



BERJAYA BUSINESS SCHOOL

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) :

Subject Code & Name : **FIN2213: FINANCIAL MANAGEMENT**
 Semester & Year : MAY – AUGUST 2017
 Lecturer/Examiner : KARNAL SINGH
 Duration : 3 Hours

INSTRUCTIONS TO CANDIDATES

- This question paper consists of 2 Parts:
 - Part A [25 marks]: Answer TWO[2] Short Essay Questions. Answers are to be written in the Answer Booklet provided
 - Part B [75 marks]: Answer Three[3] Problem Solving Questions. Answers are to be written in the Answer Booklet provided.
- Candidates are not allowed to bring any unauthorized materials except writing equipment into the Examination Hall. Electronic dictionaries are strictly prohibited.
- 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.
- 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 of Hospitality 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 of Hospitality.

Total Number of pages = 5 (Including the cover page)

PART A : Short Essay Questions [25 marks]
INSTRUCTIONS: Answer Both The TWO[2] Questions. Write your answers in the Answer Booklet(s) provided.

Question 1

DEA Berhad manufactures quality cut-glass products.

The total share capital amounts to 12 million RM1 ordinary shares and dividend per share paid on 31 May each year have been

2013	2014	2015	2016
35.64 sen	37.78 sen	40.05 sen	42.45 sen

The dividend on 31 May 2017 will be 45.00 sen per share.

The company also has RM12.5 million of 8% debentures to be redeemed at par on 31 May 2018. Interest is payable annually in arrears on 31 May.

The company's ordinary shares as at 31 May 2017 is quoted at RM5.50 (cum div) and the debentures at RM98 per RM100 nominal (ex interest)

The company income tax rate can be assumed to be 30% for the foreseeable future.

Required:

- a) Calculate the weighted average cost of capital (WACC) for DEA Bhd as at 31 May 2017. [9 marks]
- b) Briefly discuss the conditions which will allow the WACC to be appropriate for use in investment appraisal. [4 marks]

[Total: 13 marks]

Question 2

- (i) A company annual turnover is RM14.4 million. At present customers take an of 60 days to pay after invoice. A factoring company offers to pay cash 30 days after invoice in return for an annual fee of 1.5% of turnover. The factor will bear all bad debts, which at the moment are on average 0.5% of turnover. It is estimated that annual office administration costs of RM60,000 can be saved if the factor is accepted. Overdraft interest rate is 12%.

Required:

Evaluate the factoring proposal. [6 marks]

- (ii) The annual sales of Nona Bhd are RM3,650,000. At present customers take on average 60 days to pay. The company is considering offering a prompt settlement discount of 2% for customers who pay in 30 days. It is estimated that 60% of customers will take advantage of the scheme, with the reminder continue to pay in 60 days. The overdraft interest rate is 12% p.a.

Required:

Evaluate the prompt payment discount [6 marks]

[Total 12 marks]

PART B : Problem Solving Questions [75 marks]
INSTRUCTIONS: Answer Any Three[3] Questions. Write your answers in the Answer Booklet[s] provided.

Question 3

- (i) Discuss the factors that are likely to influence a company's dividend policy. [12 marks]
- (ii) The CEO of Leeward Co has suggested that it may prove more cost effective to raise the additional finance by restricting dividends. He believes shareholders will understand that if funds are reinvested by the company, this will lead to an overall increase in shareholder wealth. For the last 5 years, the company has maintained a steady rate of dividends out of improving levels of profits and positive cash flows. Discuss. [13 marks]
- [Total : 25 marks]**

Question 4

- (i) Efficient Market Hypothesis (EMH) is a theory or hypotheses concerning the ability of the stock market to correctly price shares and securities. Explain the concept of EMH. [12 marks]
- (ii) Define the **THREE (3)** forms of market efficiency. Illustrate with appropriate examples. [13 marks]
- [Total : 25 marks]**

Question 5

Jasmine Bhd is considering a potential project with the following forecasts:

	Yr 0	Yr1	Yr2	Yr3
Initial Investment (\$m)	(1,000)			
Disposal Proceeds (\$m)				200
Demand (millions of units)		5	10	6

- The initial investment will be made on the first day of the new accounting period.
- The selling price per unit is expected to be \$100 and the variable cost, \$30 per unit. Both of these figures are given in today's terms.
- Tax is paid at 30%, one year after the accounting period concerned.
- Working capital will be required equal to 10% of annual sales. This will need to be in place at the start of each year.
- WDAs are available at 25% reducing balance.
- The company has a real required rate of return of 6.8%
- General inflation is predicted to be 3% PA but the selling price is expected to inflate at 4% and variable costs by 5% PA.

Required:

- a. Determine the NPV of the Project (work in \$m and round all numbers to nearest whole number) [20 marks]
- b. Discuss the strengths and weaknesses of internal rate of return as a tool for evaluating investment opportunities. [5 marks]

[Total: 25 marks]

Question 6

Rennet's home electrical appliances is a regional retailer selling home electronic products.

However external analysts have expressed concern over Rennet's liquidity position and seek clear re-assurance that the company is not heading for liquidation

The following information has been extracted from the accounts for the year ended 31 December 2016

	RM'000
Sales	4,800
Cost of goods sold	3,400
Materials purchases	2,900
Payables	310
Receivables	720
Cash	-5
Inventory – finished goods	250
Inventory – raw materials	200

Creditors allow 30 days to pay outstanding accounts.

You are to advise the Board of Rennet's of the current financial status and offer advice to improve corporate liquidity.

Required:

- (a) Calculate the appropriate ratios that will quantify the firm's working capital cycle. [5 marks]
- (b) Discuss the firm's liquidity position and clearly identify the available options for improving this position. [8 marks]
- (c) Discuss the key factors to be considered when formulating a working capital funding policy. [12 marks]

[Total: 25 marks]

END OF EXAM PAPER