



FINAL
Examination Paper

(COVER PAGE)

Session : April 2014

Programme : Diploma in Business (DIB)
Diploma in Business In Administration (DBADI)

Course : FIN2102 /2101 : FINANCIAL MANAGEMENT

Date of Examination : July 21, 2014

Time : 2:00pm – 4:00pm Reading Time : Nil

Duration : 2 Hours

Special Instructions :

Section A: Answer **ALL** questions.

Section B: Answer any **ONE (1)** question in the answer booklet provided.

Materials permitted : Nil

Materials provided : Mathematical Tables

Examiner(s) : Mr. Lee See Seong, Dayang Siti Aishah, Jessie Lee Pei Yee.

Moderator : Mr. Lim Lay Kong

This paper consists of 4 printed pages, including the cover page

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DIPLOMA IN BUSINESS (DIB)
DIPLOMA IN BUSINESS ADMINISTRATION (DBADI/DIB)
FIN 2101/2102: FINANCIAL MANAGEMENT
FINAL EXAMINATION: APRIL 2014 SESSION

This paper consists of **TWO (2)** sections. Answer the **COMPULSORY** questions in **SECTION A** and any **ONE (1)** question from **SECTION B** in the answer booklet provided.

SECTION A: Answer **ALL** questions. (75 marks)

Question 1

- (a) Amand thinks that he will need to have a total of \$38,000 in 6 years to pay for his wedding. If the bank is willing to pay 12 percent compounded annually, how much must he deposit annually.
(5 marks)
- (b) Suppose you make an investment of \$1,000 today. This investment offers 12% of return during the first year, 6% of return on the second year, and 8% of return on the third year. How much would this investment be worth at the end of the third year, assuming no withdrawals are made?
(5 marks)
- (c) You borrow \$80,000 to be repaid in equal monthly installments for 30 years. The annual interest rate is 9%. What is the monthly payment?
(5 marks)
- (d) Shark Inc. owns a bond that pays 9 percent annual interest rate, with a \$1,000 par value. The yield to maturity of the bond is 12 percent and is expected to mature in 25 years. If interest is paid semiannually, calculate the value of the bond.
(5 marks)
- (e) Continue from part (d), if you pay a current price of \$800 for the bond, what will your yield-to-maturity be?
(5 marks)

Question 2

- (a) What is the required rate of return of a stock with an estimated value of \$40, a projected constant growth rate of dividends of 10% and expected dividend of \$2.00?

(5 marks)

- (b) Shark Inc. has just paid a dividend of \$3.10. The dividend will grow constantly at the rate of 12%, and the shareholders required rate of return is 14%. Calculate the estimated fair price of this common stock.

(5 marks)

- (c) What is the expected return for the following stock? (State your answer in percent with one decimal place.)

Outcomes	Possible returns	Probability
Better	32%	0.50
Same	17%	0.20
Worse	-10%	0.30

(5 marks)

- (d) You are considering buying a stock with a beta of 0.73. If the risk-free rate of return is 6.9 percent, and the expected return for the market is 12.2 percent, what should the required rate of return be for this stock? (State your answer as a percentage.)

(5 marks)

- (e) What is the value of this preferred stock that pays a \$2.10 dividend annually to an investor with a required rate of return of 11%?

(5 marks)

Question 3

- (a) MAS Ltd. has 230,000 shares of common stock outstanding at a market price of \$40 a share. Next year, MAS is expected to pay an annual dividend in the amount of \$1.80 per share. The dividend growth rate is 3 percent. MAS also has 8,000 bonds outstanding with a face value of \$1,000 per bond. The bonds carry a 9 percent coupon, pay interest annually, and mature in 5 years. The bonds are selling at 102 percent of face value. The company's tax rate is 35 percent. What is MAS's weighted average cost of capital?

(12 marks)

- (b) Semporna Travel Agency provides bus services daily from Kota Bahru to Kuala Terengganu. The managing director is planning to change their normal buses to the double-decker buses. The purchase price of a new bus would be RM50,000.

Analysis on the cost savings that the company may achieve is as follows:

Year	Cost Savings
1	15,000
2	15,000
3	15,000
4	10,000
5	3,000

The bus manufacturer is willing to buy back the bus for RM16,000 at the end of its useful life. The cost of capital is assumed to be at 10%.

- (i) Calculate the net present value for the new investment using the current cost of capital. (5 marks)
- (ii) Calculate the internal rate of return for the investment. (5 marks)
- (iii) Recommend with reasons whether the travel agency should buy the new coach. (3 marks)

SECTION B: Answer any ONE (1) question only. (25 marks)

Question 1

- (a) Explain what should be the goal of a company from a financial management's point of view. (6 marks)
- (b) Discuss the interaction between a large corporation and the financial markets. Illustrate your answer with an appropriate diagram. (13 marks)
- (c) Explain two advantages and two disadvantages of using equity finance. (6 marks)

Question 2

- (a) Discuss the Principle of Diversification and the Principle of Risk-Return Trade-Off as they relate to an investor's choice of investment. (15 marks)
- (b) (i) Explain the term net proceeds from the sale of a bond? (3 marks)
- (ii) Explain the term flotation costs and discuss the effect of flotation costs on a bond's net proceeds? (7 marks)