



UNIVERSITI TUN HUSSEIN ONN MALAYSIA

**FINAL EXAMINATION
SEMESTER I
SESSION 2015/2016**

COURSE NAME : BUSINESS FINANCIAL MANAGEMENT
COURSE CODE : BPB 14203
PROGRAMME : 1 BPB
EXAMINATION DATE : DECEMBER 2015/ JANUARY 2016
DURATION : 2 HOURS 30 MINUTES
INSTRUCTION : ANSWER ALL QUESTIONS

THIS QUESTION PAPER CONSISTS OF **FIVE (5)** PAGES

Q1 Comparative financial statement data of Leila Networks Bhd., are as follows:

Leila Networks Bhd
Comparative Income statement
Years ended December 31, 2015 and 2014

	2015 (RM)	2014 (RM)
Net sales	462,000	427,000
Cost of goods sold	229,000	218,000
Gross profit	<u>233,000</u>	<u>209,000</u>
Operating expenses	<u>136,000</u>	<u>134,000</u>
Income from operations	97,000	75,000
Interest expense	<u>11,000</u>	<u>12,000</u>
Income before tax	<u>86,000</u>	<u>63,000</u>
Income tax expense	<u>30,000</u>	<u>27,000</u>
Net income	<u><u>56,000</u></u>	<u><u>36,000</u></u>

Leila Networks Bhd
Comparative Balance sheet
December 31, 2015 and 2014

	2015 (RM)	2014 (RM)	2013 (RM)*
Current assets:			
Cash	96,000	97,000	
Current receivables, net	112,000	116,000	103,000
Inventories	147,000	162,000	207,000
Prepaid expenses	<u>16,000</u>	<u>7,000</u>	
Total current assets	<u>371,000</u>	<u>382,000</u>	
Property, plant, equipment, net	<u>214,000</u>	<u>178,000</u>	
Total assets	<u><u>585,000</u></u>	<u><u>560,000</u></u>	598,000
Total current liabilities	206,000	223,000	
Long term liabilities	<u>119,000</u>	<u>117,000</u>	
Total liabilities	<u>325,000</u>	<u>340,000</u>	
Preferred stockholders' equity, 6%, \$100 par	100,000	100,000	
Common stockholders' equity, no par	<u>160,000</u>	<u>120,000</u>	90,000
Total liabilities and stockholders' equity	<u><u>585,000</u></u>	<u><u>560,000</u></u>	

*Selected 2013 amounts.

Other information:

- Market price of Leila Networks' common stock: RM53 at December 31 2015, and RM32.50 at December 31, 2014.
- Common shares outstanding: 10,000 units during 2015 and 9,000 units during 2014.
- All sales are on credit.

- (a) Compute the following ratios for 2015 and 2014.
- (i) Current ratio.
 - (ii) Inventory turnover.
 - (iii) Times-interest-earned ratio.
 - (iv) Return on common stockholders' equity.
 - (v) Earnings per share of common stock.
 - (vi) Price/earning ratios.
 - (vii) Debt ratio.
- (21 marks)
- (b) Determine whether:
- (i) Leila Networks' financial position has improved or deteriorated during 2015.
 - (ii) The investment attractiveness of its common stock to have increased or decreased.

(4 marks)

- Q2** (a) Discuss **THREE (3)** major roles of finance in business. (9 marks)
- (b) You are planning to deposit RM50,000 today into a bank account. Five years from today you expect to withdraw RM12,500. Two years later, you plan to deposit another RM15,575 into your bank account. The account pays 5.5% interest per year.
- Determine how much will remain in the account eight years from today (6 marks)
- (c) You are saving money to buy a house. You will need RM7,473.50 to make the down payment. You can deposit RM500 per month in a savings account which pays 1% per month.
- Determine how long it will take you to save the RM7,473.50. (4 marks)
- (d) An investment will pay RM5,750 in three years, RM7,250 in five years, and RM1,155 in nine years. If the opportunity rate is 6.25%;
- Calculate the present value of this investment. (6 marks)

- Q3** You have been assigned the task of evaluating two mutually exclusive projects with the projected cash flows as shown in **Table Q3**.

Table Q3: Projected cash inflows

	Project A (RM)	Project B (RM)
Initial outlay	-110,000	-110,000
Inflow year 1	20,000	40,000
Inflow year 2	30,000	40,000
Inflow year 3	40,000	40,000
Inflow year 4	50,000	40,000
Inflow year 5	70,000	40,000

- (a) Determine the following items for each project:
- (i) Payback period. (4 marks)
 - (ii) Discounted payback period. (4 marks)
 - (iii) Net Present Value (NPV). (4 marks)
 - (iv) Profitability Index (PI). (3 marks)
 - (v) Internal Rate of Return (IRR). (7 marks)
- (b) Justify which project that should be accepted based on your answers in **Q3(a)**. (3 marks)

- Q4** (a) Explain **TWO (2)** advantages of commercial paper. (5 marks)
- (b) Sim Electric Corp. has been striving for the last three years to improve its management of working capital. Historical data for the firm’s sales, account receivable, inventories and accounts payable are shown in Table Q4(b).

Table Q4(b): Historical data for the past three years

	Jan-2011	Jan-2012	Jan-2013
Sales-Net	2,873	3,475	7,759
Receivables-Total	411	538	903
Accounts Payable	283	447	1,040
Inventories-Total	220	293	251

Calculate the following ratios for each of the three years:

- (i) Days of sales outstanding. (12 marks)
 - (ii) Days of sales in inventory. (3 marks)
 - (iii) Cash conversion cycle.
 - (iv) Evaluate Sim’s overall working capital management.
- (c) Your company needs to pay RM10,000 for the overhaul of five trucks. A bank offers you a loan at 18% per annum with a compensating balance requirement of 15% of the loan amount. You plan to borrow the money for nine months and currently do not have an account with this bank.

Calculate the effective cost of the loan. (5 marks)

- END OF QUESTIONS -