

EXAMINATION AND EVALUATION DIVISION
DEPARTMENT OF POLYTECHNIC EDUCATION
(MINISTRY OF HIGHER EDUCATION)

COMMERCE DEPARTMENT

FINAL EXAMINATION
DECEMBER 2011 SESSION

P5127 : BUSINESS FINANCE

DATE : 30 APRIL 2012 (MONDAY)
DURATION : 2 HOURS (8.30 AM – 10.30 AM)

This paper consists of **SIX (6)** pages including the front pages

Essay (Answer **ALL** the **FOUR** questions)

CONFIDENTIAL
DO NOT OPEN THIS QUESTION PAPER UNTIL INSTRUCTED BY THE
CHIEF INVIGILATOR

(CLO stated at the end of each question is referring to the learning outcome of the topic assessed. The CLO stated is only for lectures' references.)

INSTRUCTION:

This section consists of **FOUR (4)** questions.

Answer **ALL** the questions in the answer booklet.

QUESTION 1

- a) SMN Company Limited desired to expand its business operations in the south of the country. In order to sustain the business, the company has offered a bond to the public. The par value of bond is RM1800. Return of the bonds is 9% with 12% coupon rate paid annually. Maturity period is 15 years. The market value of the SMN Company Limited bond is RM1860.
- i) Determine the value of the bonds
(3 marks)
- ii) Should investors invest in this bond? Comment on your findings.
(2 marks)
- b) Makmur Company is considering investing into a common stock. Following information is for each ordinary share.

Stock A		Stock B		Stock C	
Probability	Return	Probability	Return	Probability	Return
0.20	10%	0.30	8%	0.25	9%
0.60	13%	0.40	15%	0.35	12%
0.20	20%	0.30	19%	0.40	15%

Based on the given information,

- i) Calculate the expected rate of return for each stock
(6 marks)
- ii) Calculate the standard deviation of expected returns for each stock
(6 marks)
- iii) Calculate the coefficient of variation (CV) for each stock
(6 marks)
- iii) Based on the calculation, which share should be bought by Makmur Company?
(2 marks)

QUESTION 2

Harith Corporation is formulating a current asset holding policy to be considered :

Alternative Pez	:	70 % of sales
Alternative Qez	:	80 % of sales
Alternative Rez	:	60 % of sales

Following information is relevant to all alternatives

Sales of RM 6,500,000

Fixed Assets RM 2,500,000

Total liabilities to total assets equal to 60 %

Interest on total liabilities is 5.5 %

Earnings Before Interest and Tax 18 %

Tax rate of 32 %

You are required to provide:

- Summary of Balance Sheet for each alternative. (6 marks)
- Summary of Income Statement for each alternative. (6 marks)
- Calculation of the net profit margin, return on assets (ROA) and rate of return on equity (ROE) for each alternative (9 marks)
- Based on your calculation, which of the position of the company alternative is more risky? Give your reasons. (4 marks)

QUESTION 3

- (a) Armieza Bakery is currently producing cup cakes that require 250,000 kg of raw material every year. The carrying cost is 20% from the purchase price of the goods. Ordering cost are estimated at RM95.00. Goods are purchased at RM2.00 per unit. The management team has decided to keep safety stock of 15,000 kg. Company's regular supplier usually takes 7 days to deliver the stocks to the company. Assume that the company works 50 weeks in a year.

You are required to calculate:

- | | | |
|------|----------------------------|-----------|
| i) | Economic order quantity | (4 marks) |
| ii) | Number of orders in a year | (4 marks) |
| iii) | Inventory reorder point | (7 marks) |
| iv) | Average inventory | (4 marks) |
- (b) Briefly explain **THREE (3)** reasons why inventory management is important.
(6 marks)

QUESTION 4

Rayyan Trading is considering these two mutually exclusive projects which required an initial outlay of RM125,000. Below is the cash flows expected from each project. The cost of capital is 14%.

Year	Project M	Project N
1	35,000	30,000
2	35,000	34,000
3	35,000	39,000
4	35,000	44,000
5	35,000	50,000

For each project, calculate:

- a) Payback period (7 marks)
- b) Net present value (12 marks)
- c) Profitability index (3 marks)
- d) Determine which project should be chosen. Why? (3 marks)

Present Value of an Annuity of \$1 per Period for N Periods (PVIFA)

Period	21.00%	22.00%	23.00%	24.00%	25.00%	26.00%	27.00%	28.00%	29.00%	30.00%	31.00%	32.00%	33.00%	34.00%	35.00%	36.00%	37.00%	38.00%	39.00%	40.00%
1.00	0.9901	0.9804	0.9709	0.9615	0.9524	0.9434	0.9346	0.9259	0.9174	0.9091	0.9009	0.8929	0.8850	0.8772	0.8696	0.8621	0.8547	0.8475	0.8403	0.8333
2.00	1.9704	1.9416	1.9135	1.8861	1.8594	1.8334	1.8080	1.7833	1.7591	1.7355	1.7125	1.6901	1.6681	1.6467	1.6257	1.6052	1.5852	1.5656	1.5465	1.5278
3.00	2.9410	2.8839	2.8286	2.7751	2.7232	2.6730	2.6243	2.5771	2.5313	2.4869	2.4437	2.4018	2.3612	2.3216	2.2832	2.2459	2.2096	2.1743	2.1399	2.1065
4.00	3.9020	3.8077	3.7171	3.6299	3.5460	3.4651	3.3872	3.3121	3.2397	3.1698	3.1024	3.0373	2.9745	2.9137	2.8550	2.7982	2.7432	2.6901	2.6386	2.5887
5.00	4.8534	4.7135	4.5797	4.4518	4.3295	4.2124	4.1002	3.9927	3.8897	3.7908	3.6959	3.6048	3.5172	3.4331	3.3522	3.2743	3.1993	3.1272	3.0576	2.9906
6.00	5.7955	5.6014	5.4172	5.2421	5.0757	4.9173	4.7665	4.6229	4.4859	4.3553	4.2305	4.1114	3.9975	3.8887	3.7845	3.6847	3.5892	3.4976	3.4098	3.3255
7.00	6.7282	6.4720	6.2303	6.0021	5.7864	5.5824	5.3933	5.2064	5.0330	4.8684	4.7122	4.5638	4.4226	4.2883	4.1604	4.0386	3.9224	3.8115	3.7057	3.6046
8.00	7.6517	7.3255	7.0197	6.7327	6.4632	6.2098	5.9713	5.7466	5.5348	5.3349	5.1461	4.9676	4.7988	4.6393	4.4877	4.3436	4.2072	4.0776	3.9544	3.8372
9.00	8.5660	8.1622	7.7861	7.4353	7.1078	6.8017	6.5152	6.2469	6.0052	5.7990	5.6282	5.4716	5.3282	5.1964	5.0751	4.9635	4.8606	4.7657	4.6783	4.5978
10.00	9.4713	8.9826	8.5302	8.1109	7.7217	7.3601	7.0236	6.7101	6.4177	6.1446	5.8892	5.6502	5.4262	5.2161	5.0188	4.8332	4.6586	4.4941	4.3389	4.1925
11.00	10.3676	9.7868	9.2526	8.7605	8.3064	7.8869	7.4987	7.1390	6.8052	6.4951	6.2065	5.9377	5.6869	5.4527	5.2337	5.0286	4.8364	4.6560	4.4865	4.3271
12.00	11.2551	10.5753	9.9540	9.3851	8.8633	8.3838	7.9427	7.5361	7.1607	6.8137	6.4924	6.1944	5.9176	5.6603	5.4206	5.1971	4.9884	4.7932	4.6105	4.4392
13.00	12.1337	11.3484	10.6350	9.9856	9.3936	8.8527	8.3577	7.9038	7.4869	7.1034	6.7499	6.4235	6.1218	5.8424	5.5851	5.3493	5.1343	4.9395	4.7547	4.5827
14.00	13.0037	12.1062	11.2961	10.5631	9.8986	9.2950	8.7455	8.2442	7.7862	7.3667	6.9819	6.6282	6.3025	6.0021	5.7245	5.4675	5.2233	5.0081	4.8223	4.6466
15.00	13.8651	12.8493	11.9379	11.1184	10.3797	9.7122	9.1079	8.5595	8.0607	7.6011	7.1909	6.8109	6.4624	6.1422	5.8474	5.5755	5.3242	5.0916	4.8759	4.6755
16.00	14.7179	13.5777	12.5611	11.6523	10.8378	10.1059	9.4466	8.8514	8.3126	7.8237	7.3792	6.9740	6.6039	6.2651	5.9542	5.6685	5.4053	5.1624	4.9377	4.7296
17.00	15.5623	14.2919	13.1661	12.1657	11.2741	10.4773	9.7632	9.1216	8.5436	8.0216	7.5488	7.1196	6.7299	6.3767	6.0472	5.7428	5.4616	5.2023	4.9649	4.7446
18.00	16.3983	14.9920	13.7535	12.6593	11.6896	10.8276	10.0591	9.3719	8.7556	8.2014	7.7016	7.2497	6.8359	6.4674	6.1280	5.8178	5.5339	5.2732	5.0333	4.8122
19.00	17.2260	15.6785	14.3238	13.1339	12.0853	11.1581	10.3356	9.6036	8.9501	8.3649	7.8393	7.3658	6.9380	6.5504	6.1928	5.8725	5.5768	5.3052	5.0509	4.8266
20.00	18.0456	16.3514	14.8775	13.5903	12.4622	11.4699	10.5940	9.8181	9.1285	8.5136	7.9633	7.4694	7.0248	6.6231	6.2953	5.9928	5.6978	5.4257	5.1009	4.8696
21.00	18.8570	17.0112	15.4150	14.0292	12.8212	11.7641	10.8355	10.0168	9.2922	8.6487	8.0751	7.5620	7.1016	6.6870	6.3504	6.0428	5.7544	5.4845	5.1668	4.9314
22.00	19.6580	17.6580	15.9369	14.4511	13.1630	12.0416	11.0612	10.2007	9.4424	8.7715	8.1757	7.6446	7.1695	6.7429	6.3957	6.0813	5.7964	5.5248	5.2088	4.9694
23.00	20.4558	18.2922	16.4436	14.8568	13.4886	12.3034	11.2722	10.3711	9.5802	8.9342	8.2664	7.7184	7.2229	6.7929	6.4388	6.1042	5.7934	5.4921	5.1668	4.9245
24.00	21.2434	18.9139	16.9355	15.2470	13.7986	12.5504	11.4693	10.5288	9.7066	9.0832	8.2664	7.7843	7.2829	6.8351	6.4538	6.0971	5.7662	5.4509	5.1222	4.8716
25.00	22.0232	19.5235	17.4131	15.6221	14.0939	12.7834	11.6536	10.6748	9.8226	9.0770	8.2417	7.8431	7.3390	6.8729	6.4641	6.0917	5.7465	5.4059	5.0624	4.8063
26.00	22.7932	20.1210	17.8768	15.9828	14.3752	13.0032	11.8258	10.8100	9.9290	9.1266	8.2817	7.8431	7.3390	6.8729	6.4641	6.0917	5.7465	5.4059	5.0624	4.8063
27.00	23.5596	20.7069	18.3270	16.3296	14.6430	13.2105	11.9867	10.9352	10.0266	9.1926	8.3481	7.8957	7.3717	6.9016	6.4906	6.1182	5.7831	5.4804	5.2060	4.9563
28.00	24.3164	21.2813	18.7641	16.6631	14.8981	13.4062	12.1371	11.0511	10.1161	9.3066	8.6016	7.9426	7.4086	6.9352	6.5335	6.1364	5.7975	5.4919	5.2151	4.9636
29.00	25.0658	21.8444	19.1885	16.9837	15.1411	13.5907	12.2777	11.1584	10.1983	9.3696	8.6501	8.0218	7.4701	6.9830	6.5509	6.1556	5.8204	5.5098	5.2292	4.9747
30.00	25.8077	22.3955	19.6004	17.2920	15.3725	13.7648	12.4090	11.2578	10.2737	9.4269	8.6938	8.0552	7.4957	7.0027	6.5660	6.1772	5.8294	5.5168	5.2347	4.9789
31.00	26.5423	22.9377	20.0004	17.5885	15.5928	13.9291	12.5318	11.3498	10.3428	9.4790	8.7331	8.0850	7.5183	7.0199	6.5791	6.1872	5.8294	5.5227	5.2392	4.9824
32.00	27.2696	23.4683	20.3888	17.8736	15.8027	14.0840	12.6466	11.4350	10.4062	9.5264	8.7686	8.1116	7.5383	7.0350	6.5905	6.1959	5.8437	5.5277	5.2430	4.9854
33.00	27.9897	23.9886	20.7658	18.1476	16.0025	14.2302	12.7538	11.5139	10.4644	9.5694	8.8005	8.1354	7.5560	7.0482	6.6005	6.2034	5.8493	5.5320	5.2462	4.9878
34.00	28.7027	24.4986	21.1318	18.4112	16.1929	14.3681	12.8540	11.5869	10.5178	9.6086	8.8293	8.1566	7.5717	7.0599	6.6091	6.2098	5.8541	5.5356	5.2489	4.9898
35.00	29.4086	24.9986	21.4872	18.6646	16.3742	14.4982	12.9477	11.6546	10.5668	9.6442	8.8552	8.1755	7.5856	7.0700	6.6166	6.2153	5.8582	5.5386	5.2512	4.9915
36.00	30.1075	25.4888	21.8323	18.9083	16.5469	14.6210	13.0352	11.7172	10.6118	9.6765	8.8786	8.1924	7.5979	7.0790	6.6231	6.2201	5.8617	5.5412	5.2531	4.9929
37.00	30.7995	25.9695	22.1672	19.1426	16.7113	14.7368	13.1170	11.7752	10.6530	9.7059	8.8996	8.2075	7.6087	7.0868	6.6288	6.2242	5.8647	5.5434	5.2547	4.9941
38.00	31.4847	26.4406	22.4925	19.3679	16.8707	14.8460	13.1935	11.8289	10.6908	9.7327	8.9186	8.2210	7.6183	7.0937	6.6338	6.2278	5.8673	5.5452	5.2561	4.9951
39.00	32.1650	26.9026	22.8082	19.5845	17.0170	14.9491	13.2649	11.8786	10.7255	9.7570	8.9357	8.2330	7.6268	7.0997	6.6380	6.2309	5.8695	5.5468	5.2572	4.9959
40.00	32.8347	27.3555	23.1148	19.7928	17.1591	15.0463	13.3317	11.9246	10.7574	9.7791	8.9511	8.2438	7.6344	7.1050	6.6418	6.2335	5.8713	5.5482	5.2582	4.9966
41.00	33.4997	27.7995	23.4124	19.9931	17.2944	15.1380	13.3941	11.9672	10.7866	9.7991	8.9649	8.2534	7.6410	7.1097	6.6450	6.2358	5.8729	5.5493	5.2590	4.9972
42.00	34.1581	28.2348	23.7014	20.1856	17.4232	15.2245	13.4524	12.0067	10.8134	9.8174	8.9774	8.2619	7.6469	7.1138	6.6478	6.2377	5.8743	5.5502	5.2596	4.9976
43.00	34.8100	28.6616	23.9819	20.3708	17.5459	15.3062	13.5070	12.0432	10.8380	9.8340	8.9886	8.2696	7.6524	7.1173	6.6503	6.2394	5.8755	5.5510	5.2602	4.9980
44.00	35.4555	29.0800	24.2543	20.5488	17.6628	15.3832	13.5579	12.0771	10.8605	9.8491	8.9988	8.2764	7.6568	7.1205	6.6524	6.2409	5.8765	5.5517	5.2607	4.9984
45.00	36.0945	29.4902	24.5187	20.7200	17.7741	15.4558	13.6055	12.1084	10.8812	9.8628	9.0079	8.2825	7.6609	7.1232	6.6543	6.2421	5.8773	5.5523	5.2611	4.9986
46.00	36.7272	29.8923	24.7754	20.8847	17.8801	15.5244	13.6500	12.1374	10.9002	9.8753	9.0161	8.2880	7.6645	7.1256	6.6559	6.2432	5.8781	5.5528	5.2614	4.9989
47.00	37.3537	30.2866	25.0247	21.0429	17.9810	15.5890	13.6915	12.1643	10.9176	9.8866	9.0235	8.2928	7.6677	7.1277	6.6573	6.2442	5.8787	5.5532	5.2617	4.9991
48.00	37.9740	30.6731	25.2667	21.1951	18.0772	15.6500	13.7305	12.1891	10.9336	9.8969	9.0302	8.2972	7.6705	7.1296	6.6585	6.2450	5.8792	5.5536	5.2619	4.9992
49.00	38.5881	31.0521	25.5017	21.3415	18.1687	15.7076	13.7668	12.2122	10.9482	9.9063	9.0362	8.3010	7.6730	7.1312	6.6596	6.2457	5.8797	5.5539	5.2621	4.9993
50.00	39.1961	31.4236	25.7298	21.4822	18.2559	15.7619	13.8007	12.2335	10.9617	9.9148	9.0417	8.3045	7.6752	7.1327	6.6605	6.2463	5.8801	5.5541	5.2623	4.9995</