



FACULTY OF BUSINESS

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) : _____

Course Code & Name : **FIN2133 CORPORATE FINANCE**
Semester & Year : SEPTEMBER – DECEMBER 2024
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 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 : COMPULSORY QUESTIONS (100 MARKS)

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

QUESTION 1

The following is the extract of statement of financial position information relates to Transnational Corporation Bhd (TCB), a company listed on the main board of Bursa Malaysia:

	RM' million	RM' million
Share capital	18	
Retained earnings	12	
Total equity		30
Long-term borrowings	15	
Current liabilities	20	
Total liabilities		35
Total equity and liabilities		65

The share capital of TCB consists of RM10 million of ordinary shares and RM8 million of irredeemable preference shares.

The ordinary shares of TCB have a nominal value of RM0.50 per share, an ex-dividend market price of RM8.01 per share and a cum dividend market price of RM8.62 per share. The dividend for 2024 will be paid in the near future.

Dividends paid in recent years have been as follows:

Year	2023	2022	2021	2020
Dividend (RM per share)	0.53	0.51	0.49	0.47

The 5% preference shares of TCB have an issue price of RM0.50 per share and an ex dividend market price of RM0.41 per share.

The long-term borrowings of TCB consist of RM10 million of loan notes and a RM5 million bank loan. The bank loan has a variable interest rate.

The 8% loan notes have a nominal value of RM100 per loan note and a market price of RM103.34 per loan note. Annual interest has just been paid and the loan notes are redeemable in four years' time at a 5% premium to nominal value.

Additional information:

- (i) TCB paid a corporate tax of 30%.
- (ii) TCB has a policy of using the Gordon Growth Model in determining the cost of equity.
- (iii) The discount factors are as follows:

	5%	6%
Single cash flow	0.8227	0.7921
Annuity	3.5460	3.4651

Required

- a) Calculate the after-tax weighted average cost of capital of Transnational Corporation Bhd on a market value basis. (18 marks)
- b) Different securities offer varying rate of risk and return, describe any **TWO (2)** types of securities that are available in the capital markets. (7 marks)

[Total 25 marks]

QUESTION 2

KXP Bhd currently has an annual demand for its chemical product Z of 50,000 units. There is only one supplier of Product Z and the cost of purchase is RM10.80 per unit. Each order costs KXP Bhd RM20.00 to place and the holding cost is RM0.50 per unit.

The supplier has now offered a 2% discount for orders of 3,000 units or more and a discount of 3% for orders of 4,000 units or more.

Required

- a) Calculate the current economic order quantity (EOQ). (2 marks)
- b) Calculate the ordering costs and holding costs at the current EOQ level. (4 marks)
- c) Calculate the inventory cycle per week. (4 marks)
- d) Calculate the current total annual inventory costs. (2 marks)
- e) Based on the discount offer at 2% and 3% provided by the supplier, justified with calculations which bulk purchase discount offered by the supplier is financially acceptable. (11 marks)
- f) Indicate the relationship between ordering costs and holding costs if the company has decided to order more frequently. (2 marks)

[25 marks]

QUESTION 3

Asiata Investment Bhd (AIB) is a corporation engaged in the business of investing the pooled capital of investors in financial securities. Their responsibilities are to ensure the funds are invested in a portfolio in order to reduce the risk and increase the expected return of the investors.

AIB has appointed a financial analyst, Mr George Solomon to analyse two-investment portfolio and has decided to invest 50% of the funds in Ace Bhd (A). Whereas the other remaining 50% of the funds in Breda Bhd (B).

The following are the rates of returns under different probabilities:

Market Condition	Rate of Return		
	Probability	A Bhd	B Bhd
Strong	0.2	22%	5%
Normal	0.6	14%	15%
Weak	0.2	-4%	25%

Required

- a) Calculate the following for investment A and B:
 - (i) Individual expected rate of return (2 marks)
 - (ii) Individual standard deviation (3 marks)

- b) Calculate the following portfolio investment A and B:
 - (i) Covariance (3 marks)
 - (ii) Coefficient correlation (2 marks)
 - (iii) Standard deviation (4 marks)

Assume Mr George is also seeking another investment, Coral Bhd (C) and has decided to construct the following two-investment portfolio: A and B or A and C. The funds are to be invested equally in both the investments.

The following information for investment C is provided below:

Expected return	Standard deviation	Coefficient correlation
11%	5%	0.3

Required:

- c) Calculate the portfolio standard deviation for investment A and C. (4 marks)

- d) Calculate the portfolio expected return for the following:
 - (i) Investment A and B (2 marks)
 - (ii) Investment A and C (2 marks)

- e) Comment which investment portfolio should Mr George select, giving reason based on the analysis above. (3 marks)

[Total 25 marks]

QUESTION 4

NBB Holdings Bhd (NBB) is a manufacturer of domestic appliances. Its chairman is pleased with the results for the year ended 31 December 2023 as they show a continuing improvement over recent past performance.

However, the finance director says that a better assessment of the company's performance would be made by a comparison to other companies in the same sector.

The finance director has obtained the following ratios for NBB's business sector based on a year end of 31 December 2023:

Return on capital employed (ROCE)	18.5%
Gross profit margin	21%
Operating profit margin	10.3%
Current ratio	2.1:1
Gearing ratio	36%
Inventory turnover (no. of times)	8.5
Trade receivable collection days	45 days
Trade payable settlement days	60 days

The summarised financial statements of NBB are as follows:

Statement of Profit or Loss for the year ended 31 December 2023	
	RM'000
Revenue	62,500
Cost of sales	(51,800)
Gross profit	10,700
Operating expenses	(5,800)
Operating profit	4,900
Finance costs	(1,800)
	3,100
Income tax expense	(1,000)
Profit for the year	2,100

Statement of Financial Position as at 31 December 2023	
	RM'000
Non-current assets	
Land and building	8,100
Plant and equipment	12,600
Right of use assets	12,200
	32,900
Current assets	
Bank	100
Trade receivable	10,800
Closing inventory	15,500
	26,400
Total assets	59,300
Equity and liabilities	
Equity	
Equity shares issued at RM1.00 each	9,000
Property revaluation surplus	4,000
Retained earnings	10,600
	23,600
Non-current liabilities	
10% loan notes	10,000
Lease liabilities	6,400
	16,400
Current liabilities	
Trade payable	15,400
Short term borrowings	3,900
	19,300
Total liabilities	35,700
Total equity and liabilities	59,300

Note:

The closing stock as 31 December 2022 was valued at RM22,600.

Required

- a) Calculate the equivalent ratios to those of its sector. (16 marks)
- b) Analyse the financial performance and position of NBB Holdings Bhd for the year to 31 December 2023 in comparison to the sector averages. (9 marks)

[Total 25 marks]

END OF QUESTION PAPER