



BERJAYA BUSINESS SCHOOL

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) :

Subject Code & Name : **FIN 5104 Applied Corporate Finance and Economics**
 Semester & Year : May - August 2017
 Lecturer/Examiner : Joel Tham Kah Marn
 Duration : 3 Hours

INSTRUCTIONS TO CANDIDATES

- This question paper consists of 2 parts:
 - PART A (30 marks) : Answer all Three (3) Case Scenario Questions. Answers are to be written in the Answer Booklet provided.
 - PART B (70 marks) : Answer all 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 : Case Scenario (30 MARKS)

INSTRUCTION(S) : Answer all Three (3) Case Study Questions. Answers are to be written in the Answer Booklet provided.

Case Scenario

Carmen Santiago Inc. operates a small chain of watches retail stores throughout the United Kingdom. The company markets fashionable watches in both stores and on the internet. The company recently begin to research the possibility of opening a new retail outlet in France. The new retail outlet require an expenditure of GBP250,000 for a rented space in Paris and would provide a string of cash flows for the next 10 years. The estimated cash flows are as follows:

Year	Cash Flow(GBP)	Year	Cash Flow (GBP)
0	(250,000)	6	\$65,000
1	60,000	7	65,000
2	60,000	8	65,000
3	60,000	9	65,000
4	60,000	10	90,000
5	(45,000)		

The negative cash flow in year 5 reflects the cost of a planned renovation and expansion of the facility. Finally, in Year 10 Carmen Santiago estimates some recovery of its investment at the close of the lease, and consequently produces a higher than usual cash flow. Carmen uses a 12 percent discount rate in evaluating its investments.

Required.

1. As a preliminary step in analysing the new investment, the CEO of the company, Dr. K.M. Tham have decided to evaluate the project's anticipated payback period. Compute the payback period for the project. The CEO, Dr. K.M. Tham have some questions on the payback period. Specifically he wants to know what useful information the payback period provides. Being one of the analyst for this project, how would you respond?

(Total: 10 marks)

2. In the past the company have relied almost exclusively on the IRR to make investment choices. However, in this instance the lead financial analyst suggest that the IRR may have some inherent problems as a method. Compute the IRR for the project. Discuss how the computed IRR may be misleading with respect to the nature of this project's cash flow.

(Total: 10 marks)

3. Calculate the project's NPV. What does the NPV indicate about the potential value created by the project? Describe to Dr. K.M. Tham what the computed NPV represents.

(Total: 10 marks)

END OF PART A

PART B

: Problem Solving QUESTIONS (70 MARKS)

INSTRUCTION(S)

: Answer all **SEVEN (7)** questions. Write your answers in the Answer Booklet(s) provided.

1. The value of M&A deals amounted to 96.1 billion U.S. dollars in Asia alone in the year 2015. Critically examine the major reasons that could motivate these mergers and acquisitions.

(Total: 23 marks)

2. Hung Gar Bhd. have arrange with a finance company for RM200,000 of its receivables to be factored, carrying 60 day credit terms, a 3% factor fees, a 5% reserve, and interest at 1% per annum.

Required:

- a) Compute the maximum loan or advances the company could obtained.

(6 marks)

- b) Compute the effective cost of credit in this factoring arrangement.

(2 marks)

- c) Discuss how a firm's stock and trade debtor's management problems can be likened to a capital budgeting problem. Discuss the nature of inventory loan and critically review the THREE (3) main types of such loan with relevant examples.

(15 marks)

(Total: 23 marks)

3. Supreme Associated Inc. have the following information relating to its capital structure.

	Current	Proposed	
Assets	RM5,000,000	RM5,000,000	
Debt	RM0	RM2,500,000	
Equity	RM5,000,000	RM2,500,000	
Debt / Equity Ratio	0	1	
Share Price	RM10	RM10	
Shares Outstanding	500,000	250,000	
Interest Rate	N/A	10%	
	Recession	Expected	Expansion
EBIT	RM300,000	RM650,000	RM1,000,000

Required:

- Analyze how the proposed capital structure would affect shareholder return. (9 marks)
 - What are the main assessments that can be drawn from the proposed change in capital structure? (6 marks)
 - Discuss the important factors that need to be taken into consideration in determining capital structure of a company. (10 marks)
- (Total: 24 marks)**

END OF EXAM PAPER