

ISQ Examination (Winter-2012)
Financial Planning and Budgeting - Associateship

Q. Discuss the objectives and role of Asset and Liabilities Committee (ALCO) in a bank and suggest ways to make it more effective.

Q. Rock Corporation reports the following for 2011:

Accounts receivable—Jan. 1	Rs 100,000
Accounts receivable—Dec. 31	Rs 150,000
Inventory—Jan. 1	Rs 40,000
Inventory—Dec. 31	Rs 55,000

Net credit sales	Rs 800,000
Cost of goods sold	Rs 450,000

Compute:

- a) accounts receivable turnover
- b) collection period
- c) inventory turnover
- d) age of inventory
- e) operating cycle.

Show your working.

Q. Tristar Ltd issued Rs 1000 convertible bonds at par. The common stock has a market price of Rs 45. The conversion price is Rs 58.

- a) Into how many shares can the bond be converted?
- b) What is the conversion value of the bond?
- c) What is the conversion premium?

Show your working.

Q. Arnica Corporation currently has 100,000 shares of common stock outstanding with a market price of Rs 50 per share. It also has Rs 2 million in 7 percent bonds, which are selling at par. The company is considering a Rs 4 million expansion program that it can finance with either (I) all common stock at Rs 50 per share, or (II) all bonds at 9 percent. The company estimates that if the expansion program is undertaken, it can attain, in the near future, Rs 1 million in EBIT.

- a) The company's tax rate is 40 percent. Calculate the EPS for each
- b) What is the indifference point between the alternatives, and what form of financing would you recommend.

- Q.
- a. What are the various types of dividend policies which firms generally follow?
 - b. What are the factors that influence a dividend policy pursued by a company.

- Q. Stock A has the following probability distribution of possible future returns:

Probability	Stock A(%)
0.1	-15
0.2	0
0.4	5
0.2	10
0.1	25

Calculate:

- a. the expected rate of return
- b. the standard deviation of the returns
- c. the coefficient of variation

Show all calculations.
