



BERJAYA BUSINESS SCHOOL

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) : _____

Subject Code & Name : **FIN2133 CORPORATE FINANCE**
Semester & Year : SEPTEMBER – DECEMBER 2017
Lecturer/Examiner : JAMES LIOW
Duration : 3 Hours

INSTRUCTIONS TO CANDIDATES

1. This question paper consists of 1 part:
PART A (100 marks) : Answer all FOUR (4) compulsory 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 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.

PART A : COMPULSORY QUESTIONS (100 MARKS)

INSTRUCTION (S) : There are **FOUR (4)** questions in this section, answer **ALL** questions. Write your answers in the Answer Booklet(s) provided.

QUESTION 1

A Seagate Company is considering investing in a new manufacturing facility and requires \$350,000 investment in the facility and equipment. In order to analyse the risk surrounding a capital expenditure project, the Finance Director has suggested the following alternative characteristics:

- A Initial investment increase by 10%, scrap value nil
- B Expected life ten years, reduce by 10%
- C Sales volume of 20,000 units a year, reduce by 10%
- D Selling price of \$20 a unit, reduce by 10%
- E Variable direct costs of \$15 a unit, increase by 10%
- F Fixed costs excluding depreciation \$25,000 a year, increase by 10%

The project shows an internal rate of return (IRR) of 17%. The managing director is concerned about the viability of the investment as the return is close to the company's hurdle rate of 15%. He has requested the Finance Director to conduct a sensitivity analysis.

Required

- (a) Recalculate the internal rate of return (IRR) assuming each of the characteristics A to F above, in isolation, varies adversely by 10%. (18 marks)
- (b) Advise the managing director of the most vulnerable area likely to prevent the project meeting the company's hurdle rate. (5 marks)
- (c) Explain what further work might be undertaken to improve the value of the sensitivity analysis undertaken in (a). (2 marks)

[Total 25 marks]

QUESTION 2

Zest Ltd is considering changing its credit policy. In its efforts to improve its sales, the company seeks to relax its credit terms. The following information is given for the credit controller to assess the company's proposed plan.

	Current Policy	Proposed Policy
Annual sales	\$9,600,000	\$12,000,000
Contribution margin	18%	18%
Bad debt percentage	1%	3%
Collection period	3 months	4 months
Required rate of return	12%	12%

Required

- a) Calculate the change in profit arising from increase in sales after adjusting for bad debts. (4 marks)

- b) Calculate the cost relating to the increase in debtors. (4 marks)
- c) Calculate the combined effect of item (a) and (b), and assess which policy is preferably. (9 marks)
- d) Specify the factors a company should take into account when considering offering cash discounts to credit customers. (8 marks)

[Total 25 marks]

QUESTION 3

The directors of XYZ Ltd are considering investing in a new manufacturing facility. They have decided to compute XYZ Ltd's weighted cost of capital as at 31 December 2017. The following are the pertinent information that will be used in the computation:

- i) A corporation has 10,000 bonds outstanding with a 6% annual coupon rate, 8 years to maturity, a \$1,000 face value, and a \$1,100 market price.
- ii) The company's 100,000 shares of preferred stock pays a \$3 annual dividend, and sell for \$30 per share.
- iii) The company's 500,000 shares of common stock sell for \$25 per share, have a beta of 1.5, the risk-free rate is 4%, and the market return is 12%.
- iv) Assuming a 40% tax rate.

Required

- a) Compute XYZ Ltd's weighted average cost of capital as at 31 December 2017. (17 marks)
- b) Explain the CAPM model and some of its drawbacks. (8 marks)

[Total 25 marks]

QUESTION 4

Northeast Steel Ltd uses 500,000 tons of raw materials X per year. The following information is obtained from the company:

Carrying cost per unit	\$2.50
Fixed cost per order	\$40.00

Required

- a) Calculate the economic order quantity (EOQ). (5 marks)
- b) Calculate the annual cost when placing order for stocks at EOQ level. (5 marks)
- c) Calculate the total annual cost. (5 marks)
- d) Assuming there is a constraint arising from the space of the warehouse of which it can only allowed for a maximum of 5,000 tons at any point in time. If the order size is constrained by this, calculate the total annual cost. (5 marks)
- e) The aim of Just-In-Time (JIT) method of inventory procurement is to minimize the costs of holding inventory. List **FIVE (5)** advantages of JIT. (5 marks)

[Total 25 marks]

END OF QUESTION PAPER