



FINAL
Examination Paper

(COVER PAGE)

Session : April 2013

Programme : Diploma in Business

Course : FIN2102 : FINANCIAL MANAGEMENT

Date of Examination : August 1, 2013

Time : 8:00am – 10:00am 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 : Non-programmable Calculator

Materials provided : Mathematical Tables

Examiner(s) : Mr. Kee Cheun Howe, Lim Lay Kong, Frederick Ho.

Moderator : Mr. Lee See Seong

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

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DIPLOMA IN BUSINESS PROGRAMME
 FIN 2101/2102 : FINANCIAL MANAGEMENT
 FINAL EXAMINATION : APRIL 2013 SESSION

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

SECTION A: Answer ALL questions.

Question 1

- (a) The ultimate goal of financial management is to maximise shareholder wealth. What are the **TWO (2)** indications that show this has been achieved?
(6 marks)
- (b) Discuss any **THREE (3)** differences between equity and debt capital.
(12 marks)
- (c) The managing director of a popular food outlet made a negative comment in an interview about the country in which they operate their franchise in, claiming that the local delicacies are not delicious, and that their outlet's food is better. The comment infuriated many local customers who immediately boycotted the food outlet branches. Subsequently the managing director made a public apology in local newspapers about his comment.
- Discuss the issues involved in the above scenario.
(7 marks)

Question 2

- (a) Amy has taken a loan for \$20,000. It is to be repaid through monthly installments, for the next 3 years, at a simple interest rate of 5% per annum. How much is the total interest for the loan?
(5 marks)
- (b) Amy wants to retire in 10 years time with \$500,000. How much does she needs to deposit each quarter into an account earning 10% per annum, compounding quarterly?
(5 marks)
- (c) Leo has just purchased a car. The car cost him \$130,000. Leo paid \$20,000 in cash and financed the remainder with a 10 years loan. The loan carries an interest rate of 3% per annum, compounding monthly. How much interest will Leo pays over the life of this loan assuming that Leo makes all payments as agreed?
(12 marks)
- (d) If interest is paid at a rate of 8% per year, compounded semi-annually, what is the effective interest rate?
(3 marks)

Question 3

Singer Machines Ltd are thinking of investing in two capital investment projects: Project A and Project B.

Details for the two projects are given as below:

Project	A	B
Estimated lifespan of project	3 years	5 years
	\$	\$
Project cost	(40,000)	(400,000)
Estimated net cash flows		
Year 1	16,000	190,000
Year 2	19,000	150,000
Year 3	23,000	(80,000)
Year 4	-	110,000
Year 5	-	90,000

The financial manager of Singer Machines Ltd expects a rate of return of 10% per annum for its capital employed. Assume a yearly depreciation of \$5,000 per year for Project A, and \$20,000 for project B. Assume all cash flows are after tax, and no salvage values for both projects.

Required:

- (a) Calculate the following capital budgeting techniques for both projects A and B:
- i Payback period (4 marks)
 - ii Accounting rate of return (using the cost of the project) (8 marks)
 - iii Net present value (NPV) (8 marks)
- (b) If the company can only afford one project, which one should be chosen? State your reasons. (5 marks)

SECTION B: Answer ONE (1) question.**Question 4**

- (a) Share A and Share B have the following returns under different states of the economy.

State of economy	Probability	Share A (Returns)	Share B (Returns)
Weak	0.3	(10%)	5%
Average	0.4	12%	10%
Strong	0.3	30%	20%

Calculate the following:

- i The expected rate of returns for both shares. (4 marks)
- ii The standard deviation for both shares. (6 marks)
- iii On a stand alone basis, which share is riskier? (3 marks)
- (b) Using an appropriate graph, explain systematic and unsystematic risk. (12 marks)

Question 5

- (a) Brooklyn Ltd, a public listed company in manufacturing, has the following capital structure:

	\$
Ordinary share capital, \$1 par	1,800,000
Preference share capital, 5%, \$2 par	500,000
10% debentures, \$100 par, 8 years maturity	800,000
Retained earnings	600,000

Additional information:

Brooklyn Ltd is expected to grow at a constant rate of 6%.

Current dividend paid was \$0.75.

Its ordinary shares are now trading at a market price of \$6.80 per share.

The preference shares are now at \$3.50 (market price).

The cost of debentures has been calculated to be 12.5%.

Tax rate is currently at 30%.

Required:

- i Calculate the cost of equity. (4 marks)
 - ii Calculate the cost of preference shares. (4 marks)
 - iii Calculate the after-tax cost of debentures. (4 marks)
 - iv If the proportions of the capital structure are 60% equity, 20% preference shares, and 20% debt, what is the weighted average cost of capital (WACC)? (4 marks)
- (b) Share A has a beta of 0.97, and share B's beta is 1.88. The current risk-free rate is 5% per annum, and the market risk premium is at 12%.
- i Calculate the required returns of both shares. (6 marks)
 - ii Which share, A or B, is riskier to a diversified investor? State your reasons. (3 marks)

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