



PENINSULA
COLLEGE
GEORGETOWN



UNIVERSITY OF
PLYMOUTH

FINAL SEMESTER EXAMINATION

Faculty	:	ACADEMIC PARTNERSHIPS
School	:	ACADEMIC PARTNERSHIPS
Programme	:	BA (HONOURS) ACCOUNTING & FINANCE 3+0 IN COLLABORATION WITH UNIVERSITY OF PLYMOUTH
Academic year	:	2020/21
Stage	:	3
Course	:	STRATEGIC FINANCIAL MANAGEMENT
Course Code	:	MAL3036
Time Allowed	:	3 hours

INSTRUCTIONS TO CANDIDATES:

1. Please read the instructions given in the question paper **CAREFULLY**.
2. This assessment consists of **FOUR (4)** questions.
3. Answer **ALL** questions.
4. Answers to the questions are to be written into the examination booklet.
5. Electronic dictionaries, lecture notes, files or any unauthorised materials except writing equipment are strictly prohibited.

This question paper must be submitted along with all used and/or unused rough papers and/ or graph papers (if any). Candidates are **NOT ALLOWED** to take any examination papers out of the examination hall.

(This booklet contains 7 printed pages including this page)

DO NOT OPEN THIS BOOKLET UNTIL YOU ARE ALLOWED TO DO SO

WARNING:

The Examination Board of Peninsula College Georgetown regards cheating as a very serious offence and will not hesitate to mete out the appropriate punitive actions according to the severity of the offence committed, and in the accordance with the clauses stipulated in the Students' Handbook, up to and including expulsion from Peninsula College Georgetown.

For examiner's use only

QUESTION NO.	MARKS
1	/ 25
2	/ 25
3	/ 25
4	/ 25
Total	/ 100

Answer **ALL** questions.

Question 1 (25 marks)

QT Berhad is considering a major investment plan which will involve the formation of a chain of branches throughout Malaysia.

Despite the global pandemic of Covid-19, which caused major economic catastrophes across the world, QT Berhad is making a bold move in planning to move ahead with its plan to expand while other organisations are planning to reduce its operations globally and locally.

QT Berhad also plans to recruit specialist contract professionals from abroad to be employed as leaders of the different chain of branches that it plans to form next January despite language and cultural barriers as the top management team of QT believes they would have the right expertise and experience to lead in a foreign environment.

The following schedule includes the expected cash flows:

Year	1	2	3	4
	RM000	RM000	RM000	RM000
Revenue	1,000	1,750	2,500	3,200
Direct costs	970	1,350	1,700	1,800
Office overheads	100	100	100	100

Additional information:

- (i) 40% of office overheads is an allocation of head office operating costs
- (ii) The post-tax cost of capital is 7%

QT Berhad is paying tax at 30% and is expected to do so for the foreseeable future. Tax is payable one year after profits are earned.

The costs of investment include RM 750,000 on fittings and equipment. **Tax allowable depreciation is available on fittings and equipment (only) at 25% on reducing balance basis.** Capital allowances are to be claimed from Year 1.

It is estimated that the resale proceeds for fittings and equipment will be RM200,000. The resale proceeds will be received at the end of Year 4.

QT Berhad has an accounting year end of 31 December; expenditure on the investment programme will take place in January.

The specialist fittings and equipment is an opportunity cost to QT Berhad in which despite the capability of QT to proceed with the investment, it might cause other risks as due to the Covid-19 lockdown, there is no guarantee that the economy will fully recover as Malaysia has undergone two years of the economic lockdown via the Movement Control Order (MCO) and the Malaysian economy is at its worst and many Malaysia have lost their jobs thus their purchasing power .

Furthermore, advertising and promotions professionals have been employed from Europe and South Africa as QT believes that due to their excellent track record within the same industry as QT, they would be able to assist QT despite the economic problems due to the global pandemic. However, due to the lockdown, the team of professionals would not be able to enter Malaysia

but the visa, flight, hotels and the first month's salary have been disbursed to the team of 20 professionals.

Required:

- (a) Calculate the tax cash flows to be included in the Net Present Value calculation for this project which is also known as the tax paid on operating cash flows. **(7 marks)**
- (b) Calculate the tax saved on the Tax Allowable Depreciation. **(6 marks)**
- (c) Calculate the Net Present Value. **(5 marks)**
- (d) Explain whether the project should be accepted stating your arguments clearly. **(2 marks)**
- (e) Critically discuss the risks the company should consider before undertaking the investment. **(5 marks)**

Question 2 (25 marks)

XS Berhad is a public listed company on Bursa Malaysia which would like to maximize its cost of capital. You are the newly appointed consultant which have been given the following set of information to formulate the best financial plan and move XS towards a better financial future in the years to come.

	Book Values @ Year 2020	Market Values @ Year 2020
	RM (in millions)	RM (in millions)
Equity (50m shares)	140	214
Debt: 10% loan notes (redeemable in Year 2024)	80	90
	Per share	Annual growth rates
Current dividend	24 cents	6%

Despite the global pandemic of Covid-19, XS Berhad believes that using debt capital would be more advantageous as XS believes they have a good track record with the banking institutions that would surely allow XS to borrow more in order to raise more capital.

XS Berhad is not interested to increase the equity capital as they are very selective in choosing who would best become their shareholders. The dilution of ownership among the 'big boys' within XS are a major concern and priority.

The management were divided in two groups in which the first groups believes that their only choice is to increase the equity capital and the second group believes that they should continue with the increasing the debt capital as they have a very good track record with the banks before the Covid-19 struck the world.

As an appointed consultant you feel that there are pros and cons of increasing the debt capital and equity capital based on the current situation of the prolonged Covid-19 global pandemic. You are afraid to go against as you are being paid a large sum to conduct the consultancy assignment within XS Berhad.

Required:

(a) Calculate the Weighted Average Cost of Capital (WACC). Taxation is 30%.
(13 marks)

(b) Critically discuss the implications for XS Berhad based on the WACC above.
(12 marks)

Question 3 (25 marks)

TRX Berhad is undergoing a major reconstruction and is considering many aspects internal and external to the organisation, either to improve the situation or maybe to declare bankruptcy if the situation does not improve due to the prolonged economic downturn coupled with the global pandemic of Covid-19.

TRX has two lines of product which have performed well over the past 25 years, in which the best-selling product that TRX would like to further invest in and work further to improve the sales figures for the coming years is the sales on product RX.

TRX Berhad has annual credit sales of RM12,000,000 of product RX and three months are allowed for payment for RX. Furthermore, TRX decides to offer a 2% discount for payments made within ten days of the invoice being sent, and to reduce the maximum time allowed for payment to two months. It is estimated that 50% of customers will take the discount.

Assume that the volume of sales will be unaffected by the discount, and the company has an overdraft costing 10% per year.

TRX is really confident that this strategy for product RX will improve the overall cashflow and profits of TRX for the current year and many more years in the future.

Required:

(a) As a finance consultant, you are to evaluate the effect of the discount offered by TRX Berhad.
(13 marks)

(b) Critically discuss the implications for TRX Berhad based on the discount offered above
(12 marks)

Question 4 (25 marks)

JXY Berhad is public listed company listed on Bursa Malaysia and has been operating for the past 30 years. JXY has been operating in various sectors in which the food and beverage department have been performing very well due to the demand in contemporary restaurant chains originating from the US, UK and Korea.

The clothing line has also been performing particularly well due to the trendy clothing imported from Korea and Japan and in which the Korean fashion trends are in high demand amongst the teenagers and the working professionals.

JXY has also invested in the pharmaceutical line in which they own 50 branches of pharmacies across Peninsular Malaysia particularly in the Klang Valley, Penang and Johor Bahru. The pharmaceutical line is stable as it serves the local community and the nearby township of the major states across Peninsular Malaysia. However the pharmaceutical could be further undergo expansion in the future as it has as strong brand name that it could capitalize on.

However in year 2020, thing took a major turn to the worse as Covid-19 struck the world and crippled many organisations towards bankruptcy.

In Malaysia, the government had introduced the different types of the Movement Control Order (MCO) that had restricted the movement of the business and working people across Malaysia. This in turn has affected JXY's food and beverage business as the restaurants were ordered to close and were only allowed to opened until 8pm daily without dine-ins (only takeaways) were allowed and that continued on for 2 years before the compulsory double-dose of vaccination were introduced and dine-ins were allowed. This has affected the JXY tremendously and the management team have decided on the possibility of a **Management Buy-Out (MBO)** to save the food and beverage line.

Furthermore, the work-from-home (WFH) policy crippled the clothing line as people did not have to purchase clothes for work anymore as they did not need to dress up for work or have lost their jobs and income and could not afford to buy clothes anymore. Therefore the JXY management team was contemplating to **divest** the clothing line as they felt that this sector has no future should the Covid-19 problem persists in the future.

The pharmaceutical line on the other hand was performing very well as the community bought a lot of vitamins and masks to protect themselves from Covid-19 and this sector bloomed, however the losses suffered from the food and beverage line and the clothing line was very huge that the profits from the pharmaceutical line could not sustain. The management team of JXY then decided to meet up with some **venture capitalists** based in Kuala Lumpur to discuss the expansion of the pharmaceutical line in light of the global pandemic of Covid-19.

Required:

Critically discuss the strategies that should be taken by the management team of JXY Berhad in terms of the need to restructure the organisation due to the losses suffered. **(25 marks)**

- END OF QUESTIONS -

Appendix 1 - Present value factors
Present value of £1 in n years at discount rate r .

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218
17	0.844	0.714	0.605	0.513	0.436	0.371	0.317	0.270	0.231	0.198
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180
19	0.828	0.686	0.570	0.475	0.396	0.331	0.277	0.232	0.194	0.164
20	0.820	0.673	0.554	0.456	0.377	0.312	0.258	0.215	0.178	0.149

Period	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218
17	0.844	0.714	0.605	0.513	0.436	0.371	0.317	0.270	0.231	0.198
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180
19	0.828	0.686	0.570	0.475	0.396	0.331	0.277	0.232	0.194	0.164
20	0.820	0.673	0.554	0.456	0.377	0.312	0.258	0.215	0.178	0.149

Appendix 2 - Cumulative present value factors (annuity factors)
Present value of £1 receivable at the end of each year for n years at discount rate r .

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	1.970	1.942	1.913	1.886	1.859	1.833	1.808	1.783	1.759	1.736
3	2.941	2.884	2.829	2.775	2.723	2.673	2.624	2.577	2.531	2.487
4	3.902	3.808	3.717	3.630	3.546	3.465	3.387	3.312	3.240	3.170
5	4.853	4.713	4.580	4.452	4.329	4.212	4.100	3.993	3.890	3.791
6	5.795	5.601	5.417	5.242	5.076	4.917	4.767	4.623	4.486	4.355
7	6.728	6.472	6.230	6.002	5.786	5.582	5.389	5.206	5.033	4.868
8	7.652	7.325	7.020	6.733	6.463	6.210	5.971	5.747	5.535	5.335
9	8.566	8.162	7.786	7.435	7.108	6.802	6.515	6.247	5.995	5.759
10	9.471	8.983	8.530	8.111	7.722	7.360	7.024	6.710	6.418	6.145
11	10.368	9.787	9.253	8.760	8.306	7.887	7.499	7.139	6.805	6.495
12	11.255	10.575	9.954	9.385	8.863	8.384	7.943	7.536	7.161	6.814
13	12.134	11.348	10.635	9.986	9.394	8.853	8.358	7.904	7.487	7.103
14	13.004	12.106	11.296	10.563	9.899	9.295	8.745	8.244	7.786	7.367
15	13.865	12.849	11.938	11.118	10.380	9.712	9.108	8.559	8.061	7.606
16	14.718	13.578	12.561	11.652	10.838	10.106	9.447	8.851	8.313	7.824
17	15.562	14.292	13.166	12.166	11.274	10.477	9.763	9.122	8.544	8.022
18	16.398	14.992	13.754	12.659	11.690	10.828	10.059	9.372	8.756	8.201
19	17.226	15.678	14.324	13.134	12.085	11.158	10.336	9.604	8.950	8.365
20	18.046	16.351	14.877	13.590	12.462	11.470	10.594	9.818	9.129	8.514

Period	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	1.970	1.942	1.913	1.886	1.859	1.833	1.808	1.783	1.759	1.736
3	2.941	2.884	2.829	2.775	2.723	2.673	2.624	2.577	2.531	2.487
4	3.902	3.808	3.717	3.630	3.546	3.465	3.387	3.312	3.240	3.170
5	4.853	4.713	4.580	4.452	4.329	4.212	4.100	3.993	3.890	3.791
6	5.795	5.601	5.417	5.242	5.076	4.917	4.767	4.623	4.486	4.355
7	6.728	6.472	6.230	6.002	5.786	5.582	5.389	5.206	5.033	4.868
8	7.652	7.325	7.020	6.733	6.463	6.210	5.971	5.747	5.535	5.335
9	8.566	8.162	7.786	7.435	7.108	6.802	6.515	6.247	5.995	5.759
10	9.471	8.983	8.530	8.111	7.722	7.360	7.024	6.710	6.418	6.145
11	10.368	9.787	9.253	8.760	8.306	7.887	7.499	7.139	6.805	6.495
12	11.255	10.575	9.954	9.385	8.863	8.384	7.943	7.536	7.161	6.814
13	12.134	11.348	10.635	9.986	9.394	8.853	8.358	7.904	7.487	7.103
14	13.004	12.106	11.296	10.563	9.899	9.295	8.745	8.244	7.786	7.367
15	13.865	12.849	11.938	11.118	10.380	9.712	9.108	8.559	8.061	7.606
16	14.718	13.578	12.561	11.652	10.838	10.106	9.447	8.851	8.313	7.824
17	15.562	14.292	13.166	12.166	11.274	10.477	9.763	9.122	8.544	8.022
18	16.398	14.992	13.754	12.659	11.690	10.828	10.059	9.372	8.756	8.201
19	17.226	15.678	14.324	13.134	12.085	11.158	10.336	9.604	8.950	8.365
20	18.046	16.351	14.877	13.590	12.462	11.470	10.594	9.818	9.129	8.514