UNIVERSITI MALAYSIA TERENGGANU

FINAL EXAMINATION

SEMESTER I SESSION 2025/2026 (BACHELOR DEGREE)

COURSE	**:**	**CORPORATE FINANCE**
COURSE CODE	**:**	**FNC4213**
DURATION	**:**	**3 HOURS**

MATRIC NO.	**:**	____________________
PROGRAMME	**:**	____________________
SEAT NO.	**:**	____________________

<u>INSTRUCTIONS TO CANDIDATES</u>

i. Answer all questions.

ii. Section A answers must be shaded in the OMR form provided.

iii. Section B answers must be written in the answer booklet provided.

DO NOT OPEN THE QUESTION PAPER UNTIL INSTRUCTED

THIS QUESTION PAPER CONSISTS OF NINE (9) PRINTED PAGES

SECTION A (40 Marks)

Please choose the most appropriate answer for each question in this part.

1. A customer leased equipment from a leasing company for a period of one year. The leasing company pays the maintenance, taxes, and insurance costs for the equipment. The equipment has a life of seven years. The customer has a(n) _________ lease. (1 mark)

   A. open
   B. straight
   C. operating
   D. financial
   E. tax oriented

2. Firm X sells equipment to Firm Y. Firm Y leases that equipment to Firm X for a period of 12 years. The equipment has a remaining useful life of 12 years. Which type of lease arrangement is this? (1 mark)

   A. Leveraged lease.
   B. Sale and leaseback.
   C. Operating lease.
   D. Tax-oriented lease.
   E. Straight lease.

3. If a lessor borrows money from a lender on a nonrecourse basis to purchase an asset that will be leased to another party, then the __________. (1 mark)

   A. lessor is responsible for the loan payments whether the lessee pays the lease payments.
   B. lessee must pay both the lease payment and the loan payment.
   C. loan is considered paid in full if the lessee discontinues making the lease payments or terminates the lease early.
   D. lessor is only obligated to pay the loan payments if the lessor is collecting the lease payments.
   E. lender must pursue the lessor if the lessee fails to make the agreed upon lease payments.

4. The relevant discount rate for evaluating a lease is the firm's __________. (1 mark)

   A. cost of equity financing.
   B. pretax cost of borrowing.
   C. after-tax cost of borrowing.
   D. risk-free rate of return.
   E. market rate of return on short-term assets.

5. Which one of the following statements is **correct** concerning taxes and leasing? (1 mark)

   A. Tax reduction is a legitimate reason for leasing.
   B. The lessee should be the party with the higher tax bracket.
   C. Lessors generally benefit from leases while lessees do not.
   D. If a firm has significant net operating losses, it should be the lessor in a lease.
   E. A firm should only lease an asset if the lease will be fully amortized.

6. Which Islamic contract is similar to a joint venture where both parties contribute capital? (1 mark)

   A. Murabahah.
   B. Musyarakah.
   C. Ijarah.
   D. Wadiah.
   E. Takaful.

7. Murabahah is **best** described as _____________. (1 mark)

   A. Donation-based financing.
   B. Leasing of assets.
   C. Cost-plus financing with disclosed profit.
   D. Equity partnership.
   E. Forward lease contract.

8. In Islamic banking, Ijarah refers to ___________. (1 mark)

   A. interest-free loan.
   B. sale with deferred payment.
   C. leasing/renting of assets.
   D. profit-and-loss sharing.
   E. charity contract.

9. Which of the following is prohibited in Islamic finance? (1 mark)

   A. Profit-sharing.
   B. Asset-backed financing.
   C. Interest-based lending.
   D. Sukuk issuance.
   E. Trade-based contracts.

10. Which statement about Sukuk is **most** accurate? (1 mark)

   A. Sukuk guarantees a fixed interest return.
   B. Sukuk represents ownership in assets or projects.
   C. Sukuk holders only receive rental income.
   D. Sukuk are not tradable in secondary markets.
   E. Sukuk function exactly like conventional bonds.

11. When analysing a project, scenario analysis is **best** suited to accomplishing which one of the following? (1 mark)

    A. Identifying the potential range of reasonable outcomes.
    B. Determining how fixed costs affect NPV.
    C. Estimating the residual value of fixed assets.
    D. Determining the minimal level of sales required to break even on an accounting basis.
    E. Determining the minimal level of sales required to break even on a financial basis.

12. When you assign the lowest anticipated sales price and the highest anticipated costs to a project, you are performing ___________. (1 mark)

    A. best-case sensitivity analysis.
    B. worst-case sensitivity analysis.
    C. best-case scenario analysis.
    D. worst-case scenario analysis.
    E. base-case scenario analysis.

13. Which one of the following combinations must increase the contribution margin? (1 mark)

    A. Increasing both the sales price and the variable cost per unit.
    B. Increasing the sales quantity and increasing the variable cost per unit.
    C. Decreasing the sales price and increasing the sales quantity.
    D. Decreasing both fixed costs and depreciation expense.
    E. Increasing the sales price and decreasing the variable cost per unit.

14. A project that has a projected IRR of negative 100 percent will also have a(n) __________. (1 mark)

    A. discounted payback period equal to the life of the project.
    B. net present value that is negative and equal to the initial investment.
    C. operating cash flow that is positive and equal to the depreciation expense.
    D. payback period that is exactly equal to the life of the project.
    E. net present value that is equal to zero.

15. Which one of the following terms is defined as the relationship between the percentage change in operating cash flow and the percentage change in quantity sold? (1 mark)

    A. Degree of sensitivity
    B. Degree of operating leverage
    C. Accounting break-even
    D. Cash break-even
    E. Contribution margin

16. Which source of finance is most used by SMEs to fund short-term working capital needs? (1 mark)

    A. Venture capital.
    B. Initial public offering.
    C. Corporate bonds.
    D. Government treasury bills.
    E. Bank overdraft.

17. What is the primary purpose of cash budgeting for SMEs? (1 mark)

    A. Planning and managing cash inflows and outflows.
    B. Maximizing sales revenue.
    C. Determining break-even output.
    D. Calculating corporate tax liabilities.
    E. Setting employee compensation levels.

18. Which financial statement helps SME owners understand liquidity position? (1 mark)

    A. Balance sheet.
    B. Income statement.
    C. Statement of changes in equity.
    D. Statement of retained earnings.
    E. Auditor's report.

19. Which of the following is most important for SMEs when managing working capital efficiently? (1 mark)

    A. Increasing long-term liabilities.
    B. Maintaining optimal inventory and receivables levels.
    C. Paying suppliers as early as possible.
    D. Eliminating all debt financing.
    E. Increasing dividend payouts.

20. Trade credit from suppliers is an example of ___________. (1 mark)

    A. Internal financing.
    B. Equity financing.
    C. Short-term external financing.
    D. Long-term debt financing.
    E. Islamic profit-sharing contract.

21. A firm can either lease or buy some equipment costing RM72,900. The lease payments would be RM18,500 per year for four years. The equipment has a 4-year life, after which it is expected to have a resale value of RM3,600. The firm uses straight-line depreciation over the life of the asset, borrows money at 11 percent, and has a tax rate of 21 percent. The company does not expect to owe any taxes for at least four years because of its operating losses. What is the incremental cash flow for Year 3 if the company decides to lease rather than purchase the equipment? (2 marks)

    A. –RM29,165
    B. –RM21,821
    C. –RM18,500
    D. – RM18,559
    E. – RM17,635

22. A firm is evaluating whether to lease or buy some new equipment that costs RM32,400 and has a life of three years, after which it will be worthless. The after-tax discount rate is 7.1 percent. Assume the annual depreciation tax shield is RM2,376 and the after-tax annual lease payment is RM9,800. What is the net advantage to leasing (NAL)? (Note: PVIFA factor for the said rate and period is around 2.6197) (3 marks)

    A. RM505
    B. RM904
    C. RM12,953
    D. RM5,895
    E. –RM953

23. A lessor will charge RM13,800 per year for four years as lease payments on RM47,800 of equipment. The equipment has a life of four years, after which it should resell for RM8,400. Your firm uses straight-line depreciation, borrows at 10 percent, and has a tax rate of 25 percent. What is the amount of the Year 4 cash flows when computing the net advantage of leasing (NAL)? (2 marks)

    A. –RM16,650
    B. –RM19,638
    C. –RM21,738
    D. –RM15,748
    E. –RM17,038

24. Which Islamic contract is characterized by one party providing capital while the other provides expertise? (1 mark)

    A. Murabahah.
    B. Musharakah.
    C. Salam.
    D. Mudarabah.
    E. Ijarah.

25. Takaful differs from conventional insurance because it is based on _____________. (1 mark)

    A. guaranteed returns to policyholders.
    B. risk transfer to the insurer.
    C. fixed premium and fixed payout.
    D. mutual cooperation and shared responsibility.
    E. government-backed fund protection.

26. Which financing option is most appropriate for a growing SME with stable cash flows that seeks to avoid equity dilution? (1 mark)

    A. Crowdfunding.
    B. Factoring receivables.
    C. Bank term loan.
    D. Angel financing.
    E. Issuing preference shares.

27. Which statement **best** describes the purpose of financial planning for SMEs? (1 mark)

    A. Supporting strategic decisions by forecasting future financing needs and financial performance.
    B. Ensuring compliance with stock exchange regulations.
    C. Preparing the company for mergers and acquisitions.
    D. Eliminating all financial risks.
    E. Guaranteeing higher profits.

28. A project has base-case earnings before interest and taxes of RM36,408, fixed costs of RM42,700, a selling price of RM24 per unit, and a sales quantity of 22,000 units. All estimates are accurate within ±2 percent. Depreciation is RM16,700. What is the base-case variable cost per unit? (3 marks)

    A. RM19.65
    B. RM22.16
    C. RM23.84
    D. RM22.23
    E. RM17.18

29. A project has an accounting break-even quantity of 28,700 units, a cash break-even quantity of 17,120 units, a life of 10 years, fixed costs of RM178,000, variable costs of RM18.40 per unit, and a required return of 14 percent. Depreciation is straight-line to zero over the project life. Ignoring taxes, what are the amounts for: depreciation (D), initial investment (I) and operating cash flow (OCF)? (4 marks)

    A. D = RM120,399.53, I = RM1,203,995.33, OCF = RM230,822.21
    B. D = RM120,399.53, I = RM1,203,995.33, OCF = RM167,995.33
    C. D = RM120,399.53, I = RM2,109,500.75, OCF = RM135,799.44
    D. D = RM107,500.87, I = RM2,109,500.75, OCF = RM131,175.42
    E. None of the above

30. A project has an accounting break-even quantity of 28,700 units, a cash break-even quantity of 17,120 units, a life of 10 years, fixed costs of RM178,000, variable costs of RM18.40 per unit, and a required return of 14 percent. Depreciation is straight-line to zero over the project life. Ignoring taxes, what is the financial break-even quantity? (2 marks)

    A. 39,723 units.
    B. 39,201 units.
    C. 39,458 units.
    D. 39,624 units.
    E. 39,321 units.

SECTION B (60 Marks)

Please answer all question.

1. You are analyzing a project with an initial cost of £130,000. The project is expected to return £20,000 the first year, £50,000 the second year, and £90,000 the third and final year. There is no salvage value. The current spot rate is £.6211. The nominal risk-free return is 5.5 percent in the U.K. and 6 percent in the U.S. The return relevant to the project is 14 percent in the U.S. Assume that uncovered interest rate parity exists. Evaluate the net present value of this project in U.S. dollars. (10 marks)

2. Determine **five (5)** related errors and biases due to heuristics. (10 marks)

3. UMT Maju Holding has earnings before interest and taxes of RM148,600. Both the book and the market value of debt is RM220,000. The unlevered cost of equity is 13.6 percent while the pretax cost of debt is 7.4 percent. The tax rate is 21 percent. What is the weighted average cost of capital? (10 marks)

4. Dividend policy is an important subject in corporate finance and dividends are a major cash outlay for many listed corporations. Distinguish a total of **five (5)** pros and/or cons of paying dividends. (10 marks).

5. A non-dividend-paying stock is currently trading at RM100. In addition, a European call option with a strike price RM105 and 3 months to maturity is being evaluated. The risk-free rate is 6% per annum (continuously compounded) and the stock's volatility is 20% per annum. Standard normal distribution is per the table below.

Table 1. Z-table (Extracted)

z	0	0.01	0.02	0.03	0.04
0.2500	0.5987	0.5967	0.5948	0.5929	0.5910
0.2900	0.6141	0.6121	0.6102	0.6083	0.6064
0.3500	0.6368	0.6347	0.6327	0.6306	0.6286
−0.29	0.3859	0.3879	0.3898	0.3917	0.3936
−0.39	0.3483	0.3503	0.3522	0.3541	0.3561

Calculate the value of the call option using the Black–Scholes Option Pricing Model, and the value of put option with the same strike and maturity using the put–call parity. (10 marks)

6. Corporate takeovers occur when one firm seeks to gain control of another, often through the acquisition of a majority shareholding, and can significantly affect ownership structure, managerial control, and shareholder value. Break down these **five (5)** terms: dual-class capitalization, golden parachute, crown jewel, poison pill, and white knight. (10 marks)

End of Question Paper