Section A: All questions are to be attempted.

Question 1

Which of the following statements is incorrect?

a. Bill of exchange is a liquid instrument
b. Bill of exchange is traded in money markets
 c. Bill of exchange is a contract signed between the drawer and drawee
d. Bill of exchange is always immediately payable, once it is presented to the drawee.

Question 2

An investment instrument offers a nominal return of 4% per annum. Current inflation rate is at 3%.

Calculate the investment’s real rate of return.

a. 0.97%
b. 33%
c. 1%
d. 7%

Question 3

Which of the following is/ are a feature(s) of bullet loan?

a. Each instalment made comprise of an element of interest and principal repayment.
b. The loan principal is only made at the end of the loan term.
c. The amount of periodic repayment gradually increases over the loan tenure.
d. All of the above.

Question 4

Consideration is a price given in exchange for an offer.

Is the above true or false?

a. True
b. False
Question 5

An investment offers a net present value of $12,000, when discount rate used is 10%. However, when the discount rate is increased to 20%, the net present value becomes -$4,000.

What is the internal rate of return?

a. 10%
b. 12.5%
c. 17.5%
d. 23.3%

Question 6

An offer will lapse after a certain period of time.

Is this true or false?

a. True
b. False

d. 23.3%

Question 7

A relevant cost is _______.

a. Opportunity cost
b. Incremental cost
c. Avoidable cost
d. All of the above

Question 8

A 6% Treasury bill is currently trading at $111. It will mature by December 2013.

What is the interest yield of this Treasury bill?

a. 6%
b. 5.4%
c. 11%
d. 17%
Question 9

Which of the following methods do not take into account the time value of money?

a. Accounting rate of return
b. Net present value
c. Internal rate of return
d. Discounted payback period

Question 10

The following shows an extract of a company's profit and loss account.

<table>
<thead>
<tr>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before interest 5000</td>
</tr>
<tr>
<td>Less interest expense 1000</td>
</tr>
<tr>
<td>Profit after interest 4000</td>
</tr>
<tr>
<td>Less taxation 300</td>
</tr>
<tr>
<td>Profit after tax 3700</td>
</tr>
</tbody>
</table>

Calculate the interest cover.

a. 5 times
b. 4 times
c. 3.7 times
d. 1 time
Section B: All questions are to be attempted.

Question 1

Stockup Co specializes in production of component Z. This component Z is made using a special part Y. Each unit of Z is made by using 2 units of Y. The demand for component Z is expected to be 50,000 units per annum and will be constant for the next few years.

This special part Y is currently purchased from Best Parts Co. Each order incurs a fixed charge of $30, while the cost of holding each unit is $0.20 per annum.

In recent months, the procurement manager has found an alternative supplier for this special part. This alternative supplier is Other Best Co and they are also offering the same special part at the same price. However, the cost of placing each order is $25, while cost of holding each unit is $0.15 per annum. Holding costs are lower due to the redesigned compact packaging which comes with each unit. However, this supplier requires a minimum order of 6000 units or more for each order.

\[ Q = \sqrt{\frac{2CoD}{Ch}} \]

Required:

a. Calculate the economic order quantity for component Y, based on the charges from Best Parts Co. (3 marks)

b. Calculate the annual cost of stocking up component Y, if orders continue to be placed with Best Parts Co and that orders will be made based on economic order quantity. (3 marks)

c. Calculate the annual cost of stocking up component Y, if orders are to be placed with Other Best Co. (3 marks)

d. Describe three other non-financial factors which have to be considered by Stockup Co in making the decision to change suppliers for component Z. (3 marks)

e. State the underlying three assumptions made in the economic order quantity (EOQ) model. (6 marks)

f. Briefly explain the Just In Time inventory system. (2 marks)

(20 marks)
Question 2

Peter is an owner of a factory and is evaluating the prospects of investing in a new industrial equipment. This new equipment will help improve the quality of the factory output, while also enhancing productive efficiency.

For such an equipment to be purchased, government license is required and Peter has already acquired this license at a cost of $4,000.

This equipment will cost $30,000 to acquire and will be immediately put into operation, upon acquisition. As a result of the improved production flexibility and more diverse production capabilities, it will enable the factory to enjoy incremental sales of $20,000 per annum from production of greater product varieties. At the same time, factory operating costs will increase by $8,000 per annum.

Due to the size of the equipment, Peter will need place the new equipment at his spare factory space, which can be rented out at anytime for $5,000 per annum.

Required:

a. **Calculate the net present value of the investment in the new industrial equipment.**
   
   (8 marks)

b. **State two advantages of the net present value method of investment appraisal.**
   
   (2 marks)

   (10 marks)
Question 3

Prompt Co is in the business of supplying industrial components to local businesses. A large number of the client businesses include new start ups and unquoted firms.

Generally, relationship with these clients is well maintained by Prompt Co. Unfortunately, this relationship has been strained in recent months, as a growing number of clients had started to delay repayment of amounts due. As of the accounts last month, the debtors settlement period lengthened to 80 days from last year’s 30 days.

This has sparked concern among the Prompt Co’s directors. One of them suggested the use of a factor, which may be with recourse or non-recourse.

Required:

a. Explain the term “factor”. (3 marks)

b. Describe the difference between recourse and non-recourse factoring arrangements. (4 marks)

c. Describe one other possible reason for the use of a factor. (3 marks)

(10 marks)
Question 4

Central banks play a key role in any economy.

Required:

a. Describe three roles of a central bank. (6 marks)

b. Explain the term financial intermediary. (2 marks)

c. State and describe one example of a non-bank financial intermediary. (2 marks)
Question 5

Overtop Co is in the business of producing high performance motor vehicle parts. They use proprietary technology to perform all related manufacturing work.

Due to this, demand for their product has always been high. In recent years, it has enjoyed exceptional improvements in sales levels. Over the last one year, sales revenues have doubled. This was also largely due to publicity by the media and the aggressive publicity efforts made by the company.

However, the financial controller observed a few issues. One is that inventory levels have increased significantly by 50% over the recent one year. In addition, account receivable collection period has somewhat worsened compared with one year ago.

Required:

a. Explain the term overtrading.  
   (4 marks)

b. Describe five common symptoms of overtrading. 
   (5 marks)

c. Discuss whether Overtop Co is overtrading. 
   (6 marks)

(15 marks)
Question 6

Alan and Jo are brothers operating a small trading business. Currently, they are facing rapidly increasing sales volumes. They are concerned with lack of capital to further fund their expansion.

They have approached a local banker to discuss about their funding requirement. The banker has expressed various concerns, though he has agreed to look into the possibility of making the required financing available to Alan and Jo.

Required:

a. Describe four factors which the banker will need to consider prior to providing any financing facility to Alan and Jo. (10 marks)

b. Explain why small businesses face difficulties in obtaining financing. (5 marks)

(15 marks)