

**FINAL  
ALTERNATIVE ASSESSMENT**

(COVER PAGE)

Session : April 2020

Programme : Diploma In Business (DIB)

Course : **FIN2102: Financial Management**

Date of Examination : August 7, 2020 (Friday)

Time : 8:00am – 10:30am Reading Time : Nil

Duration : 2 Hours : 30 Minutes

**Special Instructions :**

Answer the **ALL** the questions in **SECTION A** and **SECTION B**.

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Materials permitted : Non-Programmable Calculator

Materials provided : Mathematical Tables

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Chief Moderator : Abdullah Sholehin Bin Mohd Zainudin

*This paper consists of 5 printed pages, including the cover page*

DIPLOMA IN BUSINESS ORIGRAMME (DIB)  
FIN 2102: FINANCIAL MANAGEMENT  
FINAL ALTERNATIVE ASSESSMENT: APRIL 2020 SESSION

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

**Section A:** Answer **ALL** questions.

**Question 1**

- (a) Revenue Ltd has \$1,000 par value bonds outstanding at 14% coupon interest. The bonds will mature in 20 years. Compute the current price of the bonds if the present yield to maturity is 11 percent.  
(5 marks)
- (b) Bonds issued by Oil and Gas Company have a par value of \$1,000. The bonds are currently selling for \$850. They have 10 years remaining to maturity. The annual interest payment is 8 percent. Compute the yield to maturity of the bonds.  
(5 marks)
- (c) Mr. Covid is creating a college investment fund for his daughter. He will put in \$1,000 per year for the next 15 years and expects to earn a 6% annual rate of return. How much money will his daughter have when she starts college?  
(5 marks)
- (d) Mr. Woohan believes he will need \$60,000 annual income during retirement. If he can achieve a 6% return during retirement and believes he will live 20 years after retirement, how much does he need to save by the time he retires?  
(5 marks)
- (e) Ms. Moodine will pay out \$6,000 at the end of the year 2, \$8,000 at the end of year 3, and receive \$10,000 at the end of year 4. With an interest rate of 13 percent, what is the net value of the payments vs. receipts in today's dollars?  
(5 marks)

**(Total: 25 marks)**

**Question 2**

- (a) The preferred stock of Denver Savings and Loan pays an annual dividend of \$5.60. It has a required rate of return of 8 percent. Compute the price of the preferred stock. (5 marks)
  
  - (b) A firm pays a \$1.50 dividend at the end of year one, has a stock price of \$60, and a constant growth rate of 8 percent. Compute the required rate of return of the stock. (5 marks)
  
  - (c) Zinger Corporation manufactures industrial type sewing machines. Zinger Corp. received a very large order from a few European countries. In order to be able to supply these countries with its products, Zinger will have to expand its facilities. Of the required expansion, Zinger feels it can raise \$75 million internally, through retained earnings. The firm's optimum capital structure has been 35% debt, 10% preferred stock and 55% equity. The company will try to maintain this capital structure in financing this expansion plan. Currently Zinger's common stock is traded at a price of \$28 per share. Last year's dividend was \$1.50 per share. The growth rate is 8%. The company's preferred stock is selling at \$45 and has been yielding 6% in the current market. Flotation costs have been estimated at 8% of common stock and 3% of preferred stock. Zinger Corp. has bonds outstanding at 6%, but its investment banker has informed the company that interest rates for bonds of equal risk are currently yielding 5%. Zinger's tax rate is 40%. Calculate the cost of debt after tax, cost of preferred stock, cost of internal common stock and weighted average cost of capital of Zinger Corporation. (10 marks)
  
  - (d) Using the CAPM (capital asset pricing model), what is the required rate of return for an investment with a Beta of 1.8, a risk free rate of return of 4%, and a market rate of return of 10%. (5 marks)
- (Total: 25 marks)**

**Question 3**

- (a) Assume a \$60,000 investment and the following cash flows for two alternatives:

Year	Investment A	Investment B
1	\$15,000	\$23,000
2	\$18,000	\$30,000
3	22,000	15,000
4	24,000	-
5	26,000	-

Which alternative would you select under the payback method?

(5 marks)

- (b) Algerian Hydraulic Corporation will invest \$180,000 in a project that will produce the cash flow shown below. The cost of capital is 10 percent. Should the project be undertaken? Use the net present value method. (Note that the third year's cash flow is negative.)

Year	Cash Flow
1	\$60,000
2	\$72,000
3	(\$55,000)
4	\$60,000
5	\$115,000

(5 marks)

- (c) The Pan American Bottling Co. is considering the purchase of a new machine that would increase the speed of bottling and save money. The net cost of this machine is \$45,000. The annual cash flows have the following projections.

Year	Cash Flow
1	\$15,000
2	\$20,000
3	\$25,000
4	\$10,000
5	\$5,000

What is the internal rate of return? Should the project be accepted? Why?

(8 marks)

- (d) Below is the information of an investment: Asset A

Asset A		
Possible Outcomes	Probability	Returns (%)
Pessimistic	0.25	10
Most likely	0.45	12
Optimistic	0.30	16

Calculate the expected rate of return and standard deviation of Asset A.

(7 marks)

(Total: 25 marks)

**Section B:** Answer **ALL** questions.

**Question 1**

- (a) How does effective working capital management contribute to attaining organizational objectives? Discuss with some examples.

(10 marks)

- (b) Explain the **THREE (3)** key activities of a financial manager in a large corporation and how these key activities relate to shareholders' wealth maximization. Include an example for each key activities.

(15 marks)

**(Total: 25 marks)**

≈**The End**≈

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