CONFIDENTIAL

UNIVERSITI KUALA LUMPUR BUSINESS SCHOOL

FINAL EXAMINATION

JANUARY 2016 SEMESTER

SUBJECT CODE	:	EIB11803
SUBJECT TITLE	:	FINANCIAL MANAGEMENT
LEVEL	:	BACHELOR
TIME / DURATION	:	2.00 PM - 5.00 PM / 3 HOURS
DATE	:	31st MAY 2016

INSTRUCTIONS TO CANDIDATES

1. Please read the instructions given in the question paper CAREFULLY.
2. This question paper is printed on both sides of the paper.
3. This question paper consists of FIVE (5) questions. Answer only FOUR (4) questions.
4. Please SHOW ALL YOUR WORKINGS.
5. Please write your answers on the answer booklet provided.
6. All questions must be answered in English (any other language is not allowed).
7. This question paper must not be removed from the examination hall.

THERE ARE EIGHT (8) PAGES OF QUESTIONS, EXCLUDING THIS PAGE AND ONE PAGE OF FORMULA

INSTRUCTION: Answer any FOUR (4) questions.

Please use the answer booklet provided.

Question 1

a) Remy is being sent by Alliance Consulting to perform a company's valuation on Syarikat Bersatu. The following is Syarikat Bersatu's Income Statement and Balance Sheet. Below are several tasks he needs to accomplish

i. Provide justification why financial planning is important in the firms' operation?

(4 marks)

ii. Describe how the short-term planning is being constructed starting with sales forecast and who is responsible to provide the sales figure?

(5 marks)

iii. Determine the company's Free Cash Flow (FCF) for 2015 using Schedule 1 and 2. (Hint: Need to find the Net Fixed Asset Investment and Net Asset Current Investment)

(6 marks)

Schedule-1

Syarikat Bersatu			
Income Statement			
For the Year Ended December 31, 2015			
Sales Revenue			120,000
Cost of Goods Sold			80,000
Gross Profit			40,000
Selling Expense		4,000	
General and Adminstrative Expense		3,000	
Depreciation Expense		9,000	
Operating Profits			24,000
Interest Expense			2,500
Net Profit before Taxes			21,500
Taxes (40%)			8,600
Net Profit before Taxes			12,900

Schedule-2

Syarikat Bersatu Balance Sheet For the year ended 31st December 2015 & 2014				
		2015		**2014**
Assets		(RM)		(RM)
Cash		30,000		25,000
Account Receivable		55,000		45,000
Inventory		65,000		45,000
Gross Fixed Assets	100,000		85,000	
Acc. Depreciation	34,000		25,000	
Total Fixed Assets		66,000		60,000
Total Assets		216,000		175,000
Liabilities & Equities				
Accounts Payable		35,000		25,000
Notes Payable		30,000		27,000
Accruals		40,000		32,000
Long-term debts		25,000		19,000
Common stock at par		50,000		42,000
Paid-in Capital in excess of par		8,000		6,000
Retained Earnings		28,000		24,000
Total Liabilites & Equity		216,000		175,000

Schedule-3

SALES	2015		2016	
	Unit	Unit Price (RM)	Unit	Unit Price (RM)
Product A	3000	16	3000	18
Product B	2000	16	3000	20
Product C	2000	20	2500	22

b) He also needs to make a pro-forma income statement projection based on percent-of-sales and fixed-variable cost method. Use the income statement 2015 (Schedule-1) to derive the 2016 pro-forma income statement.

The 2015 and projected 2016 sales figures are based on the total sales from product A, B and C (Refer to schedule-3). (Hint: Need to find the total Sales of all the products)

i) Using the percent-of-sales method, please show the new figures for 2016 pro forma income statement. (Assuming the cost of goods sold, operating cost and interest expense increase in proportion to sales)

(5 marks)

ii. Another method that he would like to use is based on fixed and variable cost assumption. Using the historical cost, he managed to collect detail breakdown as referred to schedule-4. Interest expense is considered fixed expense too. Show the new pro-forma income for 2016 using fixed-variable cost approach?

(5 marks)

Schedule-4

Extract from Income Statement 31 December , 2015			
Cost of Goods Sold			
Fixed Cost	30,000		
Variable Cost	50,000		
Operating Expense			
Fixed Cost	4,000		
Variable Cost	7,000		

[Total: 25 marks]

Question 2

a) Syarikat Jooi Bersaudara has just paid an annual dividend of RM 0.60. The company's CFO predicts 4% per year growth rate in earnings over the next 4 years. After that the earnings are expected to grow at a slower rate at 2% per year. If the company's cost of capital is at 10 % per year, based on dividend-discount model, what should be the reasonable price for its stock?

(9 marks)

b) Preferred dividends Slater Lamp Manufacturing has an outstanding issue of preferred stock with an $80 par value and an 11% annual dividend.

i. What is the annual dollar dividend? If it is paid quarterly, how much will be paid each quarter?

(2 marks)

ii. If the preferred stock is noncumulative and the board of directors has passed the preferred dividend for the last 3 quarters, how much must be paid to preferred stockholders in the current quarter before dividends are paid to common stockholders?

(3 marks)

iii. If the preferred stock is cumulative and the board of directors has passed the preferred dividend for the last 3 quarters, how much must be paid to preferred stockholders in the current quarter before dividends are paid to common stockholders?

(3 marks)

c) Bass Bhd's bond currently sells for RM 960 and, has 12 percent coupon interest rate and RM 1,000 par value. It pays interest quarterly and has 10 years to maturity.

I. Calculate the yield to maturity (YTM) on this bond

(5 marks)

ii. Explain the relationship that exists between the coupon interest rate and yield to maturity and the par value and the market value of a bond.

(3 marks)

[Total: 25 marks]

Question 3

a) Nico's Sdn Bhd uses 2,400 units of a product per year on a continuous basis. The product carrying costs are RM 60 per year and ordering costs are RM 250 per order. It takes 20 days to receive a shipment after an order is placed and the firm requires a safety stock of 8 days of usage in inventory.

i. What is objective of EOQ?

(3 marks)

ii. Calculate the economics order quantity?

(4 Marks)

iii. Calculate the total cost per year to order and carry this item.

(4 Marks)

b) Shamsul Kitar Bhds is considering relaxing its credit standards to increase its currently sagging sales. As a result of the proposed relaxation, sales are expected to increase by 10% from 10,000 to 11,000 units during the coming year; the average collection period is expected to increase from 45 to 60 days; and bad debts are expected to increase from 1% to 3% of sales.

The sale price per unit is RM 40, and the variable cost per unit is RM 31. The firm's required return on equal-risk investments is 25%. Evaluate the proposed relaxation and make a recommendation to the firm. (Note: Assume a 365-day year.)

i. Calculate additional profit contribution from sales.

(3 marks)

ii. Calculate the marginal investment in accounts receivable.

(4 marks)

iii. Calculate cost of marginal bad debt?

(4 marks)

iv. Calculate Net Profit or Loss in implementing the project.

(3 marks)

[Total: 25 marks]

Question 4

a) Ali, Siti and Afnan, private workers aged 21, 23 and 26, respectively, have come and seek your opinion for an investment that they are considering. They are planning to make save RM 700 at the end of each year. If the account earns 8% per year, calculate:

i) How much Ali, Siti and Afnan have saved when each of them reach the age of 40? (Show your workings separately for each person).

(6 marks)

ii) How much Ali, Siti and Afnan have saved if they invest at the beginning of each period and stop their investment after 15 years?

(3 marks)

b) Kayu Kayan Industries, a cabinet manufacturer, expects to receive the mixed stream of cash flows of; RM 10,000, RM 7,000, RM 5,000, RM 8,000 and RM 5,000, respectively, over the next 5 years from one of its small customers. If the firm expects to earn at least 8% on its investments, how much will it accumulate by the end of year 5?

(5 marks)

c) Arman borrowed RM15,000 at a 10% annual rate of interest to be repaid over 3 years. The loan is amortized into three equal, annual, end-of-year payments.

i. Calculate the annual, end-of-year loan payment.

(2 marks)

ii. Prepare a loan amortization schedule showing the interest and principal breakdown of each of the three loan payments.

(5 marks)

d) Differentiate between annuity and perpetuity. Illustrate the two terms.

(4 marks)

[Total: 25 marks]

QUESTION 5

a) The Bolster Company is considering two mutually exclusive projects:

Year	Initial Outlay RM	NPV RM
0	-100,000	-100,000
1	31,250	0
2	31,250	0
3	31,250	50,000
4	31,250	0
5	31,250	200,000

The required rate of return on these projects is 12 percent.

i) What is each project's payback period?

(2 marks)

ii) What is each project's payback period considering the Bolster Company that is in the 25% tax bracket?

(6 marks)

iii) Briefly explain the three weaknesses of payback period.

(3 marks)

b) PakYa Motors has several investment projects under consideration, all with positive net present values. However, due to a shortage of trained personnel, a limit of RM 1,250,000 has been placed on the capital budget for this year. Which of the projects listed below should be included in this year's capital budget? Explain your answer.

Project	Initial Outlay (RM)	NPV (RM)
A	250,000	325,000
B	250,000	350,000
C	100,000	700,000
D	375,000	112,500
E	375,000	75,000

(3 marks)

c) A project that requires an initial investment of RM 340,000 is expected to have an after-tax cash flow of RM 70,000 per year for the first two years, RM 90,000 per year for the next two years, and RM 150,000 for the fifth year? Assume the required return for this project is 10%.

i) What is the NPV of the project?

(2 marks)

ii) What is the IRR of the project?

(2 marks)

iii) What decision would you make regarding this project if the required rate of return is 10%? Support your answer with at least two justifications.

(4 marks)

iv) Will your decision in (iii) above change, if the required rate of return is slightly increase to 11%? Justify your answer.

(3 marks)

[Total: 25 marks]

END OF QUESTION PAPER

Financial Formula:

FREE CASH FLOW

OCF = EBIT * (1 - *T*) + Depreciation

FCF = OCF - Net fixed asset investment (NFAI)- - Net current asset investment (NCAI)

NFAI = Change in net fixed assets + Depreciation

BOND VALUATION

$$B_0 = I \times \left[\sum_{t=1}^{n} \frac{1}{(1+r_d)^t}\right] + M \times \left[\frac{1}{(1+r_d)^n}\right]$$

<u>Valuing Stock:</u>

1. Preferred Shares: $P_0 = D_1 \times \sum_{t=1}^{\infty} \frac{1}{(1+r_s)^t} = D_1 \times \frac{1}{r_s} = \frac{D_1}{r_s}$
2. Common Shares: (Constant Growth

$$P_0 = \frac{D_1}{r_s - g}$$

INVENTORY MANAGEMENT

EOQ= $\sqrt{2 \, x \, S \, x \, OC / CC}$

ACCOUNT RECEIVABLE MANAGEMENT

$$Average\ Investment\ Account\ Receivable = \frac{Total\ variable\ cost\ of\ annual\ sales}{Turnover\ of\ accounts\ receivable}$$

$$Turnover\ of\ accounts\ receivable = \frac{365}{Average\ collection\ period}$$

Cost of marginal investment in accounts receivable

Average investment under proposed plan
− Average investment under present plan
Marginal investment in accounts receivable
× Cost of funds tied up in receivables
Cost of marginal investment in A/R