

**FINAL EXAMINATION****BACHELOR OF ACCOUNTANCY (HONOURS)****COURSE : CORPORATE FINANCE****COURSE CODE : FIN3293****DURATION : 3 HOURS****INSTRUCTIONS TO CANDIDATES:**

1. This question paper consists of **FOUR (4)** questions.
2. Answer ALL questions in the Answer Booklet provided.
3. Please check to make sure that this examination pack consists of:
 - i. The Question Paper.
 - ii. An Answer Booklet.
4. Do not bring any material into the examination hall. The use of a calculator is allowed.
5. Please write your answer using permanent ink.

MYKAD/ PASSPORT NO : _____

ID. NO. : _____

LECTURER : _____

SECTION : _____

DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE TOLD TO DO SO

This question paper consists of 5 printed pages including the front page.

QUESTION 1

Canon Technologies Berhad manufactures and sells two types of printers, namely LaserJet Printer and 3D Industrial Printer. The sales for both products occur evenly throughout the year.

LaserJet Printer annual demand is 360,000 units. The company places orders for inventory 12 times per year. The cost of placing each order is RM300, while the holding cost per unit per year is RM1.50. The firm operates 365 days annually. Each unit is sold at a price of RM2.50. All sales are made on credit terms of 2/10, net 20, and it is estimated that 65% of customers take advantage of the cash discount.

For the 3D Industrial Printer, the annual demand is 500,000 units, and the firm operates 365 days per year. The ordering cost is RM420 per order, and the holding cost is RM1.20 per unit per year. Each unit is sold at RM2.20. The credit terms offered are 1/15, net 45, and approximately 50% of customers take the discount.

The lead time for the LaserJet Printer is 5 days, while the lead time for the 3D Industrial Printer is 6 days. The accounts payable period is 25 days for the LaserJet Printer and 30 days for the 3D Industrial Printer. Assume that one year consists of 365 days.

Required:

- a. Based on the information provided, calculate the Economic Order Quantity (EOQ), total inventory cost and reorder point for each product.
(12 marks)
 - b. Determine the annual percentage rate (APR) for the LaserJet Printer and the annual percentage yield (APY) for the 3D Industrial Printer based on the given credit terms.
(4 marks)
 - c. Calculate the average accounts receivable for both products.
(7 marks)
 - d. Find the cash conversion cycle (CCC) for each product.
(5 marks)
 - e. Explain **TWO (2)** ways to reduce cash conversion cycle (CCC).
(2 marks)
- (Total: 30 marks)

QUESTION 2

The Chief Financial Officer (CFO) of Mutiara Corporation took a proposal to the firm's board of directors to distribute a noncash dividend to the firm's shareholders in the form of new common shares. Currently the share sells at RM5.90 per share and the statement of shareholders' equity is as follows:

Preferred share	RM2,955,000
Common share (RM2.30 par)	RM5,904,100
Paid-in capital in excess of par	RM3,560,000
Retained earnings	RM18,908,000
Total shareholders' equity	<u>RM31,327,100</u>

Specifically, the CFO proposed that the company want to declare a 19.5% share dividend and then pay a 44% lower than current price for cash dividend to the shareholders.

Required:

- a. Illustrate the changes in the statement of shareholders equity after each transaction. (11 marks)
- b. The firm is planning to pay dividends of RM1,600,000. There is net income of RM3,600,000 and the share should sell for RM7 after the ex-dividend date. If instead of paying a dividend, management decides to repurchase share.

Based on the information above, calculate the firm's earning per price (EPS), price per earnings (P/E) ratio and firms' new market price in order of making the proposed cash dividend payment.

(7 marks)

- c. Identify **TWO (2)** types of dividend theory.

(2 marks)

(Total: 20 marks)

QUESTION 3

Extreme Broadband Berhad and Multimedia Broadband Berhad involves in manufacturing business. Both companies are identical in every respect except Extreme Broadband is unlevered while Multimedia Broadband is levered. The following is an extract Statement of Comprehensive Income for Extreme Broadband:

Extreme Broadband Berhad Statement of Comprehensive Income For the Year Ended December 31, 2019	
Sales revenue	RM7,650,000
Less: Cost of goods sold	(RM6,250,000)
Gross profit (EBIT)	RM1,400,000
Less: Interest expenses	(RM878,000)
Net profit before taxes	RM522,000
Less: Taxes (25%)	(RM130,500)
Net Income (EAIT)	RM391,500

The Multimedia Broadband has a bond that currently priced at RM6 million with 7% debentures outstanding. The bond pays annual coupon and has 8 years to maturity. The equity capitalization for Extreme Broadband is 14%.

Required:

- Based on the information above, calculate the Weighted Average Cost of Capital (WACC) for both propositions.
(17 marks)
- Explain how the Pecking Order Theory influences a firm's capital structure decisions.
(8 marks)

(Total: 25 marks)

QUESTION 4

Sweet Entertainment and Candy Broadcasting are all-equity firms. The Sweet Entertainment is acquiring Candy Broadcasting for RM628,900 in cash. Currently, the market value for Sweet Shoppe is RM1,200,900. The information for both companies is as follows:

	Sweet Entertainment	Candy Broadcasting
Share price	?	RM28
Number of outstanding shares	?	30,600
Value of debt	RM130,000	Not available
Interest rate	9%	Not available
Expected earning	RM150,000	RM150,000

Required:

- a. Based on the information, calculate:
 - i. Share price and number of outstanding shares for Sweet Entertainment if the number of shares to be exchange is 24,810 shares.
(4 marks)
 - ii. Share price and synergy created by this merger and indicate whether both companies should merger or not.
(11 marks)
 - b. Sweet Entertainment is an entertainment company while Candy Broadcasting is a commercial broadcast television network. Explain:
 - i. Type of merger.
(1 mark)
 - ii. **THREE (3)** rationale of the merge for both companies.
(9 marks)
- (Total: 25 marks)

(TOTAL: 100 MARKS)

END OF QUESTION PAPER

