

# Semester “Spring 2011”

## “ Corporate Finance (FIN622) ”

Assignment No. 02

Marks: 15

### Question:

SNT Company has been dealing in the business of books for five years. The company faces steady demand for the books. So, it replenishes the supply by placing an order for more books from the publisher whenever there is inventory shortage. The company is planning to buy 200,000 books over the coming year. Each order that it places costs Rs. 75 and the annual carrying cost of the inventory is Rs. 0.10 per book. The company can place either a single order or multiple orders as provided in the following table. Average inventory over the year would be half of the order size and therefore carrying costs would be calculated accordingly.

(a) Fill in the table by keeping above information into consideration. (10)

Order Size	Orders per year	Average Inventory	Ordering Costs	Carrying Costs	Total Costs
200,000					
100,000					
50,000					
20,000					
10,000					

(b) Which order should be placed by SNT Company according to the table and why? (2)

(c) Calculate *Economic Order Quantity*. Is your answer consistent with your findings in part (b)? (2+1)

### Important Tips

1. This Assignment can be best attempted from the knowledge acquired after watching video Lecture # 01 to Lecture # 30 and reading handouts as well as recommended textbook.
2. Video lectures can be downloaded for free from [www.youtube.com/vu](http://www.youtube.com/vu).

## Schedule

Opening Date and Time

June 09, 2011 At 12:00 A.M. (Mid-Night)

Due Date and Time

June 14, 2011 At 11:59 P.M. (Mid-Night)

**NOTE:**

**Only in the case of Assignment, 24 Hrs extra / grace period** after the above mentioned due date is usually available to overcome uploading difficulties which may be faced by the students on last date. This extra time should only be used to meet the emergencies and above mentioned due dates should always be treated as final to avoid any inconvenience.

**Important Instructions:**

Please read the following instructions carefully before attempting the assignment solution.

**Deadline:**

- Make sure that you upload the solution file before the due date. No assignment will be accepted through e-mail once the solution has been uploaded by the instructor.

**Formatting guidelines:**

- Use the font style "Times New Roman" and font size "12".
- It is advised to compose your document in MS-Word 2003.
- Use black and blue font colors only.

**Solution guidelines:**

- You are required to provide complete working because it carries considerable marks.
- Every student will work individually and has to write in the form of an analytical assignment.
- For acquiring the relevant knowledge don't rely only on handouts but watch the video lectures and use other reference books also.

**Rules for Marking:**

Please note that your assignment will not be graded or graded as Zero (0) if:

- It has been submitted after due date.
- The file you uploaded does not open or is corrupt.
- It is in any format other than **.doc (MS Word)**.
- It is cheated or copied from other students, internet, books, journals etc...