



Private & Confidential

## FACULTY OF BUSINESS

### FINAL EXAMINATION

Student ID (in Figures) : 

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Student ID (in Words) : \_\_\_\_\_  
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Course Code & Name : **FIN1314 FUNDAMENTALS OF FINANCE**  
Semester & Year : JANUARY – APRIL 2021  
Lecturer/Examiner : JAMES LIOW  
Duration : 2 HOURS

### INSTRUCTIONS TO CANDIDATES

1. This question paper consists of 2 parts:  
PART A (25 marks) : TWO (2) short essay questions. Answers are to be written in the Answer Booklet provided.  
PART B (75 marks) : FOUR (4) problem solving questions. Answers are to be written in the Answer Booklet provided.
2. Candidates are not allowed to bring any unauthorized materials except writing equipment into the Examination Hall. Electronic dictionaries are strictly prohibited.
3. This question paper must be submitted along with all used and/or unused rough papers and/or graph paper (if any). Candidates are NOT allowed to take any examination materials out of the examination hall.
4. Only ballpoint pens are allowed to be used in answering the questions, with the exception of multiple-choice questions, where 2B pencils are to be used.

**WARNING:** The University Examination Board (UEB) of BERJAYA University College regards cheating as a most serious offence and will not hesitate to mete out the appropriate punitive actions according to the severity of the offence committed, and in accordance with the clauses stipulated in the Students' Handbook, up to and including expulsion from BERJAYA University College.

**Total Number of pages = 6 (Including the cover page)**

**PART A : SHORT ESSAY QUESTIONS (25 MARKS)**

**INSTRUCTION (S) :** There are **TWO (2)** short essay questions in this section. Answer **ALL** questions in the Answer Booklet(s) provided.

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**QUESTION 1**

- a) The importance of financial management can be illustrated through the review of the activities of a firm and its financial position at any point in time. Define the following components and state **ONE (1)** example each:
- (i) Non-current assets
  - (ii) Current assets
  - (iii) Non-current liabilities
  - (iv) Current liabilities

(12 marks)

- b) Describe the difference between profit maximization and wealth maximization. (4 marks)

**[Total 16 marks]**

**QUESTION 2**

- a) There are many forms of business structure in Malaysia. Describe **FOUR (4)** features of a limited company. (8 marks)
- b) State any **ONE (1)** type of company that is available in Malaysia besides private and public company. (1 mark)

**[Total 9 marks]**

**END OF PART A**

**PART B : PROBLEM SOLVING QUESTIONS (75 MARKS)**

**INSTRUCTION(S)** : **FOUR (4)** problem solving questions. Answer **ALL** questions in the Answer Booklet(s) provided.

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**QUESTION 1**

A summary of Clarke's final accounts at 31 December 2020 is as follows:

<b>Clarke</b>		
<b>Statement of Profit or Loss for the year ended 31 December 2020</b>		
	<b>RM'000</b>	<b>RM'000</b>
Sales		1,500
Less Cost of sales		
Opening stock	180	
Purchases	1,140	
	1,320	
Less Closing stock	(120)	1,200
Gross profit		300
Less expenses (including debenture interest)		(125)
<b>Net profit</b>		<b>175</b>

<b>Clarke</b>		
<b>Statement of Financial Position as at 31 December 2020</b>		
	<b>RM'000</b>	<b>RM'000</b>
<b>Non-current assets</b>		675
<b>Current Assets</b>		
Stock	120	
Accounts receivable	250	
Bank	30	400
		<b>1,075</b>
Capital		675
<b>Non-current liabilities</b>		
5% debenture		200
<b>Current liabilities</b>		
Accounts payable		200
		<b>1,075</b>

**Required**

a) Calculate the following ratios to the nearest to **ONE** (1) decimal place:

- (i) Net profit margin
- (ii) Gross profit margin
- (iii) Return on total capital employed (using net profit before interest)
- (iv) Rate of average stock turnover (times)
- (v) Current ratio
- (vi) Acid test ratio
- (vii) Accounts receivable collection (days)
- (viii) Accounts payable settlement (days)
- (ix) Debt ratio

(14 marks)

b) State the effect (increase or decrease) in the following scenarios that will have upon the accounts receivable and accounts payable:

No.	Scenario	Collection/Settlement Period (Days)	Turnover Rate (times)
(i)	Slow in collecting the debts from accounts receivable		
(ii)	Pay the accounts payable before the credit terms		

(6 marks)

**[Total 20 marks]**

**QUESTION 2**

Eva Bhd is a manufacturing of disposal gloves used in the medical industry. The company is considering an investment in new machinery. The annual profits/(losses) relating to the investment are estimated to be:

Year	RM
1	(11,000)
2	3,000
3	34,000
4	47,000
5	8,000

Investment at the start of the project would be RM175,000. The investment sum, assuming zero disposal value after five years, would be written off using the straight-line method. The depreciation has been included in the profit estimates above, which should be assumed to arise at each year end.

Assume that the company's required rate of return is at a discount rate of 10% per annum and the company's policy on payback period of any investment should not be more than 5 years.

**Required**

- a) Calculate the following:
- (i) Accounting rate of return
  - (ii) Payback period
  - (iii) Net present value of the investment
  - (iv) Internal rate of return
- (16 marks)
- b) Recommend whether Eva Bhd should undertake this project, giving reasons based on the investment appraisal that you have calculated in item (a) above. (4 marks)
- c) List **TWO** (2) advantages and **TWO** (2) disadvantages of payback period. (4 marks)
- d) The management of Eva Bhd agreed that the payback period is easy to compute and understand. However, it does not adjust cash flow for the time value of money. Name the alternative method of payback period. (1 mark)
- [Total 25 marks]**

**QUESTION 3**

Ally Bhd is considering invest in the two pharmaceutical securities: Meditech and Pharmax. The following are possible states of the economy and the returns associated with Meditech and Pharmax in those states:

State	Probability	Possible rates of return
<b>Meditech</b>		
Good	0.30	24%
Normal	0.40	36%
Bad	0.30	-12%
<b>Pharmax</b>		
Good	0.20	30%
Normal	0.55	18%
Bad	0.25	-6%

**Required**

- a) Calculate the following for both the securities:
- (i) Expected rate of return
  - (ii) Standard deviation
  - (iii) Coefficient of variation
- (12 marks)

- b) From the calculation obtained in item (a) above, recommend to Ally Bhd the most favourable security by commenting on the standard deviation and which investment is less risky and yield the actual outcome. (3 marks)

Last year, Ally Bhd had paid a dividend of RM4.00 for 10 million shares issued. The company expects the same rate of growth of 10% for foreseeable future. The company is reported a current market price of RM36.00.

**Required**

- c) Calculate the company cost of capital using the Gordon's dividend growth model. (5 marks)  
**[Total 20 marks]**

**QUESTION 4**

- a) Suppose Shaun inherited RM200,000 from his father and invested it at 6% per year. Calculate how much he could withdraw at the end of each of the next 15 years. (3 marks)
- b) Rudy will retire in 20 years. This year he wants to fund an amount of RM15,000 to become available in 20 years. Calculate how much he has to deposit now into a pension plan earning 7% annually. (3 marks)
- c) Bennington Company has borrowed a certain amount from the bank that it will repay in 24 monthly installments. The bank charges 12% interest annually on this loan and the monthly payment is RM6,000. Calculate the amount of loan that the Company needs to borrow. (4 marks)  
**[Total 10 marks]**

**END OF QUESTION PAPER**