

QUESTION 1(b)(ii)**Answer**

PRINCIPLE(B1)		450,000.00	/
RATE(R)		0.08	/
TIME (T)	9/12	0.75	/
COM. BALANCE(CB)	(100 - 20) / 100	0.80	
BASIC(B2)	450,000 ÷ 0.8)	562,500.00	
INTEREST	(562,500X0.08X0.75)	33,750.00	//

$$\begin{aligned} \text{Credit Effective Cost} &= \frac{\text{interest}}{\text{Principal} - \text{interest}} \times \frac{1}{\text{time}} \\ &= \frac{33,750}{(450,000 - 33,750)} \times \frac{1}{0.75} \\ &= 10.81\% // \end{aligned}$$

Roses Company Ltd should choose Bank B / since Bank B provide a low credit effective cost (10.81%) / as compared to Bank A (13.33%). /

QUESTION 2(a)**Answer**

THREE (3) working capital principles.

1. Hedging /
 - moderate principle /
 - permanent assets (fixed and current assets) are financed with long-term financing /
 - temporary current assets are financed with short-term financing./
2. Aggressive/
 - risky principle /
 - using short term debt to finance all current assets and some of fixed assets./
3. Conservative/
 - very safe principle /
 - all the fixed assets and most of the current assets are financed by long term debt or equity /

**Total:
10 marks**

(/ = 1 mark:
total = 10
marks)

TOTAL:25 M

**Total:
5 marks**

(/ = 0.5 mark:
total = 5 marks)

QUESTION 2(b)**Answer**

The account receivables collection procedure if the customer exceeds beyond the credit period.

1. distributing warning letter /
- prepare and send it to the customer /
2. making phone call /
- contact the customer by phone /
3. giving a final warning letter /
- prepare and send it to the customer /
4. reporting to the debt collection agencies /
- contact legal collection agencies or /
- inform company's lawyer to take further actions /
- bring the case to court and declare bankruptcy /
(any suitable answers are accepted)

**Total:
10 marks**

(/ = 0.5 mark:
total = 5 marks)

QUESTION 2(c)**Answer**

	FORMULA	CALCULATION	TOTAL	
SALES (S)			5,000,000	/
ORDERING COST (O)			1,000	/
CARRYING COST (C)		10% X PP	1	///
PURCHASING PRICE (PP)			10	/
EOQ (Q)	$2SO$	$2 \times 5000000 \times 1000$	10,000,000,000	
	$2SO/C$	$2 \times 5000000 \times 1000 / 1$	10,000,000,000	
	$\sqrt{2SO/C}$	$\sqrt{2 \times 5000000 \times 1000 / 1}$	100,000 unit	///
AVERAGE INVENTORY (AVG INV)	$(Q \div 2) + SS$	$100000 / 2 + 0$	50,000	/
TOTAL CARRYING COST (TCC)	$((Q \div 2) + SS) \times C$	$(100000 / 2 + 0) \times 1$	50,000	///
NUMBER OF ANNUAL ORDER (NO)	$S \div Q$	$5000000 / 100000$	50	/
TOTAL ORDERING COST (TOC)	$(S \div Q) \times O$	$(5000000 / 100000) \times 1000$	50,000	///
TOTAL INVENTORY COST (TIC)	$TIC = TCC + TOC$	$50000 + 50000$	RM100,000	///

**Total:
10 marks**

(/ = 0.5 mark:
total = 10
marks)

<p>QUESTION 3 (a)</p> <p><u>Answer</u></p> <p>Step 1: Identify potential capital investment /</p> <p>Step 2: Forecast future net cash flow /</p> <p>Step 3: Analyze potential investment /</p> <p style="padding-left: 40px;">i. Screen out undesirable investment using payback or ARR method</p> <p style="padding-left: 40px;">ii. Further analysis using NPV or IRR method.</p> <p>Step 4: Choose among alternative investment when the resources are not sufficient to fund all profitable project /</p> <p>Step 5: Perform post-audits after making capital investment. /</p> <p>QUESTION 3 (b)(i)</p> <p><u>Answer</u></p> <p>Payback Period for machine A</p> <p>$\text{PBP} = 165000 / 35000 /$ $= 4.71 \text{ years} /$</p> <p>Payback Period for machines B</p> <p>$\text{PBP} = 4 + (165000 - 149000) / 62000 /$ $= 4 + 0.258$ $= 4.26 \text{ years} /$</p> <p>QUESTION 3 (b)(ii)</p> <p><u>Answer</u></p> <p>Machine A</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>Year</th> <th>Cah flow</th> <th>PVIFA (14%)</th> <th>PV</th> </tr> </thead> <tbody> <tr> <td>1-6</td> <td>35000</td> <td>3.8887 /</td> <td>136104.50 /</td> </tr> <tr> <td></td> <td></td> <td>TPV</td> <td>136104.50</td> </tr> <tr> <td></td> <td></td> <td>Investment</td> <td>165000.00</td> </tr> <tr> <td></td> <td></td> <td>NPV</td> <td>-28,895.50 /</td> </tr> </tbody> </table> <p>Machine B</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>Year</th> <th>Cah flow</th> <th>PVIF (14%)</th> <th>PV</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>25000</td> <td>0.8772</td> <td>21930.00</td> </tr> <tr> <td>2</td> <td>36000</td> <td>0.7695 /</td> <td>27702.00 /</td> </tr> </tbody> </table>	Year	Cah flow	PVIFA (14%)	PV	1-6	35000	3.8887 /	136104.50 /			TPV	136104.50			Investment	165000.00			NPV	-28,895.50 /	Year	Cah flow	PVIF (14%)	PV	1	25000	0.8772	21930.00	2	36000	0.7695 /	27702.00 /	<p><u>TOTAL:25 M</u></p> <p>Total: 5 marks</p> <p>(/ = 1 mark: total = 5 marks)</p> <p>Total: 10 marks</p>
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3	38000	0.6750 /	25650.00 /	
4	50000	0.5921 /	29605.00 /	
5	62000	0.5194 /	32202.00 /	
6	65000	0.4556 /	29614.00 /	
		TPV	166703.00 /	
		Investment	165000.00	
		NPV	1703.00 /	

(25/25 * 10 =
10 marks)

QUESTION 3 (b)(iii)

Answer

Machine A

$$\begin{aligned} \text{PI} &= \text{TPV} / \text{T. Investment} \\ &= 136104.50 / 165000 / \\ &= 0.82 / \end{aligned}$$

Machine B

$$\begin{aligned} \text{PI} &= \text{TPV} / \text{T. Investment} \\ &= 166,703.00 / 165000 / \\ &= 1.01 / \end{aligned}$$

QUESTION 3 (c)

Answer

Payback Period for Machine A is 4.71 years compared to machine B is 4.26 years. Shorter period is better compared to the long period to payback. Choose machine B since payback period of Machine B is shorter. ///

Net Present Value for Machine A is (28895.50) compared to machine B is 1703.00. Positive NPV is better compared to negative NPV. Since the NPV of machine B is positive and higher than NPV of machine A. Machine B should be selected. ///

Profitability index for Machine A is 0.82 compared to machine B is 1.01. Machine B should be chosen at its profitability index is greater than 1.0 and is higher than profitability index of machine A (0.82). ///

Based on the above criteria, machine B is the best project to make an investment. /

**Total:
10 marks**

(/ = 1 mark:
total =10
marks)

<p>QUESTION 4 (a)</p> <p><u>Answer</u></p> <p>Leverage is related to fixed cost. / Fixed costs are business costs that are not directly related to the level of production or output. / Example: rent, depreciation, insurance, preferred dividends and interest. // Leverage means the company will boost up income by using the fixed cost. /</p> <p>QUESTION 4 (b)(i)</p> <p><u>Answer</u></p> <p>i) Degree of Operating Leverage (DOL)</p> $\text{DOL} = \frac{S - VC}{S - VC - FC}$ $= \frac{30000000 - 16000000}{30000000 - 16000000 - 7000000}$ $= \frac{14000000}{7000000}$ $= 2 \quad \text{TIMES} \quad //$ <p>ii) Degree of Financial Leverage (DFL)</p> $\text{DFL} = \frac{\text{EBIT}}{\text{EBIT} - I}$ $= \frac{7000000}{7000000 - 1000000}$ $= \frac{7000000}{6000000}$ $= 1.17 \quad \text{TIMES} \quad //$ <p>iii) Degree of Combination Leverage (DCL)</p> $\text{DCL} = \text{DOL} \times \text{DFL}$ $= 2 \times 1.17 /$ $= 2.33 \quad \text{TIMES} \quad /$	<p><u>TOTAL:25 M</u></p> <p>Total: 5 marks</p> <p>(/ = 1 mark: total = 5 marks)</p> <p>Total: 10 marks</p> <p>(/ = 1 mark: total = 10 marks)</p>
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QUESTION 4 (c)**Answer**

i) percentage change in Earnings Before Interest and Tax (EBIT)

$$\text{DOL} = \frac{\% \text{ change in EBIT}}{\% \text{ change in Sales}}$$

$$\begin{aligned} \text{i) \% change in EBIT} &= \% \text{ change in Sales} \times \text{DOL} / \\ &= 20\% \times 2 // \\ &= 40\% // \end{aligned}$$

ii) percentage change in Earning Per Share (EPS)

$$\text{DFL} = \frac{\% \text{ change in EPS}}{\% \text{ change in EBIT}}$$

$$\begin{aligned} \text{ii) \% change in EPS} &= \% \text{ change in EBIT} \times \text{DFL} / \\ &= 40\% \times 1.17 // \\ &= 46.8\% // \end{aligned}$$

**Total:
10 marks**

(/ = 1 mark:
total = 10
marks)