

FINAL EXAMINATION

SEPTEMBER 2020

MATRIC NUMBER : _____
COURSE TITLE : ACCOUNTING & FINANCE FOR DECISION MAKING
COURSE CODE : GSFM7514
DATE/DAY : 20 DECEMBER 2020 TO 20 DECEMBER 2020 /
SUNDAY TO SUNDAY
TIME/DURATION : 09:00 AM - 05:00 PM / 8 HOURS

INSTRUCTIONS TO CANDIDATES :

1. This is an open book examination. However, you are allowed to access the internet to seek information and do relevant analysis.
2. You are not allowed to discuss with your friends during the examination.
3. You are required to upload and submit your examination answers through UNIEC Virtual Exam.
4. Save your examination answer as a file using your student ID as file name and Course Code. If your ID is "MC200710001" and the course code is GSFM7514, you may save your file as: MC200710001_GSFM7514.
5. Go to section: Examination submission. Upload your examination answer file and click "submit" button.
6. Ensure that you have read your answers carefully and done grammar and spell check before submission.

(This Question Paper consists of **5** Printed Pages including front page)

*****DO NOT OPEN THE QUESTION PAPER UNTIL YOU ARE TOLD TO DO SO*****

INSTRUCTION:

1. This is an open book exam AND you are NOT ALLOWED to discuss with anyone.
2. You may consult the learning materials that are provided to you in UNIEC Virtual – the textbook and reference book stated in the course plan, and notes.
3. Your answer can be type-written directly onto the ANSWER BOOKLET provided.
4. If you chose to handwrite, use only blue or black pen, write legibly and clearly. Scan your completed answer and insert only **ONE (1)** image per page onto the ANSWER BOOKLET provided.
5. You have the responsibility to make sure that what you submitted is the complete FINAL version of your answer as no resubmission or correction is allowed. Follow the instruction given on the cover page when submitting your answer.
6. Submit your answers in **ONE (1)** file. Do not submit multiple files. Submission must only be in Microsoft Word.
7. This question book consists of **ONE (1)** section. You are required to answer **ALL** questions

This question paper consists of ONE (1) section only.

(40 Marks)

There are TWO (2) questions in this section. Answer ALL questions.

Question 1

Rose-Jewel sells jewellery through retail stores throughout the country. Over the last two years it has experienced declining profitability and is wondering if this is related to the sector as a whole. It has recently subscribed to an agency that produces average ratios across many businesses. Below are the ratios that have been provided by the agency for Rose-Jewel's business sector based on a year end of 30 September 2019.

Return on year-end capital employed (ROCE)	16.8%
Net asset (total assets less current liabilities) turnover	1.4 times
Gross profit margin	35%
Operating profit margin	12%
Current ratio	1.25:1
Average inventory turnover	3 times
Trade payables' payment period	64 days
Debt to equity	38%

The financial statements of Rose-Jewel for the year ended 30 September 2019 are:

Income Statement

	RM'000	RM'000
Revenue		56,000
Opening inventory	8,300	
Purchases	<u>43,900</u>	
	52,200	
Closing inventory	<u>(10,200)</u>	<u>(42,000)</u>
Gross profit		14,000
Operating costs		(9,800)
Finance costs		<u>(800)</u>
Profit before tax		3,400
Income tax expense		<u>(1,000)</u>
Profit for the year		<u>2,400</u>

Statement of financial position

	RM'000	RM'000
Assets		
Non-current assets		
Property and shop fittings		25,600
Deferred development expenditure		<u>5,000</u>
		30,600
Current assets		
Inventory	10,200	
Bank	<u>1,000</u>	<u>11,200</u>
Total assets		<u>41,800</u>

Equity and liabilities

Equity		
Equity shares of RM1 each		15,000
Property revaluation reserve		3,000
Retained earnings		<u>8,600</u>
		26,600
Non-current liabilities		
10% loan notes		8,000
Current liabilities		
Trade payables	5,400	
Current tax payables	<u>1,800</u>	<u>7,200</u>
Total equity and liabilities		<u>41,800</u>

Required:

- Prepare the equivalent ratios that have been provided by the agency for Rose-Jewel.
(8 marks)
- Assess the financial and operating performance of Rose-Jewel in comparison to its sector averages.
(12 marks)

(Total: 20 Marks)

Question 2

Two years ago, your company purchased a machine used in manufacturing for RM140,000. Although the machine had performed as expected, you have learned that a new machine is available that offers many advantages; you can purchase it for RM150,000 today, plus an additional RM10,000 in shipping and RM5,000 training costs. The new machine will be depreciated on a straight-line basis over five years and has no salvage value.

You expect that the new machine will produce a gross margin (revenues minus operating expenses other than depreciation) of RM40,000 per year for the next five years. Upon buying the machine, it requires inventories to increase by RM20,000 and accounts payable increase by RM10,000. The change in Net Operating Working Capital is expected to be fully recovered at year five.

The current machine is expected to produce a gross margin of RM20,000 per year. The current machine is being depreciated on a straight-line basis over a useful life of 7 years, and has no salvage value, so the depreciation expense for the current machine is RM20,000 per year. The market value today of the current machine is RM90,000.

Your company's tax rate is 28% and the beta factor of this new investment is 1.5. The company has a target capital structure of 50% equity and 50% debt. The cost of debt after-tax is 8%. The risk-free rate is 4% and the market risk is 8%.

Required:

- a) Would you argue for the cost of shipping and training to be included in the calculation of initial cash outflow? Justify your answer. (3 marks)
- b) What is the cost of equity for the new project? (3 marks)
- c) Calculate the initial cash outflow associated with replacing the older printing machine with the new machine. (4 marks)
- d) Calculate the Net Present Value (NPV) if the company decided to buy the new machine. (8 marks)
- e) Should the company proceed with buying the new machine? (2 marks)

(Total: 20 Marks)

***END OF QUESTION PAPER ***