

- A.** Affan Ltd. employs debt equal to 30% and preference stock equal to 10%. The company uses equity for the remaining capital requirements. The current borrowing rate is 15% and company falls under the tax bracket of 40%. The 9% preference stock is currently being sold at Rs. 69. The risk free rate is currently 12% and expected return of the company is 17% with beta of 1.30.

Required: What is Affan Ltd.'s Weighted Average Cost of Capital? **(05 Marks)**

- B.** It is essential that the independent reviewer ensures that the bank's risk measurement system is sufficient to capture all material elements of interest rate risk, whether arising from on- or off-balance-sheet activities. The reviewer must consider quantity of interest rate risk as well as quality of interest rate risk management and measurement system.

Enlist the qualitative factors that a reviewer should consider in making interest rate risk assessment. (Any FIVE) **(05 Marks)**

- Q6.** Bluestone company has the following budgeted activity for the next month i.e. January:

| | |
|------------------------------------------------|---------------|
| 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.
- Depreciation expense included in selling and administrative expenses is Rs. 100,000 per month
- 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.

(10 Marks)

X ——— END OF PAPER ——— X