



Subject Title: Asset Liability Management

Date: Tuesday, 12 March 2024
at 11am - 1 pm AEDT (Sydney time)

Time: 60 minutes

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Be aware that your assignment may be vetted using Turnitin.



QUESTION 1

(10 Marks)

Sarah operates a small business called Chem Fun that produces a hands-on chemistry kit for school children. The kit is sold on-line to schools. Chem Fun has outgrown Sarah's garage and needs to operate from a factory. Chem Fun financial projections indicate that \$1 million will be sufficient to purchase a suitable factory. Chem Fun estimates net revenue (sales less costs) of \$100,000 per annum once the factory is fully operational, but before any financing costs relating to the factory purchase. Sarah has invested \$50,000 and significant time into Chem Fun so far. She wishes to retain control and draw a modest income from the business.

You are a venture capitalist considering investing up to \$1m in Chem Fun.

Question

- a) Explain the advantages and disadvantages of using venture capital to fund the factory purchase, from Sarah's point of view. **(4 marks)**
- b) Explain the venture capital deal terms you would offer (dollar amount and percentage ownership) with reasoning linked to your required risk and return. **(2 marks)**

A suitable factory is for sale for \$800,000. Sarah's father offers to buy the factory and lease it to Chem Fun for 2 years at the market rent. Market rent for the factory is \$60,000 per annum. Ignore any utilities and maintenance costs associated with the factory.

- c) Discuss four investment risks arising for Sarah's father. **(4 marks)**

(10 marks)

Answer is:

Type here

END OF ASSESSMENT