



Private & Confidential

FACULTY OF BUSINESS

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) : _____

Course Code & Name : **FIN1314 FUNDAMENTALS OF FINANCE**
Semester & Year : SEPTEMBER – DECEMBER 2020
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.

QUESTION 1

- a) There are many forms of business structure in Malaysia. Describe **FIVE (5)** features of a limited company. (10 marks)
- b) Describe **TWO (2)** differences between a private company and a public company. (4 marks)
- [Total 14 marks]**

QUESTION 2

- a) Financial markets play a vital role in the allocation of resources and operation of modern economies. Describe **THREE (3)** main roles of financial markets. (6 marks)
- b) The word "market" can have many different meanings, but it is used most often as a catch-all term to denote both the primary markets and the secondary markets. Describe the difference between the two markets. (5 marks)
- [Total 11 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.

QUESTION 1

A summary of Lee King's final accounts at 30 June 2020 was as follows:

Lee King
Statement of Comprehensive Income for the year ended 30 June 2020

	RM	RM
Sales		96,000
Less Cost of sales		
Opening stock	19,000	
Add Purchases	40,000	
	59,000	
Less Closing stock	(18,000)	41,000
Gross profit		55,000
Less expenses (including loan interest)		43,000
Net profit		12,000

Lee King
Statement of Financial Position as at 30 June 2020

	RM	RM
Non-Current Assets		
Property, plant & equipment		52,000
Current Assets		
Stock	18,000	
Accounts receivable	14,000	
Prepaid insurance expenses	1,000	
Bank	8,000	
	41,000	
Current Liabilities		
Accounts payable	7,500	
Accrued loan expenses	400	
	7,900	
Working Capital		33,100
		85,100

Financed by:		
Non-Current Liabilities		
5% Bank Loan		20,000
Capital	38,000	
Profit for the year	27,100	65,100
		85,100

Required

a) Calculate correct to **ONE (1) decimal place** the following ratios. Show all workings.

- (i) Gross profit margin
- (ii) Net profit margin
- (iii) Return on the capital employed
- (iv) Current ratio
- (v) Acid test ratio
- (vi) Rate of stock turnover (times)
- (vii) Accounts receivable collection period (in days)
- (viii) Accounts payable settlement period (in days)

(16 marks)

b) Comment on the firm's liquidity, and state what is the ideal acid test ratio.

(4 marks)

[Total 20 marks]

QUESTION 2

Fryatt McShane is considering two alternative investment projects both of which require the purchase of new equipment with a lifespan of four years. The following information relates to the two projects:

	Project Aye	Project Bee
	RM'000	RM'000
Purchase cost of equipment – Beginning of year	600	720
Estimated accounting profits:		
Year 1	50	60
Year 2	125	150
Year 3	90	108
Year 4	30	36
Estimated disposal value of equipment	80	96

The company's depreciation policy is to write off the cost of equipment using the straight-line method. Cost of capital is 15% per annum.

Required

- a) Calculate for both Project Aye and Project Bee:
- (i) Payback period (7 marks)
 - (ii) Net present value (5 marks)
 - (iii) Internal rate of return (6 marks)
- b) Recommend which project should be undertaken, giving reasons for your decision. (2 marks)
- c) List **TWO** (2) advantages and **TWO** (2) disadvantages of payback period. (4 marks)
- d) The management of Fryatt McShane 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

Maxwell Bhd is considering invest in the two securities: Alpha and Beta. The probability of the demand is categorised into strong, moderate and weak as shown below:

Security	Probability	Possible rates of return
Alpha		
Strong	0.40	90%
Moderate	0.35	15%
Weak	0.25	-60%
Beta		
Strong	0.20	45%
Moderate	0.55	19%
Weak	0.25	-10%

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 Maxwell 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, Maxwell 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) Khairuddin plans to buy a property in Klang Valley five years from today. It is estimated that he will need RM30,000 at that time for the purchase. Khairuddin would like to accumulate these funds by making equal annual deposits in his saving account, which pays 10% annually.

If Khairuddin makes his first deposits at the end of this year and he would like his account to reach RM30,000 when the final deposit is made.

Required

Calculate the amount he needs to deposit annually. (5 marks)

- b) Khairuddin decides to make a large lump-sum deposit today instead of the annual deposits.

Required

Calculate how large should the lump-sum deposit be? (Assume he can earn 10% on this deposit)

(5 marks)

[Total 10 marks]

END OF QUESTION PAPER