

DP08

# Retail Financial Services

12 MAY 1999

- |   |  |
|---|--|
| 1. Time allowed   | : Three (3) hours  |
| 2. Total number of questions  | : Six (6) questions on 4 pages   |
| 3. Number of questions to be answered   | : Five (5) questions<br>Part A: Three (3) questions [20 marks each]<br>Part B: Two (2) questions [20 marks each] |
| 4. Show details of workings, where appropriate. Silent, non-programmable calculators may be used. |  |
| 5. Begin each answer to a new question on a fresh page.   |  |
| 6. Answer <b>all</b> questions in <b>English</b> .  |  |

**PART A****ANSWER ALL THREE (3) QUESTIONS**

1. Parlim Sdn Bhd is embarking on the development of a housing project comprising the following units:

Type of units	Low-cost single-storey houses	Medium-cost double-storey houses	Single-storey bungalow houses
Number of units	60	40	30
Selling price per unit (RM)	25,000	80,000	170,000

The company has approached your finance company for a bridging loan and end-financing to complete the project. The bridging loan amount is RM2,000,000 and all the above units have been sold.

**Required:**

- (a) (i) Calculate the bridging loan, assuming that a factor of 20% is to be loaded on. [1]
- (ii) Calculate the redemption sum per title based on the sales method for each of the following:
- Low-cost single-storey houses [2]
  - Medium-cost double storey houses [2]
  - Single-storey bungalow houses [2]
- (iii) If 100% of the purchasers of the low-cost single-storey houses require 90% financing, 100% of the purchasers of the medium-cost double-storey houses require 90% financing and 100% of the purchasers of the single-storey bungalow houses require 80% financing, calculate the end financing requirements of the project. [3]
- (iv) If one of the applicants for the loan to purchase a medium-cost double-storey house is your finance company staff, would the staff be eligible for the loan? Why? [2]
- (b) In general, housing loan financiers are faced with **three** specific risks. Identify and explain these **three** risks. [6]
- (c) Distinguish between a “final title” and a “qualified title”. [2]
- (Total:20 marks)
2. (a) (i) Name and describe **three** main types of share financing facilities made available by the financial institutions. [9]
- (ii) State **two** advantages and **two** disadvantages of holding quoted shares as security for a loan. [4]
- (b) (i) Briefly describe what a unit trust is. [3]
- (ii) State **two** advantages and **two** disadvantages of investing in a unit trust. [4]
- (Total:20 marks)
3. (a) BTR Sdn Bhd, a manufacturer of a product used by industrial consumers has 40 customers. The monthly turnover from these customers is RM3million and each of the customers order an average of RM75,000 worth of the product.

BTR Sdn Bhd extends **three** months credit terms to its customers and they are billed on the last day of each month for all orders delivered in that month. As a result of increasing business, BTR Sdn Bhd has decided to install an additional machine to facilitate better cash flow and logistics.

BTR Sdn Bhd has now approached your finance company for a factoring facility. Your company's present base-lending rate is 12% per annum and it is your company's policy to charge 3% above the base lending rate for factoring facilities on an advance factoring arrangement. For the industry which BTR Sdn Bhd is in, it is your company's policy to charge a factoring commission of 1%.

**Required:**

Using the above information and making all the necessary assumptions, determine the cost of the factoring facility to BTR Sdn Bhd. Please state your assumptions clearly. [10]

- (b) From a factoring company's point of view, would the following types of businesses be considered suitable for factoring? Give **two** reasons for each of your answers.
- (i) A sole-proprietor producing hardware for many small retail outlets. [2]
- (ii) A limited company manufacturing garments, which is sold to well-established departmental stores. [2]
- (iii) A medium-sized firm of solicitors whose customers include several commercial banks and finance companies. [2]
- (c) There are **three** parties to a factoring arrangement, i.e. the supplier, the factor and the customer.
- (i) How does the factor take security under a factoring arrangement? [2]
- (ii) What step must a factor take to ensure that the security taken is enforceable in the event of default? [2]
- (Total:20 marks)

**PART B**

**ANSWER TWO (2) QUESTIONS ONLY**

4. (a) Mr Lim's company is involved in land clearing and earthworks. His company was recently awarded **three** contracts valued at RM5million by a leading public listed property development company. To complete the contracts, the company would need to acquire some new tractors. The principal will pay according to the progress of works completed by the company.

Mr Lim has approached your finance company for either a leasing or a hire purchase facility for the acquisition of **four** units of new tractors at a cost of RM400,000 each. Mr Lim is only able to raise RM20,000 cash from his own resources.

**Required:**

- (i) Advise Mr Lim on the most appropriate method of financing for the acquisition of the tractors. [2]
- (ii) As the credit officer in your finance company, what additional information would you require to assess Mr Lim's application for financing? [6]
- (b) As the owner of an asset, a lessor is in a fundamentally different position compared to an ordinary lender. The lessor faces a number of risks.
- (i) How do such risks arise? [2]
- (ii) Name **two** such risks and suggest ways by which the lessor can either mitigate such risks or ensure that they are fully borne by the lessee. [4]

- (c) Your customer, PQR Bhd, a manufacturer of plastic parts is considering replacing a 5-year old manual moulding machine with a new automated machine, which can save production costs by RM50,000 per year. The company is importing the machine from Germany at a cost of DEM2,000,000. The freight, insurance and installation costs will be RM20,000. The present exchange rate for DEM against Malaysian Ringgit (MYR) is as follows:

Buying DEM1.00 = MYR2.51

Selling DEM1.00 = MYR2.55

Your finance company has granted a pure lease facility to PQR Bhd with a repayment period of 5 years and at an interest rate of 7% per annum flat.

**Required:**

Calculate the monthly instalment payable by PQR Bhd.

[6]

(Total:20 marks)

5. (a) Your finance company has granted a block discounting facility to Mancon Credit Sdn Bhd (MCSB) on the following terms:

Limit : RM2,000,000

Minimum block size : RM200,000

Interest rate : 7% per annum flat

Tenure: : Minimum 12 months and maximum 36 months

Margin of Advance : Not exceeding 90% of outstanding principal value of each block submitted

MCSB submitted a batch of papers with aggregate outstanding balance of RM500,000. The unearned interest on the papers amounted to RM100,000. All the papers were for an original loan period of 60 months. 12 months have lapsed since the original loans were funded by MCSB.

**Required:**

- (i) Assuming that MCSB would like a repayment period for as long as possible, calculate the amount released to the company and also the monthly instalment payable for the block submitted if the following methods of computing interest are used:

• Add-on basis [3]

• Discounted basis [3]

- (ii) What are **three** areas of control that can be imposed on the dealer in a block discounting arrangement which can safeguard your company's interest? [3]

- (b) (i) When a borrower defaults in his repayment of loan and if the default continues in a case of an account secured by way of a charge, the solicitors proceed to serve on the borrower a statutory notice in either Form 16D or 16E. What is the distinction between Form 16D and 16E? [4]

- (ii) When it comes to a chargee enforcing his remedy by way of sale because of a default by the borrower, the National Land Code 1965 prescribes different procedures for Registry titles and Land Office titles.

State and explain to whom and the manner in which the application must be made for Registry titles and Land Office titles. [4]

- (iii) What is the difference between a "Registry title" and a "Land Office title"? [2]

- (iv) State **one** difference between a "private caveat" and a "lien-holder's caveat". [1]

(Total:20 marks)

6. (a) Mr Tan Ah Teik is the major shareholder of ACE Electronics Sdn Bhd which is a major supplier of electrical goods. A year ago, he bought a car in his personal name, which was financed under a hire purchase facility granted by your finance company. The facility is to be repaid over a period of 36 months.

The account is in default of **four** instalments and your finance company has since been informed that he has died.

**Required:**

- (i) Who would be responsible for the repayment of the outstanding balance of the hire purchase assuming that

- Mr Tan Ah Teik has died intestate? [1]
- the car was instead bought under the company's name and the company is now under liquidation? [1]

- (ii) Assuming that your finance company has just repossessed the car, calculate both the monthly instalments which Mr Tan Ah Teik has been paying prior to his death and the statutory rebate which will be granted upon repossession. The following information is available to you:

Loan amount	:	RM80,000	
Date of hire purchase agreement	:	1 February 1997	
Interest rate	:	7% per annum flat	
Number of instalments paid	:	10 (ten)	
Date of repossession	:	1 March 1998	
Date of expiry of fifth schedule	:	20 March 1998	[6]

- (b) Prismanent Sdn Bhd, a customer of your finance company is a medium-size company involved in the trading of car accessories and parts. The owner of the Prismanent Sdn Bhd, Encik Ahmad Zakaria has approached your finance company for a loan to meet some personal needs. He has requested your finance company to advise him whether he can use his car, a Volvo 940, as a collateral for a hire purchase loan to be granted to him. The car is unencumbered and is registered in his name.

**Required:**

How would you respond to Encik Ahmad Zakaria's request? [4]

- (c) Muthu has approached your finance company for a hire purchase facility to purchase a second-hand car costing RM50,000. He requires a 70% financing and a loan period of 3 years. Your finance company charges an interest rate of 7% per annum for used cars.

**Required:**

- (i) Calculate the monthly instalment payable under the loan. [3]

- (ii) Calculate the effective interest rate in accordance with the formula provided in the Seventh Schedule of the Hire Purchase Act 1967 as amended by the Hire Purchase (Amendment ) Act 1992. [5]  
(Total:20 marks)

## OUTLINE ANSWERS

### PART A

#### Question 1

**Generally well-answered by most of the candidates who attempted this question.**

- (a) (i)  $RM2,000,000 \times 1.2 = RM2,400,000$
- (ii) Total Sales  
 $= (60 \times RM25,000) + (40 \times RM80,000) + (30 \times RM170,000)$   
 $= RM1,500,000 + RM3,200,000 + RM5,100,000$   
 $= RM9,800,000$
- Bridging Loan = RM2,400,000
- Redemption for
- Low-cost single-storey house  $= \frac{25,000}{9,800,000} \times 2,400,000$   
 $= RM6,122$
  - Medium-cost double-storey houses  $= \frac{80,000}{9,800,000} \times 2,400,000$   
 $= RM19,592$
  - Single-storey bungalow houses  $= \frac{170,000}{9,800,000} \times 2,400,000$   
 $= RM41,633$
- (iii) End financing required  
 $= (RM1,500,000 \times 0.9) + (RM3,200,000 \times 0.9) + (RM5,100,000 \times 0.8)$   
 $= RM1,350,000 + RM2,880,000 + RM4,080,000$   
 $= RM8,310,000$
- (iv) No, this is in view of section 62 of the Banking and Financial Institutions Act (BAFIA), 1989 which prohibits the financial institutions to extend any loan to its employees.
- (b) The three specific risks are:
- (i) **Default Risk**  
 This relates to failure to repay which is most likely to occur during the early years of the loan and is influenced by many unforeseen conditions such as bad health, unemployment and marriage breakdown.
- (ii) **Interest Rate Risk**  
 Interest rate risk has been of particular importance in all lending institutions and is of particular concern where very narrow deposit/lending margin exists. Rising interest rates have posed problems for housing loan providers who have had to pay for long-term relatively low interest rate loans with more costly short-term deposits.

To circumvent interest rate volatility, it is now almost standard practice to have variable interest rate loans. The result of this is significant for the borrower, as any fluctuation in interest impacts most noticeably on the size of the repayments. Variable rate loans do not eliminate interest rate risks completely but they protect the lender by passing these risks to the borrower.

(vi) **Liquidity Risk**

Lack of liquidity could result in financial institutions unable to meet withdrawal demands which could have disastrous consequences. The need to maintain constant and adequate liquidity levels can be achieved through the development of a well-structured asset liability portfolio.

- (c) Final title confers on the person or body concerned; a title to the land which shall be indefeasible.

Qualified title is issued where the final title cannot be issued. It confers similar rights as the final title, except that the boundaries are provisional and that there can be no subdivision or partitions.

Both the final and qualified titles may be registered either at the Registry of the registered state or the Land office.

## Question 2

**Overall, this question was well-answered but many candidates did not explain in reasonable detail the three main types of share-financing.**

- (a) (i) The three main types of share financing facilities made available by financial institutions are:

### **New Public Issue**

A line of credit will be granted to the borrower up to the full value of the cost of issue price of the shares applied for. The applicant or borrower will only have to bear the related charges in the form of commission for the cashier's order or draft, and in the case where the facility is not for the full value, the borrower will have to bear the balance of the shares applied for.

In the event the borrower is successful in his application, the shares are to be pledged with the financier security. Most financiers allow their borrowers time period of between 30 to 90 days from the date of confirmation of allotment to sell the shares, failing which the shares are to be registered in the financier's nominee.

If the borrower is not successful, his cashier's order or the draft will be returned to the financier for cancellation and credited to the borrower's account.

Interest will be charged on the number of days the amount of funds was actually utilised.

### **Purchase of Quoted/Unquoted Shares**

The facility is extended to borrowers who want to buy or invest in quoted shares in the stock exchange and in rare instances, in unquoted shares in a private limited company or to take up an offer of shares during rights issue.

The financier will provide funds for such purpose up to an agreed percentage of the market value of the shares.

For unquoted shares, the market value will be determined by the financier based on its own criteria. These shares, however, may not be pledged as security for the facility.

### **Margin Account**

Here a lien of credit between 1.5 to 3 times will be extended to the borrower based on the value of the security pledged with the financier. The security offered may be in the form of:

- Landed properties;
- Fixed deposits, Amanah Saham Nasional (ASN), Amanah Saham Bumiputra (ASB);
- Quoted shares; or
- Any combination of the above.

**Example**

Market value of securities	=	M300,000
Agreed value of financing 70%	=	RM210,000
Margin of finance	=	2 times
Hence, line of credit	=	RM420,000

After completion of loan documentation, the borrower in the above example may activate the account immediately by dealing through the financier's panel of stockbrokers from whom he may transact (i.e. buy and sell) as he wishes, subject to the present limit of the line of credit of RM280,000 and accept shares which are designated 'unacceptable counters' by the financier. All his purchasers will serve as additional security to the facility.

Any profit on the borrower's transactions may be withdrawn in cash provided that the prescribed security margin is maintained at all times.

If share price fluctuations result in the security exceeding the approved limit, a margin call will be made by the financier. The borrower has the following options:

- To either top up the shortfall (put in cash); or
- To put in additional securities acceptable to the financier; or
- To sell some of these share holdings to reduce the excess to its limit.

**(ii) Advantages of holding public listed shares**

- The value of the security can usually be ascertained without difficulty.
- There are few formalities to be observed when taking shares as security. Thus, there is no complicated investigation of title to make as there is when it is offered as security to the bank. This itself saves expense.
- It is inexpensive as the stamp duties on a mortgage of shares are relatively small.

**Disadvantages of holding public listed shares**

- The value of the shares can change very quickly. This applies particularly to shares of speculative nature.
- There is possibility of theft by the people who handle or deal with the security including the financier's employees since shares are easier to realise than other security.

- (b) (i) A unit trust is a trust where the trust fund is divided into units and held for the benefit of the unit-holders. It is a pool of money from numerous investors which is invested on the stock market or other permitted investment instruments that the pool was set-up for.

**(ii) Advantages of unit trust**

- Professional Management is managed by professional fund managers who are specialists in investment matters.
- Diversification – enables individual investors with small capital to have access to certain investments otherwise unavailable to them. Through diversification in asset classes, the trust is able to get a better spread of risks.

**Disadvantages of unit trust**

- The initial charge (or front-end load) imposed can be expensive and on top of this, the fund managers also charge an annual management fee which ranges from 0.75% to 1.5% for their services.
- Unlike savings or fixed deposits, the return on investment in unit trust is not guaranteed but depends on the performance of the asset classes selected based largely on the judgement of the respective funds managers.

### Question 3

**Most of the candidates were able to compute the factoring cost in part (a), but they did not state clearly the assumptions made.**

(a) **Assumptions**

- Number of invoices, credit notes and disputes which will determine workload is ignored.
- No special operational difficulties.
- All the 40 customers pay the factor upon expiry of the credit period.  
(40 x RM75,000 = RM3,000,000)

Cost of factoring = factoring commission + factoring discount

$$\begin{aligned} \text{Factoring Commission} &= 1\% \times \text{RM}3,000,000 \\ &= \text{RM}30,000 \text{ per month} \end{aligned}$$

Factoring discount is calculated as follows:

$$\begin{aligned} \text{The interest rate charged} &= 3\% + \text{BLR} \\ &= 3\% + 12\% \\ &= 15\% \text{ per annum} \\ &= 1.25\% \text{ per month} \end{aligned}$$

At the end of each month, RM3million worth of invoices will be used to obtain cash from your financial institution. You would only be able to collect this RM3million at the end of the 3 months.

Therefore, you will discount RM3million by 3 months and pay BTR Sdn Bhd.

$$\begin{aligned} &= \text{RM}3\text{million} \times (1+1.25\%)^{-3} \\ &= \text{RM}3\text{million} \times (1.0125)^{-3} \\ &= \text{RM}2,890,257 \end{aligned}$$

$$\begin{aligned} \text{Factoring interest} &= \text{RM}3,000,000 - \text{RM}2,890,257 \\ &= \text{RM}109,743 \text{ per month} \end{aligned}$$

Therefore, the total cost to BTR Sdn. Bhd

$$\begin{aligned} &= \text{RM}30,000 + \text{RM}109,743 \\ &= \text{RM}139,743 \end{aligned}$$

- (b) (i) Factoring would not be suitable because of:
- The low turnover;
  - The low value of invoices; and
  - The sales will probably be on cash or short credit period.
- (ii) Factoring would be suitable because of:
- The value of the invoice is likely to be significant; and
  - The customers appear to be of sound credit standing.
- (iii) Factoring would be suitable because of:
- The customers are good paymasters; and
  - The client's professional standing is probably high as this is expected by several financial institutions.
- (c) (i) Security will be in the form of assignment of the receivables arising from the sale of the goods or supply of services by the supplier to the customer. This assignment will be incorporated in a master factoring agreement.
- (ii) The step to be taken is to ensure that notice of assignment must be given in writing to the customers. The notice must identify the debts which have been assigned and the name of the factor to whom the customer is required to make payment.

**PART B****Question 4**

**Answers to part (a) and (b) of this question were not focused. Part (c) was generally well-answered except for a few candidates who were confused with the buying and selling rate to be used in the computation.**

- (a) (i) Mr Lim is only able to raise RM20,000 cash from his own resources which is not adequate to make the minimum deposit of 10% of the purchase price of one unit of tractor under hire purchase financing. He would not get 100% financing under HP.

In view of the tight cash position, the only available alternative is to apply for pure lease facilities which allow for 100% financing.

- (ii) Additional information required:
- The cash flow of the contracts which must take into consideration the monthly repayment under the financing arrangement.
  - The genuineness of the contracts awarded by the public listed company.
  - Whether Mr Lim will be capable of completing the contracts as his financial resources appear to be limited.
  - Whether the purchase consideration of the used tractors reflect actual market value.
  - The tight cashflow might prevent him in employing or engaging the necessary manpower to handle the works.
- (b) (i) Risks arise from the fact that the lessor has very little control over the use of the asset.
- (ii) Two risks and ways of mitigating or ensuring that the risks are borne by the lessee are:
- Possible claims relating to the performance of the asset – full indemnities from lessee in the lease agreement.
  - Third party liability arising from the use of the asset – full and adequate insurance is in force at all times placed with reputable insurance companies.

- (c) Cost of equipment:

DEM2,000,000 x 2.55	=	RM5,100,000
Freight, insurance and installation costs	=	RM20,000
Amount to be financed	=	RM5,120,000
Monthly instalment	=	$\frac{5,120,000 + (5,120,000 \times 7\% \times 5)}{60}$
	=	$\frac{5,120,000 + 1,792,000}{60}$
	=	$\frac{6,912,000}{60}$
	=	RM115,200

## Question 5

Quite a number of candidates were not able to clearly explain the difference between “Registry” and “Land Office” titles, and between a “Private” and “Lien-holder’s” caveats.

- (a) (i) **Add-on basis**
- |   |   |                             |
|---|---|-----------------------------|
| Outstanding balance                       | = | RM500,000                   |
| Less: Unearned interest                   | = | <u>RM100,000</u>            |
|   | = | <u>RM400,000</u>            |
| <br>                                      |   |                             |
| Amount to be financed                     | = | 90% x 400,000               |
|   | = | RM360,000                   |
| <br>                                      |   |                             |
| Interest at 7% per annum<br>for 3 years   | = | RM75,600                    |
| <br>                                      |   |                             |
| Amount to be released                     | = | RM360,000                   |
| <br>                                      |   |                             |
| Instalment per month                      | = | <u>RM360,000 + RM75,600</u> |
|   |   | 36                          |
|   | = | RM12,100                    |
| <br>                                      |   |                             |
| <b>Discounted basis</b>                   |   |                             |
| Outstanding balance                       | = | RM500,000                   |
| Less: Unearned interest                   | = | <u>RM100,000</u>            |
|   | = | <u>RM400,000</u>            |
| <br>                                      |   |                             |
| Amount to be financed                     | = | 90% x 400,000               |
|   | = | RM360,000                   |
| <br>                                      |   |                             |
| Less : Interest at 7% p.a.<br>for 3 years | = | RM75,600                    |
| <br>                                      |   |                             |
| Amount to be released                     | = | RM284,400                   |
| <br>                                      |   |                             |
| Instalment per month                      | = | <u>RM360,000</u>            |
|   |   | 36                          |
|   | = | RM10,000                    |
- (ii) • The dealer allows the lender to conduct regular audit of the hirer’s accounts in their books.
- The lender may decline certain agreements in the block if the hirer has had adverse experience elsewhere or if the hiree is already defaulting payments under the agreement.
- The dealer allows the lender to circularise audit letters to hirer.
- (b) (i) Where the borrower defaults in the repayment of his loan or breach continues in the case of an account secured by way of a charge the solicitors then proceed to serve on the chargor the statutory notice in either Form 16D or 16E.
- Form 16D is used to demand payment of principal and interest or demand remedy of any breach of the covenants under a legal charge.
- Form 16E is a demand for payment of the principal sum which is repayable on demand.
- (ii) The procedure involved differs in an application for an order for sale depending on whether the land is held under Land Office title or under Registry Title.

**Procedure for Registry Title**

- Apply to High Court by way of Originating Summons for an Order for Sale and serve the Originating Summons on the chargor;
- File a notice of Appointment to fix the hearing date for the Originating Summons;
- Obtain an Order for Sale at the hearing before a judge;
- Apply for summons for direction to fix the reserve price, the auction date and the auctioneer; and
- Auction of land in accordance with the conditions in the Proclamation of Sale on the date fixed for the auction.

**Procedure for Land Office Title**

- Apply to the Pemungut Hasil Tanah (Collector of Land Revenue) for an order for sale using Form 166;
- The Pemungut fixes the date of inquiry;
- Obtain:
  - An order for sale by public auction;
  - An order for the reserve price of the land;
  - An order for the appointment of an auctioneer; and
  - These orders are made by the Pemungut at the date of inquiry.
- Auction of land by the Pemungut on the auction date in accordance with the proclamation of sale; and
- If two consecutive auctions are held, and both are unsuccessful, the Pemungut will refer the matter to the High Court and the procedure will be same as under the Registry title.

- (iii) Where the charged land is held under Land Office title, the application for order for sale should be made on Form 166.

Where the charged land is held under Registry title, the application for order for sale is by way of an Originating Summons at the High Court pursuant to Section 256 of NLC.

- (iv) The effect of a private caveat is to prevent all dealings on the land. It prohibits the registration, endorsement or entry of any instrument and certificate of sale, claims or lien holders' caveat on the register document of title.

Lien holder's caveat has the same prohibitive effect as that of a private caveat but unlike a private caveat it operates as a form of security and renders a lien a secured debt.

**Question 6**

**Most candidates did well in this question.**

- (a) (i)
  - Personal representative
  - Liquidator of the company

(ii) Monthly instalment =  $\frac{RM80,000 + (RM80,000 \times 7\% \times 3)}{36}$

$$= \frac{RM80,000 + RM16,800}{36}$$

$$= RM2,688.89$$

Statutory Rebate =  $\frac{RP(rp + 1)}{OP(op + 1)} \times \text{term charges}$

where,  
 RP = remaining period  
 OP = original period

Term charges is the total interest for the full duration of the hire-purchase agreement.

$$\begin{aligned} \text{Thus, statutory rebate} &= \frac{22(22+1)}{36(36+1)} \times \text{RM}16,800 \\ &= \frac{506}{1332} \times \text{RM}16,800 \\ &= \text{RM}6,381.98 \end{aligned}$$

(b) If your finance company were to grant a loan to the owner it will infringe the Hire-Purchase Act. This is in view of the fact that the transaction cannot be considered for hire-purchase. The Hire-Purchase Act defines hire-purchase as letting of goods with an option to purchase and an agreement for the purchase of goods by instalments but does not include any agreement whereby the property in the goods comprised therein passes on the time of the agreement or upon or at any time before the delivery of the goods.

(c) (i)

$$\begin{aligned} \text{Loan Amount} &= \text{RM}50,000 \times 70\% = 35,000 \\ \text{Term charges} &= \text{RM}35,000 \times 7\% \times 3 \\ &= \text{RM}7,350 \\ \text{Monthly instalment} &= \frac{\text{RM}35,000 + (\text{RM}35,000 \times 7\% \times 3)}{36} \\ &= \frac{\text{RM}42,350}{36} \\ &= \text{RM}1,176 \end{aligned}$$

(ii) Formula for calculation of annual percentage rate =  $\frac{2NF(300C + NF)}{2N^2F + 300C(N+1)}$

where N = No of instalments= 36 months

C = No of instalments that will be paid in one year = 12

F = amount determined in accordance with formula

$$\frac{100C \times T}{N \times A} = \frac{100 \times 12 \times 7,350}{36 \times 35,000} = 7.00$$

Where T = being term charges

A = amount financed

$$\begin{aligned} \text{Effective interest rate} &= \frac{2 \times 36 \times 7.00(300 \times 12 + 36 \times 7)}{2 \times 36 \times 36 \times 7 + 300 \times 12(36 + 1)} \\ &= \frac{504(3,600 + 252)}{18,144 + 133,200} \\ &= \frac{1,941,408}{151,344} \\ &= 12.83\% \end{aligned}$$