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KARACHI UNIVERSITY BUSINESS SCHOOL

University of Karachi

BS Four Years Program

FINAL EXAMINATION, JUNE 2010: AFFILIATED COLLEGES
INTRODUCTION TO BUSINESS FINANCE: BA (H) – 412
BS – IV

Date: June 21, 2010

Max Time: 2.5 Hrs
Max Marks: 30

1. For the Dawood Company, the average age of accounts receivable is 60 days, the average age of accounts payable is 45 days, and the average age of inventory is 72 days. Assume a 360-day year. If Dawood's annual sales are Rs.936,000/-, what is the firms investment in accounts receivable?

2. Arif Sound Systems Inc. wants to use the economic ordering quantity model to determine the optimal order quantity of speakers. The wholesale unit purchase price to Arif sound Systems is Rs.50, and annual sales at a Rs.100 per unit retail price total Rs.50,000. The fixed cost of placing an order is Rs.10, and the carrying cost is 50 percent of the purchase price. What is the EOQ in units?

3. Rehman Gold is a mining company. Currently Rehman Gold stock sells for Rs.15/share. Rehman Gold pays a 0.50 dividend per year with certainty. The price of Rehman gold next year will depend on the state of the economy as given below;

	PRICE	PROBABILITY
BUST	5	0.5
BOOM	25	0.5

   a. What is the expected return on Rehman Gold stock?
   b. What is the expected capital gain?
   c. What is the variance of Rehman Gold's returns?

4. What is the IRR on a project which costs Rs.12,700 and generates cash flows of Rs.3000, Rs.4000, Rs.5000 and Rs.6000 at the end of years one through four respectively? (calculate to one decimal place)

5. Akram Corporation is planning to purchase Bilal corporation. Bilal Corporation is expected to have cash flows of 1.5 million rupees per year to infinity. Assuming a discount rate of 15%, what price should Akram pay so that the NPV of this investment is one million rupees?

6. If a firm has a current ratio of 3, a quick ratio of 2, and current liabilities of Rs.650,000, what must be the value of inventory?

7. Data Tronics is considering investing in a new assembly plant with the following pattern of cash flows

YEAR	0	1	2
CASH FLOW(Rs.)	+3	-16	+16

   a. If the interest rate is 33.33%, what is the net present value of this investment?
   b. If the interest rate is 300%, what is the net present value of this investment?

8. Kamran Enterprises has the following capital structure:

CAPITAL COMPONENT	RUPEES AMOUNT	COMPONENT COST
EQUITY	800,000	0.16
DEBT	600,000	0.05

Kamran is considering two capital investment plans:

i. buying a retail grocery store,
ii. buying an electronics plant,

Kamran has the following information regarding these investments:

YEAR	0	1 – 10
ELECTRONIC PLANT	–Rs.8,500	1,500
GROCERY STORE	–Rs8,500	1,400

INDUSTRY BETAS		RATE OF RETURN	
ELECTRONICS	1.9	MARKET	10%
RETAIL GROCERY	0.5	RISKLESS	5%

What is Kamran's WACC?

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FINAL EXAMINATION: AFFILIATED COLLEGES
INTODUCITON TO BUSINESS FINANCE: BA (H) 412
BS – IV

Dated: June 15, 2009
Max Time: 2hours and 40 minutes

Instructions: Attempt six questions, including Q#1 which is compulsory

Q.No.2.
Differentiate between:
(i) Normal Profit and Normal Rate of Return
(ii) Liquidity and Liquidity Premium
(iii) Interest Rate Risk and Reinvestment Rate Risk
(iv) Intrinsic Value and Market Price
(v) Regular Payback and Discounted Payback
(vi) Transactions Balance and Compensating Balance

Q.No.3.
Explain the following terms:
(i) Leveraged Buyout
(ii) Financial Intermediary
(iii) Expectation Theory
(iv) Capital Gain or Loss
(v) Efficient Portfolio
(vi) Capital Asset Pricing Model
(vii) Flotation Cost

Q.No.4.
(a) How is a project classification scheme (for example, replacement or expansion into new markets) used in the capital budgeting process?
(b) The Saeed Corporation has been presented with an investment opportunity which will yield end of year cash flows of Rs.30,000 per year in Years 1 through 4, Rs.35,000 per year in Years 5 through 9, and Rs.40,000 in Year 10. This investment will cost the firm Rs.150,000 today, and the firm's cost of capital is 10%. What is the NPV for this investment?

Q.No.5.
(a) If a 5-year regular annuity has a present value of Rs.1,000, and if the interest rate is 10%, what is the amount of each annuity payment?
(b) Matin Corporation's common stock is currently selling for Rs.50 per share. The current dividend is Rs.2.00 per share. If dividend are expected to grow at 6% per year and if flotation costs are 10%, then what is its cost of new common stock?

Q.No.6.
(a) Given the following probability distribution, what is the expected return and the standard deviation of return for Security J?

State	P_i	K_J
1	0.2	10%
2	0.6	15%
3	0.2	20%

(b) Noman Inc. has sales of Rs.1,000,000 and an inventory turnover of 10.0. The firm's current ratio is 3.0, while its quick ratio is 2.5. What are Noman's current assets?

Q.No.7.
(a) Determine the increase or decrease in cash for Rahim Supply Company for last year, given the following information. (Assume no other changes occurred during the past year.)

Decrease in marketable securities	=	Rs.25
Increase in accounts receivables	=	Rs.50
Increase in notes receivables	=	Rs.30
Decrease in accounts payable	=	Rs.20
Increase in accrued wages and taxes	=	Rs.15
Increase in inventories	=	Rs.35
Retained earnings	=	Rs.5

(b) Firm A's management is very conservative whereas Firm B's is more aggressive. Is it true that, other things the same, Firm B would probably have larger holdings of marketable securities? Explain.

Seat # __________________ Name:__________________________

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INTODUCITON TO BUSINESS FINANCE: BA (H) 412
BS – IV

Dated: June 15, 2009
Max Time: 20 minutes for Q # 1

Instructions: Attempt six questions, including Q#1 which is compulsory and must be solved on the question paper.

Q.No.1. Encircle the correct answer in the same sheet and return the question paper alongwith answer script.

1. The financial manager must execute his or her duties independent of the other activities of the firm in order to properly maximize the value of the firm. T F
2. The general goal of the financial manager should be to maximize the firm's expected profit, since this will add the most wealth to each of the individual shareholders (owner) of the firm. T F
3. The riskiness inherent in a firm's earnings per share (EPS) depends on both the types of projects the firm takes on and the manner in which the projects are financed. T F
4. Two firms have the same current ratio, 0.75, and the same amount of sales. However, Firm A has a higher inventory turnover ratio than Firm B. Therefore, we can conclude that the quick ratio of Firm A will be smaller than that of Firm B. T F
5. If Firm A owns no real productive assets of its own, but simply accepts the savings of individuals and invests them in financial assets issued by other firms or individuals, Firm A is a *financial intermediary.* T F
6. The higher the probability that the return on an investment will not pay off its average promised value, the higher the expected return must be to induce an investor to invest in it. T F
7. Risk aversion implies that some securities will go unpurchased in the market even if a large risk premium is paid to investors. T F
8. If the discount (or interest) rate is positive, the present value of an expected series of payments will always exceed the future value of the same series. T F
9. The weighted average cost of capital increases if the total funds required call for an amount of equity in excess of what can be obtained as retained earnings. T F
10. A firm should never undertake an investment if accepting the project would cause an increase in the firm's cost of capital. T F
11. Beyond some point, a further increase in the size of the firm's total capital budget may lead to a decrease in the NPVs of all the investments being considered. T F
12. Conflicts between two mutually exclusive projects, where the NPV method chooses one project but the IRR method chooses the other, should generally be resolved in favor of the project with the higher NPV. T F
13. The situation where a firm accepts projects to the point where the return on the last project accepted is just equal to or greater than the firm's cost of capital (IRR≥MCC at the margin) is called *capital rationing.* T F

KARACHI UNIVERSITY BUSINESS SCHOOL
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FINAL EXAMINATION, 2008 : AFFILIATED COLLEGES
INTRODUCTION TO BUSINESS FINANCE : BA (H) – 412
BS – IV

Date : January 01, 2009 **Time : 3 Hours**
Max. Marks : 60

Instructions: Attempt all questions.

Q.No.1. Explain the following terms with examples:
(i) Leverage Buyout (LBO)
(ii) Performance Shares
(iii) Window Dressing
(iv) Effects of Inflation on Ratio Analysis
(v) Common Size Statement
(vi) Expected Rate of Return
(vii) Efficient Portfolio
(viii) CAPM
(ix) Flotation Cost

Q.No.2(a). Financial ratio analysis is conducted by some groups of analysis. Describe those groups with the primary emphasis of each of these in evaluating ratios?

(b). Assume you are given the following relationships for Dawood Designs Inc.:

Sales/total assets	1.5×
Return on assets (ROA)	3%
Return on equity (ROE)	5%

Calculate Dawood's profit margin and debt ratio.

Q.No.3 (a). What are capital gains and losses, and how are they differentiated from ordinary income?

(b). Murshid's Entertainment Corporation has an after-tax cost of debt of 8%, a cost of preferred stock of 12%, and a cost of equity of 16%. What is the weighted average cost of capital, k_a or WACC, for this company? The capital structure of Murshid's Company contains 20% debt, 10% preferred stock, and 70% equity.

Q.No.4 (a). Differentiate between these terms:
(i) Normal Profit and Normal Rate of Return
(ii) Money Market and Capital Market
(iii) Operating Cash Flows and Net Income
(iv) Marginal Tax Rate and Average Tax Rate
(v) Total Risk and Market Risk

(b). Explain the procedure for evaluating two mutually exclusive projects on the basis of costs alone.

Q.No.5. The Green Corporation is considering three possible capital projects for next year. Each project has a 1–Year life, and project returns depend on next year's state of the economy. The estimated rates of return are shown in the table:

State of the Economy	Profitability of Each State Occurring	Rates of Return If State Occurs		
		A	B	C
Recession	0.25	10%	9%	14%
Average	0.50	14%	13%	12%
Boom	0.25	16%	18%	10%

Required

a. Find each project's expected rate of return, variance, standard deviation, and coefficient of variation. ABC CAB

b. Rank the alternative on the basis of (1) expected return and (2) risk. Which alternative would you choose?

Q.No.6 (a). How much will you have to deposit in the bank at the end of each year for the next 10 years in order to have a balance of Rs. 1,400.00 at the end of the 10[th] year? (assume that the interest rate is 11%).

(b). Your bank offers to you lend you Rs. 1,000.00 and allow you to repay your loan in ten annual installments of Rs. 112.00 starting one year from the date that you receive the money. What is the rate of interest on this loan?

(c). What are the two elements of a stock's expected return?

KARACHI UNIVERSITY BUSINESS SCHOOL
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FINAL EXAMINATION, DECEMBER-2007 : AFFILIATED COLLEGES
INTRODUCTION TO BUSINESS FINANCE : BA (P) – 421
BBA – IV

Date : January 08, 2008 **Time : 3 Hours**
Max. Marks : 60

Instructions: Attempt any five questions

Q.No.1.(a). Financial manager's task is to acquire and use funds so as to maximize the value of the firm. What specific activities are involved?

(b). What is financial market? Why it is essential for economy?

Q.No.2.(a). What are the basic statements contained in the annual report of a business firm? Describe with objectives.

(b). What are financial intermediaries and what economic functions do they perform.

Q.No.3.(a). Distinguish between:

a. Real rate of return and nominal rate of return
b. Corporate risk and market risk
c. Capital gain and capital loss
d. Capital expenditure and revenue expenditure
e. Even cash flows and uneven cash flows
f. Capital gain yield and dividend yield
g. Accounting rate of return and internal rate of return

(b). What is an opportunity cost rate? How is this rate used in time value analysis?

Q.No.4.(a). Explain trade off theory?

(b). Why is EBIT generally considered to be independent of financial leverage?

Q.No.5.(a). Selected ratio for Lakhani Paper Products are given below:

Total debt to net worth	1.4
Total asset turnover	3.0
Inventory turnover	9.0
Average collection period	20 days
Current ratio	3.3
Quick ratio	1.3

Based on the above information complete the following balance sheet for Lakhani Paper:

Cash	______	Current liabilities	______
Receivable	______	Long-term debt	______
Inventory	852174	Total debt	700,000
Plant	693913	Common equity	1400000
Total assets	21,00,000	Total claims	21,00,000

(b). The following balance sheet data as of December 31, 2007 is given

Current assets	Rs. 242	Current liabilities	Rs. 135
Net fixed assets	59	Long-term liabilities	61
	______	Total stockholders' equity	105
Total assets	Rs. 301	Total claims on assets	Rs. 301

During 2007 both current assets and current liabilities increased by Rs. 20. New fixed assets were purchased which cost Rs. 25 and depreciation was Rs. 10. Long-term liabilities did not change.

Required
Find out net working capital and total stock holders' equity at December 31, 2007.

Q.No.6.(a). The Frisby Company is an all equity firm with 125,000 common share outstanding. It needs to raise Rs. 800,000 in order to manufacture cement frisbies for a national contest. The current stock price is Rs. 25. What would be earning per share?

(b). A firm is planning to replace an existing machine with a new one. The new machine will generate the same revenue but the operating costs will be lowered by Rs. 20,000 per year. The depreciation on the old machine was Rs. 5,000 per year and it will be Rs. 8,000 for the new machine. Assuming that the firm is in a 40% tax bracket, what is the yearly cash flow after tax?

Q.No.7.(a). Why working capital decisions are often separated from long-term investment decisions?

(b). What are the negative consequences of a company holding too much cash?

(c). Assume a company has Rs. 1,000 in its cash account at the beginning of a month and short-term loan balanced of Rs. 3,500. If the company experiences a Rs. 14,000 net cash inflow during the month and its desired target cash balance is Rs. 3,000, how much of the outstanding loans can be paid off this month?

BBA – Two Years Program

KARACHI UNIVERSITY BUSINESS SCHOOL
UNIVERSITY OF KARACHI
FINAL EXAMINATION JUNE 2008 AFFILIATED COLLEGES
INTRODUCTION TO BUSINESS FINANCE BA (II) – 421
BBA – IV

Date: June 19, 2008 — **Time: 3 Hours**

Attempt any 5 (five) questions — **Max. Marks: 60**

Q1. a What are some mechanisms that encourage managers to act in the best interest of stockholders? (06)

Q1. b Should financial managers concentrate strictly on cash flow and ignore the impact of their decisions on EPS. (06)

Q2. a What does the price / earning (P/E) ratio show? If one firms P/E ratio is lower than that of another. What are some factors that might explain the difference? (06)

Q2. b How is book value per share calculated? Explain how "inflation" and "good will" could cause book values to deviate from market values. (06)

Q3. Distinguish between the following: (12)

i. Physical Asset Markets and Financial Asset Markets
ii. Spot and Future Markets
iii. Money and Capital Market
iv. Primary and Secondary Markets
v. Private and Public Market
vi. Default Risk Premium and Liquidity Premium

Q4. a In what sense does capital structure policy involve a trade off between risk and return? (07)

Q4. b What is meant by reserve borrowing capacity and why it is important to firms? (05)

Q5. a What are the four credit policy variables? (04)

Q5. b How does collection policy influence sales, the collection period and the bad debt loss percentage? (06)

Q5. c Give equation of cash conversion cycle? (02)

Q6. a What are the three possible methods for reporting EPS when warrant and convertibles are outstanding? (04)

Q6. b Should preferred stock be considered as equity or debt? (08)

2

6

A) Calculate the net present value

B) Calculate the internal rate of return

C) Should the new machine be purchased?

Q No. 5 (a)

From the values of the different ratios given below, calculate the missing balance sheet items and complete the balance sheet.

Sales	Rs: 100,000
Average Collection period	55 days
Inventory Turnover	15
Debt to Assets Ratio	0.4 or 40%
Current Ratio	3
Total Asset Turnover	1.6
Fixed Asset Turnover	2.9

ASSETS		LIABILITIES + EQUITIES	
Cash	Rs 6000	Accounts Payable Rs	6000
Accounts Receivable		Notes Payable	________
Inventory	________	Accrued Expenses	600
Prepaid Expenses	________	Total current liabilities	________
Total current assets	________	Bonds Payable	________
Fixed Assets	________	Common Stocks	16000
		Retained Earnings	________
Total Assets		Total liabilities & Equity	________

(b) If cost of goods sold is 70% of sales, sales are Rs: 500,000, and the average inventory level is Rs: 25000, what is the inventory turnover ratio?

KARACHI UNIVERSITY BUSINESS SCHOOL
UNIVERSITY OF KARACHI

FINAL EXAMINATION, JUNE-2007 : AFFILIATED COLLEGES
INTRODUCTION TO BUSINESS FINANCE : BA (P) – 421
BBA – ~~III~~ IV

Date : June 22, 2007 Time : 3 Hours
Max. Marks : 60

Instructions : Attempt five questions. Question No. 6 is compulsory and carries 20 marks.

Q.No.1(a). What is free cash flow? Why is it the most important measure of cash flow? (05)

(b). Differentiate between accounting income and net cash flow. Why might these two numbers differ? (02)

(c). What is the difference between operating assets and non-operating assets? (03)

Q.No.2(a). What is the "multiple IRR problem", and what condition is necessary for it to occur? (03)

(b). What are five key methods to rank projects in the capital budgeting? (02)

(c). Give reasons, with a brief explanation, why the net present value (NPV) method of investment appraisal is thought to be superior to other approaches? (05)

Q.No.3(a). What is a business risk and how it differs to financial risk? (05)

(b). Define operating leverage and financial leverage? (05)

Q.No.4. Describe the dividend policy decision in process. Discuss the facts that influence the decision? (10)

Q.No.5. Define relaxed, restricted and moderate current assets investment policies. (10)

Cont P-2

Q.No.6. ANALYSIS OF FINANCIAL STATEMENT

Rose Company
Income Statement
For the year ended December 31, 2006

Sales		2,486,000
Cost of good sold		1,523,000
Gross profit from sales		963,000
Operating expenses		
	Advertising expense	145,000
	Sales salaries expense	240,000
	Office supplies expense	165,000
	Insurance expense	100,000
	Supplies expense	26,000
	Depreciation expense	85,000
	Miscellaneous expense	17,000
	Total operating expense	778,000
Operating income		185,000
	Less: interest expense	44,000
Income before taxes		141,000
Income taxes		47,000
Net income		94,000
Earning per share		0.99

Rose Company
Balance Sheet
For the year ended December 31, 2006
Assets

Current Assets		
	Cash	79,000
	Short-term investments	65,000
	Account receivable (net)	120,000
	Merchandise inventory	250,000
	Total current assets	514,000
Plant and equipment		
	Store equipment (net)	400,000
	Office equipment (net)	45,000
	Building (net)	625,000
	Land	100,000
Total plant and equipment		1,170,000
Total assets		1,684,000

Liabilities

Current Liabilities		
	Accounts payable	164,000
	Short-term notes payable	75,000
	Taxes payable	26,000
	Total current liabilities	265,000
Long-term liabilities		
	Notes payable (secured by mortgage on building and land)	400,000
Total liabilities		665,000

Stockholders' Equity

Contributed capital		
	Command stock, $5 par value	475,000
Retained earnings		544,000
Total stockholder's equity		1,019,000
Total liabilities and stockholders' equity		1,684,000

REQUIRED:

1. Working Capital 2. Current ratio 3. Quick ratio 4. Account receivable turnover
5. Inventory turnover 6. Equity ratio 7. Debt rate 8. Rate of return on assets