CONFIDENTIAL



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FINAL EXAMINATION

(24 HOURS)

SEPTEMBER 2022 SEMESTER

# SUBJECT CODE : MAF605

**SUBJECT NAME : ACCOUNTING AND FINANCE FOR MANAGERS**

# LEVEL : MASTER (MBA)

**SUBMISSION DATE : 17 DECEMBER (2.00 PM)-18 DECEMBER (2.00 PM)**

# INSTRUCTIONS TO CANDIDATES

1. **Please read the instructions given in the question paper CAREFULLY.**
2. **Plagiarism in all forms is forbidden. Students who submit plagiarised assignment will be panelised.**

**Plagiarism report NEED TO BE SUBMITTED together with answer scripts**

1. **This question paper consists of ONE (1) PART.**
2. **Answer ALL questions.**
3. **ONLY one online submission is allowed.**

**THERE ARE FIVE (5) PAGES OF QUESTIONS, EXCLUDING THIS PAGE.**

**DECLARATION BY STUDENT**

I certify that this submission is my own work and is in my own words. All sources have been acknowledged and the content has not been previously submitted for assessment to Asia e University or elsewhere. I also confirm that I have kept a copy of this submission.

Name:

Student ID:

Date:

PART A (Total: 100 Marks)

INSTRUCTION: Answer ALL questions.

**Question 1**

HOVID PLC, a software company, has developed a new game, ‘Vista’, which it plans to launch in the near future. Sales of the new game are expected to be very strong, following a favourable review by a popular PC magazine. HOVID PLC has been informed that the review will give the game a ‘Best Buy’ recommendation. Sales volumes, production volumes and selling prices for ‘Vista’ over its four-year life are expected to be as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | 1 | 2 | 3 | 4 |
| Sales and production (games) | 100,000 | 180,000 | 160,000 | 80,000 |
| Selling price (RM per game) | RM25 | RM24 | RM23 | RM22 |

Financial information on ‘Vista’ cost of production is as follows:

|  |  |
| --- | --- |
| Direct material cost | RM6.40 per game |
| Other variable production cost | RM7.50 per game |
| Fixed costs | RM600,000 per year |

Advertising costs to stimulate demand are expected to be RM350,000 in the first year of production and RM100,000 in the second year of production. No advertising costs are expected in the third and fourth years of production. ‘Vista’ will be produced on a new production machine costing RM800,000.

It will cost RM80,000 to modify it for special use by the firm and an additional RM20,000 to install the machine. Government legislation allows HOVID PLC to claim capital allowances will be on a straight-line basis over four years. Inflationary rate of 4% on direct material cost and 5% on other variable production cost.

HOVID PLC pays tax on profit at a rate of 26% per year and tax liabilities are settled in the year in which they arise. HOVID PLC uses an after-tax discount rate of 11% when appraising new capital investments. Ignore inflation.

**Required:**

a. Calculate the net present value of the proposed investment and comment on your findings.

(19 Marks)

b. Operating cash flows rather than operating profit formed the basis for capital budgeting

decisions. Briefly explain **THREE (3)** types of costs that need to be considered in determining

incremental cash flows. (6 Marks)

**(Total: 25 Marks)**

**Question 2**

Maju Dynamic PLC., a producer of turbine generator, is in this situation; EBIT = RM4.5 million; tax rate = 30%; debt outstanding (bond) = D = RM2.0 million; Kd = 11%; Ks = 14%; share of stock outstanding = N0 = 800,000; and book value per share = RM10.00. Since Serba Dynamic’s product market is stable and the company expects no growth, all earnings are paid out as dividends. The bond is currently trade at par value.

**Required:**

a. Calculate Maju Dynamic’s earning per share (EPS) and its price per share (P0)? (5 Marks)

b. Derive Maju Dynamic’s weighted average cost of capital (WACC)? (6 Marks)

c. Maju Dynamic’s can increase its debt to a total of RM10.0 million, using the new debt to buy

back and retire some of the shares at current price. Its interest rate on debt will be 13% (it will have

to call and refund the old debt), and its costs of new equity will rise from 14% to 16%. EBIT will

remain constant. Should Serba Dynamic’s change its capital structure? (8 Marks)

d. If Serba Dynamic did not have to refund the old debt of RM2.0 million, then how would this effects

the company? (6 Marks)

**(Total: 25 Marks)**

**Question 3**

Apex Ltd manufacturers’ one standard product, the standard marginal cost of which is as follows:

(RM)

Direct material 10.00

Direct wages 7.50

Variable production overhead 1.25

\_\_\_\_\_\_

18.75

======

The budget for the year includes the following:

Output (units) 80,000

(RM)

Fixed overhead:

Production 1,000,000

Administration 600,000

Marketing 500,000

Contribution Margin 2,500,000

Management, in considering this budget for the coming year, is dissatisfied with the results likely to arise. A board meeting held recently discussed possible strategies to improve the situation and the following ideas were proposed:

1. The production director suggested that the selling price of the product should be reduced by 10%. This, he feels, could increase the output and sales by 25%. It is estimated that fixed production overhead would increase by RM50,000 and fixed marketing overhead by RM25,000.
2. The finance director suggested that the selling price should be increased by 10%. It is estimated that if the current advertising expenditure of RM100,000 were to be increased by RM400,000, sales could be increased to 90,000 units. Fixed production overhead would increase by RM25,000 and marketing overhead by RM20,000.
3. The managing director seeks a profit of RM600,000. He asks what selling price is required to achieve this if it is estimated that: An increase in advertising expenditure of RM360,000 would result in a 10% increase in sales, and fixed production overhead would increase by RM25,000 and marketing overhead by RM17,000.
4. The marketing director suggested that with an appropriate increase in advertising expenditure sales could be increased by 20% and a profit on turnover of 15% obtained. It is estimated that in this circumstance fixed production overhead would increase by RM40,000 and marketing overhead by RM25,000. What additional expenditure on advertising would be made to achieve these results?

**Required:**

Compile a forecast profit statement for the year for each of the proposals given and comment briefly on each. **(25 Marks)**

**Question 4**

Mahawangsair Co. is an international airline which flies to destinations all over the world. Mahawangsair Co experienced strong initial growth but in recent periods the company has been criticised for under-investing in its non-current assets.

Extracts from Mahawangsair Co’s financial statements are provided below.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Statements of financial position as at 30 June: | | | | |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  | 20X1 |  | 20X2 |
|  |  |  |  |  | RM000 |  | RM000 |
| **Assets** |  |  |  |  |  |  |  |
| Non-current assets | | |  |  |  |  |  |
| Property, plant and equipment | | | |  | 174,000 |  | 317,000 |
| Intangible assets (note ii) | | |  |  | 16,000 |  | 20,000 |
|  |  |  |  |  | 190,000 |  | 337,000 |
| Current assets | |  |  |  |  |  |  |
| Inventories | |  |  |  | 490 |  | 580 |
| Trade and other receivables | | |  |  | 6,300 |  | 6,100 |
| Cash and cash equivalents | | |  |  | 22,100 |  | 9,300 |
| Total current assets | | |  |  | 28,890 |  | 15,980 |
| **Total assets** | |  |  |  | 218,890 |  | 352,980 |
| **Equity and liabilities** | | |  |  |  |  |  |
| Equity |  |  |  |  |  |  |  |
| Equity shares | |  |  |  | 3,000 |  | 3,000 |
| Retained earnings | |  |  |  | 41,800 |  | 44,100 |
| Revaluation surplus | | |  |  | Nil |  | 145,000 |
| Total equity | |  |  |  | 44,800 |  | 192,100 |
|  |  |  |  |  |  |  |  |
| Liabilities |  |  |  |  |  |  |  |
| Non-current liabilities | | |  |  |  |  |  |
| 6% loan notes | |  |  |  | 150,400 |  | 130,960 |
|  |  |  |  |  |  |  |  |
| Current liabilities | |  |  |  |  |  |  |
| Trade and other payables | | |  |  | 4,250 |  | 10,480 |
| 6% loan notes | |  |  |  | 19,440 |  | 19,440 |
| Total current liabilities | | |  |  | 23,690 |  | 29,920 |
| **Total equity and liabilities** | | |  |  | 218,890 |  | 352,980 |
|  | | |  |  |  |  |  |

Other EXTRACTS from Mahawangsair Co’s financial statements for the years ended 30 June:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | 20X1 |  | 20X2 |
|  |  |  |  |  | RM000 |  | RM000 |
| Revenue |  |  |  |  | 159,000 |  | 154,000 |
| Profit from operations | | |  |  | 18,600 |  | 12,300 |
| Finance costs | |  |  |  | (10,200) |  | (9,200) |
| Cash generated from operations | | | |  | 24,310 |  | 18,480 |
|  |  |  |  |  |  |  |  |

The following information is also relevant:

(i) Mahawangsair Co. had exactly the same flight schedule in 20X1 as in 20X2, with the overall

number of flights and destinations being the same in both years.

(ii) In April 20X2, Mahawangsair Co. had to renegotiate its licences with five major airports, which

led to an increase in the prices Mahawangsair Co. had to pay for the right to operate flights

there. The licences with ten more major airports are due to expire in December 20X2, and

Mahawangsair Co. is currently in negotiation with these airports.

**Required:**

a. Calculate the following ratios for the years ended 30 June 20X1 and 20X2:

(i) Operating profit margin;

(ii) Return on capital employed;

(iii) Net asset turnover;

(iv) Current ratio;

(v) Interest cover;

(vi) Gearing (Debt/Equity).

Note: For calculation purposes, all loan notes should be treated as debt. (9 Marks)

b. Comment on the performance and position of Mahawangsair Co. for the year ended 30 June

20X2.

Note: Your answer should highlight any issues which Mahawangsair Co. should be considering in

the near future. (16 Marks)

**(Total: 25 Marks)**

**END OF QUESTION PAPER**

**ANSWER SHEET**

|  |  |
| --- | --- |
| **STUDENT ID** |  |
| **STUDENT NAME** |  |
| **IC / PASSPORT NUMBER** |  |
| **SUBJECT CODE** |  |
| **SUBJECT NAME** |  |
| **PROGRAMME** |  |
| **DATE OF SUBMISSION** |  |
| **LEARNING LOCATION** |  |

Begin writing your answers in this

page (Font: Arial or Times New

Roman, Size: 11 or 12,

Line spacing 1.5