

College Name: _____

Student Name: _____ Seat No: _____

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KARACHI UNIVERSITY BUSINESS SCHOOL
UNIVERSITY OF KARACHI
FINAL EXAMINATION JUNE 2017; AFFILIATED COLLEGES
INTRODUCTION TO BUSINESS FINANCE; BA(BS)-512
BBA – VI

Date: July 10, 2017

Max Time: 100 Mins
Max Marks: 40

INSTRUCTION:

- 1. Attempt any 4 questions. Do not write anything on the question paper, EXCEPT the initials mentioned above.**
- 2. Mobile phone or any 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. Your uncle has agreed to deposit \$3,000 in your brokerage account at the beginning of each of the next five years ($t = 0, t = 1, t = 2, t = 3$ and $t = 4$). You estimate that you can earn 9 percent a year on your investments. How much will you have in your account four years from now (at $t = 4$)? (Assume that no money is withdrawn from the account until $t = 4$.)

Q2. Vance Motors has current assets of \$1.2 million. The company's current ratio is 1.2, its quick ratio is 0.7, and its inventory turnover ratio is 4. The company would like to increase its inventory turnover ratio to the industry average, which is 5, without reducing its sales. Any reductions in inventory will be used to reduce the company's current liabilities. What will be the company's current ratio, assuming that it is successful in improving its inventory turnover ratio to 5?

Q3. Green Grocers is deciding among two mutually exclusive projects. The two projects have the following cash flows:

	Project A	Project B
<u>Year</u>	<u>Cash Flow</u>	<u>Cash Flow</u>
0	-\$50,000	-\$30,000
1	10,000	6,000
2	15,000	12,000
3	40,000	18,000
4	20,000	12,000

The company's cost of capital is 10 percent ($WACC = 10\%$). What is the net present value (NPV) of the project with the highest internal rate of return (IRR)?

Q4. Gaston Piston Corp. has annual sales of \$50,735,000 and maintains an average inventory level of \$15,012,000. The average accounts receivable balance outstanding is \$10,008,000. The company makes all purchases on credit and has always paid on the 30th day. The company is now going to take full advantage of trade credit and pay its suppliers on the 40th day. If sales can be maintained at existing levels but inventory can be lowered by \$1,946,000 and accounts receivable lowered by \$1,946,000, what will be the net change in the cash conversion cycle? (Assume there are 365 days in the year.)

Q5. The following probability distributions of returns for two stocks have been estimated:

<u>Probability</u>	<u>Stock A</u>	<u>Stock B</u>
0.3	12%	5%
0.4	8	4
0.3	6	3

What is the coefficient of variation for the stocks and which one is less risky?

END OF SUBJECTIVE PAPER