BERJAYA
UNIVERSITY COLLEGE

FACULTY OF BUSINESS

FINAL EXAMINATION

Student ID (in Figures)   :

Student ID (in Words)   :

Course Code & Name   :   **FIN1513 INTRODUCTION TO FINANCE**
Semester & Year   :   SEPTEMBER – DECEMBER 2022
Lecturer/Examiner   :   JAMES LIOW
Duration   :   3 HOURS
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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) 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 provide **ONE (1)** relevant example for each component to support your answer:
   (i)   Non-current assets
   (ii)   Current assets
   (iii) Non-current liabilities
   (iv)   Current liabilities

(12 marks)

b) Distinguish between a primary and secondary market. Provide **ONE (1)** example each to support your answer.
(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.

QUESTION 1

JG Bhd has a retail business. The following is a summary of its financial statements for the last two years:

Statement of Profit or Loss for the year ended		
	2021	**2022**
	RM'000	**RM'000**
Sales	170,000	210,000
Opening stock	13,800	16,400
Add purchases	92,800	114,000
	106,600	130,400
Less Closing stock	(16,400)	(19,900)
Cost of sales	90,200	110,500
Gross Profit	79,800	99,500
Less Expenses	(58,700)	(69,200)
Net Profit	**21,100**	**30,300**

Statement of Financial Position as at		
	2021	**2022**
	RM'000	**RM'000**
Non-current assets		
Land and buildings	66,000	70,900
Plant and equipment	23,000	38,700
	89,000	109,600
Current assets		
Stock	16,400	19,900
Accounts receivable	9,800	12,700
Bank	5,840	-
Cash	1,860	150
	33,900	32,750
	122,900	**142,350**
Equity and liabilities		
Equity		
Share capital	97,500	97,500
Retained profit	8,700	17,300
	106,200	114,800

Current liabilities		
Accounts payable	16,700	24,800
Bank overdraft	-	2,750
	16,700	27,550
	122,900	**142,350**

All sales and purchases were made on credit term.

Required

a) Calculate correct to **TWO (2)** decimals place the following ratios for each of the two years 2021 and 2022. Show all workings.
   (i)   Gross profit margin
   (ii)   Return on the capital employed
   (iii)   Current ratio
   (iv)   Acid test ratio
   (v)   Rate of stock turnover (times)
   (vi)   Accounts receivable's collection period (in days)
   (vii)   Accounts payable's collection period (in days)
   (viii) Debt ratio

(2 marks each = 16 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		

(4 marks)
[Total 20 marks]

QUESTION 2

Advanced Medical Plus Bhd (AMP) is a manufacturing of pharmaceutical products. The company is evaluating an investment project requiring an outlay of RM1.4 million on new machines (Year 0). The machines would be expected to have a useful working life of six years, with a residual value of RM80,000 (Year 6), and would be depreciated on a straight-line basis.

Estimates of profits (net of depreciation of the new machines) arising from the investment are:

Year	RM'000
1	20
2	50
3 to 6	80 per annum

Assume that the company's required rate of return is at a discount rate of 15% per annum and the company's policy on payback period of any investment should not be more than 3 years.

Required
a) Calculate in relation to the investment project the:
   (i)   Average annual accounting rate of return   (2 marks)
   (ii)   Payback period   (2 marks)
   (iii) Net present value of the investment   (4 marks)
   (iv)   Internal rate of return *(suggest to select discount rate of 5%)*   (5 marks)

b) Recommend whether AMP should undertake this project, giving reasons based on the investment appraisal that you have calculated in item (a) above.   (6 marks)

c) The management of AMP 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 20 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
Meditech		
Good	0.30	24%
Normal	0.40	36%
Bad	0.30	-12%
Pharmax		
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   (2 marks)
   (ii)   Standard deviation   (6 marks)
   (iii) Coefficient of variation   (4 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) RON89 shares recently paid a dividend of RM5.50. The dividend is expected to grow at 9% per year infinite. Calculate the value of the stock if the required rate of return on this share is 15%.

b) Summer Bhd issued a bond with a RM1,000 face value pays a 8% coupon rate with a maturity of 15 years if the market rate is 10%. Calculate the price of the bond.

c) Happy Harry has just bought a scratch lottery ticket and won RM20,000. He wants to finance the future study of his newly born daughter and invests this money in a fund with a maturity of 18 years offering a promising yearly return of 6%. Calculate the amount available on the 18th birthday of his daughter.

d) Pete considers buying a house. Currently, he rents a place for RM10,000 per year. The current yearly interest rate on mortgages is 5% per annum. His planning period is 20 years. Calculate the amount of mortgage that he has to paid now for his purchase.

e) Willy has just bought a house. She estimates that the roof will have to be renewed at a cost of RM35,000 after 10 years. To cover these costs, she intends to save an equal amount of money at the end of each year, earning 8% annual interest rate. Calculate the yearly annuity that he needs to save.

(5 questions x 3 marks)
[Total 15 marks)

END OF QUESTION PAPER