INSTITUTE OF CORPORATE SECRETARIES OF PAKISTAN
C.I.S. EXAMINATION JANUARY 2011
BUSINESS FINANCE

Time allowed : 3 hours **Max. Marks: 100**

Note: Attempt all questions and submit all workings

Q. No.	Description	Marks
Q-1	Select the most appropriate answer of the following statements:	(10)

(a) Economic Order Quantity means the quantity of goods ordered which:

(i) maximizes the sum of inventory ordering cost and inventory carrying cost
(ii) equalizes the sum of inventory ordering cost and inventory carrying cost
(iii) minimizes the sum of inventory ordering cost and inventory carrying cost.

(b). Debt-Equity is also known as:

(i) External equity ratio ii) Internal equity ratio iii) Solvency ratio

(c) A Ltd. And B Ltd. go into liquidation and form D Ltd. It is a case of:

i) Absorption ii) External Reconstruction iii) Amalgamation

(d). According to Dividend Discount Model, the value of an equity share is:

(i) less than the present value of dividend expected from its ownership
(ii) more that the present value of dividend expected from its ownership
(iii) equal to the present value of dividends expected from its ownership

(e) The intrinsic value of financial asset is:

(i) more than the present value of the cash flows expected from it.
(ii) less than the present value of the cash flows expected from it
(iii) equal to the present value of the cash flow expected from it

Q-2 Max Ltd. Sells goods at profit margin of 25%, counting depreciation as part of the cost of manufacture. Its annual figures are as follows:

- Sales (two months' credit is given)	Rs 240 million
- Material cost (suppliers give three months' credit)	72
- Wages (paid one month in arrears)	48
- Manufacturing expenses outstanding at the end of the year (cash expenses are paid one month in arrear)	04
- Administrative and sales expenses (paid as incurred)	30

Max Ltd keeps two months' Stock of raw material and one month's finished goods and maintains cash balance of Rs 5 million.

Required: Estimate the need of Working Capital on cash cost basis assuming 10% safety margin. (20)

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Q. No.	Description	Marks

Q-3 Explain any four of the following: (16)

(a). Internal Financing Fund (b) Simulation (c). Master Budget
(d). Unsystematic Risk (e)). Arbitrage (f) Musharikah

Q-4 If the required earning rate is 8% or 10% or 12%, should a proposal of an investment of Rs. 8 million with expected cash in flows of Rs 2 million each year, be accepted on the basis of NPV method? (20)

Q-5 A company has sales ledger totaling Rs 80 million, which represents two months sales. A Factoring Company will run the sales ledger to manage the Accounts Receivable on a non-recourse basis for 1.8% of turnover. It is felt that using the Factor will cause some customers to go to other competitor which may reduce sales about by Rs 14 million per annum. If the Factor is used, administrative saving of Rs 13 million will be made. Bad debts currently run at 2% of turnover.

Required: Advise whether the company should use the Factor's services. (16)

Q-6 Pak Papers Ltd has following capital structure:

	Cost of Capital %	Book Value Rs. in '000	Market Value Rs in '000
Bank borrowings	15	500	500
Term finances	18	800	600
Ordinary shares	25	1,800	3,900

The Company's current operations are carried out from two locations. The Northern factory shows a cash surplus of Rs 50 thousand on capital employed of Rs 2,750 thousand, while Southern depot produces a cash surplus of Rs 64 thousand on its capital of Rs 350 thousand. It is proposed to invest further Rs 150 thousand in facilities at Southern depot which will increase cash flow by Rs 25 thousand to perpetuity.

Required: Calculate combined cost of capital of the company and comment on the proposed expansion. (18)

PVIF @ 7%, 8%, 10%, 12% to 20% for ten years given below for use if needed.

Year	7%	8%	10%	12%	13%	14%	15%	16%	17%	18%	19%	20%
01.	0.935	0.926	0.909	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
02.	0.873	0.857	0.826	0.797	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694
03.	0.816	0.794	0.751	0.712	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579
04.	0.763	0.735	0.683	0.636	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482
05.	0.713	0.681	0.621	0.567	0.543	0.519	0.497	0.476	0.456	0.437	0.419	0.402
06.	0.666	0.630	0.564	0.507	0.480	0.456	0.432	0.410	0.390	0370	0.352	0.335
07.	0.623	0.583	0.513	0.452	0.425	0.400	0.376	0.354	0.333	0.314	0.296	0.279
08.	0.582	0.540	0.467	0.404	0.376	0.351	0.327	0.305	0.285	0.266	0.249	0.233
09.	0.544	0.500	0.424	0.361	0.333	0.308	0.284	0.263	0.243	0.226	0.209	0.194
10.	0.508	0.463	0.386	0.322	0.295	0.270	0.247	0.227	0.288	0.191	0.176	0.162
	7.023	6.709	6.144	5.651	5.426	5.217	5.019	4.833	4.739	4.494	4.339	4.193