

**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 6 printed pages including the front page.

QUESTION 1

- a. The management of Rezqi Delicious is concerned about its cash flow efficiency. An internal audit reveals that the inventory conversion period is 100 days, the receivables conversion period is 80 days, and the payables deferral period is 30 days. The firm's annual cash outlay for operations is RM2,000,000, distributed uniformly over 360 days.

Required:

- i Assist the management by calculating the firm's Cash Conversion Cycle and exact amount of negotiated financing they must secure to fund operations.
(4 marks)
- ii. To improve cash flow, management is considering a stricter credit policy that would force debtors to pay within 70 days. If the firm's opportunity cost of funds (financing rate) is 12% per year, determine the amount of profit for this policy.
(6 marks)

- b. Ichioz Bakery enterprise is planning to upgrade its central kitchen equipment to meet growing demand. To proceed with this asset acquisition, the business needs to secure RM26,000 in short-term financing. The owner has approached two local commercial banks which have proposed the following credit terms:

Option 1 (AhLarm Bank): Offers a 6-month loan at a 10% annual discounted interest rate. However, the firm must maintain a 15% compensating balance. Currently, Ichioz Bakery already maintains a balance of RM2,000 in its current account with the bank.

Option 2 (Jeeha Bank): Offers a 6-month simple interest loan at an annual rate of 11%, with a mandatory 15% compensating balance requirement.

Required:

- i. Calculate the annualised effective interest rate (EAR) for both options.
(11 marks)
- ii. Based on your financial analysis, advise the owner of Ichioz Bakery which bank offer should be accepted.
(2 marks)

- c. You have purchased RM1,000 worth of merchandise of May 1 from a supplier extending terms of 1/10 net 20. You are considering accepting cash discount or not. However, you noticed that sources of short-term financing is only 10%. Use 360 days.

Required:

Determine the Annual Percentage Yield.

(4 marks)

- d. "Holding too much cash reduces a firm's profitability because cash is a non-earning asset. However, holding too little cash exposes the firm to financial distress."

Required:

Discuss **THREE (3)** motives for holding cash.

(3 marks)

(Total: 30 marks)

QUESTION 2

The board of Zueraidah Berhad is reviewing its capital distribution. The current share price is RM6.50. The stockholders' equity is as follows:

- Preferred share: RM3,000,000
- Common share (RM2 par): RM6,000,000
- Paid-in capital in excess of par: RM4,000,000
- Retained earnings: RM20,000,000

Required:

- a. Determine the changes in the equity statement if the firm declares a 15% share dividend followed by a RM0.40 cash dividend per share.
(10 marks)
- b. The firm has a net income of RM4,000,000. If the firm spends RM2,000,000 to repurchase shares at a market price of RM8, calculate the new earning per price (EPS) and market price. (Assume P/E ratio remains constant).
(7 marks)
- c. Zueraidah Berhad is deciding whether to distribute its record-breaking profits as cash dividends to shareholders or reinvest them back into the business for future growth.

Identify **THREE (3)** dividend theories that the board of directors could use to justify either choice.

(3 marks)

(Total: 20 marks)

QUESTION 3

Firm A is unlevered with an EBIT (Earning Before Interest and Tax) of RM2,000,000 and an equity capitalization rate of 15%. Firm B is identical but has RM8,000,000 in debt at an 8% interest rate. The corporate tax rate is 24%.

Required:

- a. Calculate the WACC for both firms under M&M Proposition I and II (with taxes).
(17 marks)
 - b. Explain **FOUR (4)** key assumptions of the Modigliani and Miller (MM) theory in a perfect capital market.
(8 marks)
- (Total: 25 marks)

QUESTION 4

GPK is acquiring GPL for RM800,000 cash.

- GPK: Market Value = RM2,000,000;
Shares Outstanding = 50,000
- GPL: Share Price = RM30;
Shares Outstanding = 20,000

Required:

- a. Calculate the synergy if the combined value of the firm is RM2,700,000 and indicate whether they should merge or not.
(15 marks)
- b. Explain **FIVE (5)** rationales or reasons why a firm would choose to engage in a merger or acquisition.
(10 marks)

(Total: 25 marks)

(TOTAL: 100 MARKS)

END OF QUESTION PAPER