

College Name: _____

Student Name: _____ Seat No: _____

Copy No: _____

KARACHI UNIVERSITY BUSINESS SCHOOL
UNIVERSITY OF KARACHI
FINAL EXAMINATION DECEMBER 2016; AFFILIATED COLLEGES
INTRODUCTION TO BUSINESS FINANCE: BA (M) – 621
MBA – III

Date: January 10, 2017

Max Time: 2 Hrs
Max Marks: 40

- 1. Attempt any 4 Questions. Do not write anything on the question paper.**
- 2. Mobile Phone(s) or any other communicating device will not be allowed in the examination room. Students will have to remove the batteries of these devices before entering the examination hall.**

Q1 Oak Furnishings is considering a project that has an up-front cost and a series of positive cash flows. The project's estimated cash flows are summarized below:

<u>Year</u>	<u>Project Cash Flow</u>
0	?
1	\$500 million
2	300 million
3	400 million
4	600 million

The project has a regular payback of 2.25 years. What is the project's internal rate of return (IRR)?

Q2 a) Company A has sales of \$1,000, assets of \$500, a debt ratio of 30 percent, and an ROE of 15 percent. Company B has the same sales, assets, and net income as Company A, but its ROE is 30 percent. What is B's debt ratio?

b) Samuels Equipment has \$10 million in sales. Its ROE is 15 percent and its total assets turnover is 3.5x. The company is 100 percent equity financed. What is the company's net income?

Q3 Rachel wants to take a trip to England in 3 years, and she has started a savings account today to pay for the trip. Today (8/1/02) she made an initial deposit of \$1,000. Her plan is to add \$2,000 to the account one year from now (8/1/03) and another \$3,000 to the account two years from now (8/1/04). The account has a nominal interest rate of 7 percent, but the interest is compounded quarterly. How much will Rachel have in the account three years from today (8/1/05)?

Q4 Jordan Air Inc. has average inventory of \$1,000,000. Its estimated annual sales are \$10 million and the firm estimates its receivables conversion period to be twice as long as its inventory conversion period. The firm pays its trade credit on time; its terms are net 30 days. The firm wants to decrease its cash conversion cycle by 10 days. It believes that it can reduce its average inventory to \$863,000. Assume a 365-day year and that sales will not change. By how much must the firm also reduce its accounts receivable to meet its goal of a 10-day reduction in its cash conversion cycle?

Q5 Define the following:

- a. Fixed asset turnover
- b. Return on equity
- c. Time interest earned
- d. Time value of money
- e. Annuity due

END OF SUBJECTIVE PAPER