

 **INTI International
University & Colleges**

FINAL
Examination Paper
(COVER PAGE)

Session : April 2018

Programme : Diploma In Business Management (DBM)

Course : WFIN2103: Financial Skills for Managers

Date of Examination : July 28, 2018 (Saturday)

Time : 10:00 am 12:00 pm Reading Time : Nil

Duration : 2Hours

Special Instructions :

Section A: Answer ALL Multiple Choice questions in the OMR sheet provided.

Section B: Answer ALL THREE (3) question.

IMPORTANT NOTE : THIS PAPER SHOULD NOT BE TAKEN OUT OF THE EXAMINATION HALL

Material permitted : Non-programmable Calculator

Materials provided : OMR

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Moderator : Mr Teoh Yin Shien

This paper consists of 9 printed pages, including the cover page

DIPLOMA IN BUSINESS MANAGEMENT PROGRAMME (DBM)
WFIN2103: FINANCIAL SKILLS FOR MANAGERS
FINAL EXAMINATION: APRIL 2018 SESSION

Instructions: This paper consists of **TWO (2)** sections. Answer the **ALL** questions in **SECTION A** and **SECTION B** in the answer booklet provided.

Section A: Answer **ALL TWENTY FIVE (25)** Multiple Choice questions in the **OMR** sheet provided. **(50 marks)**

1. Which of the following is the primary goal of financial management?
 - A. Increased dividend
 - B. Maximizing shareholder wealth
 - C. Maximizing cash flow
 - D. Minimizing risk of investment

2. The key activities of the financial manager include all of the following **EXCEPT**
 - A. making financing decisions.
 - B. making dividend decisions.
 - C. making investment decisions.
 - D. All of the above.

3. The concept of time value of money is important to financial decision making because
 - A. it emphasizes earning a return on invested capital.
 - B. it recognizes that earning a return makes \$1 worth more today than \$1 received in the future.
 - C. it can be applied to future cash flows in order to compare different streams of income.
 - D. all of these

4. When the amount earned on a deposit has become part of the principal at the end of a specified time period the concept is called
 - A. discount interest.
 - B. compound interest.
 - C. primary interest.
 - D. future value.

5. A dollar today is worth more than a dollar to be received in the future because
- risk of nonpayment in the future.
 - the dollar can be invested today and earn interest.
 - inflation will reduce purchasing power of a future dollar.
 - None of these.
6. The future value of a dollar _____ as the interest rate increases and _____ the farther in the future an initial deposit is to be received.
- decreases; decreases
 - decreases; increases
 - increases; increases
 - increases; decreases
7. Indicate which of the following is true about annuities.
- An ordinary annuity is an equal payment paid or received at the beginning of each period.
 - An annuity due is a payment paid or received at the beginning of each period that increases by an equal amount each period.
 - An annuity due is an equal payment paid or received at the beginning of each period.
 - An ordinary annuity is an equal payment paid or received at the end of each period that increases by an equal amount each period.
8. The rate of interest actually paid or earned, also called the annual percentage rate (APR), is the _____ interest rate.
- effective
 - nominal
 - discounted
 - continuous
9. Every financial market performs the following function:
- It channels funds from lenders-savers to borrowers-spenders.
 - It determines the level of interest rates.
 - It allows loans to be made.
 - It allows common stock to be traded.

10. The capital market is the market in which _____ are traded.
- A. new issues of securities
 - B. long-term debt and equity instruments
 - C. short-term debt instruments
 - D. previously issued securities
11. Short-term debt instruments are traded in the _____ market.
- A. money
 - B. capital
 - C. secondary
 - D. primary
12. Which of the following is a money market instrument?
- A. Common shares
 - B. Preferred shares
 - C. Treasury bills
 - D. Treasury bonds
13. When a corporation uses the financial markets to raise new funds, the sale of securities is made in the
- A. primary market.
 - B. secondary market.
 - C. on-line market.
 - D. third market.
14. Financial capital does not include
- A. stock.
 - B. bonds.
 - C. preferred stock.
 - D. working capital.

15. Stock valuation models are dependent upon
- A. expected dividends, future dividend growth and an appropriate discount rate.
 - B. past dividends, flotation costs and bond yields.
 - C. historical dividends, historical growth and an appropriate discount rate.
 - D. all of these.
16. Which of the following regarding preferred stock is true?
- A. If the price decreases, required rate of return has decreased
 - B. If the required rate of return increases, the price decreases
 - C. If the required rate of return increases, the price increases
 - D. The price in the market remains at par
17. Which of the following is a primary source of capital to the firm?
- A. bonds
 - B. common stock
 - C. preferred stock
 - D. all of the above
18. Capital budgeting is part of :
- A. Investment decision
 - B. Working capital decision
 - C. Financing decision
 - D. All of the above
19. In the capital budgeting process, what is the normal sequence of the steps involved :
- i) Evaluate the investments
 - ii) Select the investment
 - iii) Identify the investments
 - iv) Sourcing for data on cash flows
- A. i, ii, iii and iv.
 - B. iii, iv, i and ii.
 - C. iii, i, ii and iv.
 - D. ii, i, iv and iii.

20. Which of the following methods are NOT the Discounted Cash Flow methods used in capital budgeting:
- A. Accounting Rate of Return
 - B. Net Present Value
 - C. Internal Rate of Return
 - D. Profitability
21. A firm is evaluating an investment proposal which has an initial investment of \$5,000 and cash flows presently valued at \$4,000. The net present value of the investment is _____.
- A. -\$1,000
 - B. \$0
 - C. \$1,000
 - D. \$1.25
22. Which of the following is NOT involved in the working capital management:
- A. Accounts payable
 - B. Fixed assets
 - C. Inventory
 - D. Cash
23. A successful Just-In-Time (JIT) manufacturing control system will involve the following except for :
- A. Reliable on the supplier
 - B. Flexible workforce
 - C. Maximum inventory
 - D. Low defect rates
24. An item which may be converted to cash within one year or one operating cycle of the firm is classified as a
- A. current liability.
 - B. long-term asset.
 - C. current asset.
 - D. long-term liability.

25. Net working capital is defined as

- A. a ratio measure of liquidity best used in cross-sectional analysis.
- B. the portion of the firm's assets financed with short-term funds.
- C. current liabilities minus current assets.
- D. current assets minus current liabilities.

Section B: Answer **ALL** questions in the answer booklet provided. (50 marks)

Question 1

- (a) ECON-JIMAT Bhd has two project proposals: Project Moon and Project Sun and the information in relation to both these projects are as follows :

| Year | Project Moon Net Cash Flows (RM) | Project Sun Net Cash Flows (RM) |
|------|--|--|
| 0 | (195,000) | (195,000) |
| 1 | 55,000 | 65,000 |
| 2 | 55,000 | 65,000 |
| 3 | 70,000 | 65,000 |
| 4 | 80,000 | 65,000 |
| 5 | 90,000 | 65,000 |

The cost of capital for both the projects are at 10%

- (i) Compute the payback period for both, Project Moon and Project Sun, and recommend the better project.

(5 marks)

- (ii) Compute the Net Present Value for Project Moon and Project Sun, and recommend the best project.

(10 marks)

- (a) Real-Smart Bhd. has the following capital components :

| Capital Component | Total Market Value (RM) | Cost of Capital |
|-------------------|----------------------------|-------------------|
| Debt | 600,000 | 6.5% (before tax) |
| Preference Share | 320,000 | 7.5% |
| Ordinary Shares | 1,080,000 | 10% |
| Total | 2,000,000 | |

The tax rate for the company is at 30%.

Compute the Weighted Average Cost of Capital for Real-Smart Bhd.

(5 marks)

Question 2

- (a) You are considering to purchase a \$1,000 par value bond that comes with a 11 percent annual coupon, with interest payable annually. There are 6 years remaining until maturity. What is the yield to maturity on the bond assuming that the bond has a market price of \$1,120?
(5 marks)
- (b) Calculate the estimated value of an ordinary share with a required rate of return of 16.9%, a projected constant growth rate of dividends of 11.5% and expected dividend of \$2.40.
(5 marks)
- (c) Calculate the future value of \$15,000 received today and deposited for eight years in an account which pays interest of 12 percent compounded monthly.
(5 marks)
- (d) You have been given the opportunity to earn \$18,000 five years from now if you invest \$9,524 today. What will be the rate of return to your investment?
(5 marks)

Question 3

- (a) Why is the cost of issuing new common stock (K_n) higher than the cost of retained earnings?
(5 marks)
- (b) Explain any **TWO (2)** factors to be considered when determining the level of working capital levels.
(5 marks)

-THE END-

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