INTI
International College Subang
LAUREATE INTERNATIONAL UNIVERSITIES*

FINAL
Examination Paper

(COVER PAGE)

Session	:	**August 2014**
Programme	:	Diploma in Business (DIB) Diploma in Business In Administration (DBADI)
Course	:	**FIN2102 /2101 : FINANCIAL MANAGEMENT**
Date of Examination	:	December 10, 2014
Time	:	5:00pm – 7:00pm 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)	:	**Ms. Grace Khor Cheng Ling,** Lee See Seong, Frederick Lo Vui Han.
Moderator	:	Mr. Lim Lay Kong

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

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DIPLOMA IN BUSINESS (DIB)
DIPLOMA IN BUSINESS ADMINISTRATION (DBADI)
FIN2102 / FIN2101: FINANCIAL MANAGEMENT
FINAL EXAMINATION: AUGUST 2014 SESSION

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

Section A: Answer ALL questions.

Question 1

a) What is the goal of financial management? How it can be achieved? (3 marks)

b) Explain the three major decisions to be addressed in Financial Management. (12 marks)

c) Stock A has a beta of 0.78 and stock B's beta is 1.68. The current risk-free rate is 6% per annum. Market required rate of return is 12%.

i) Calculate the expected returns for both stocks. (6 marks)

ii) Which stock is riskier? State your reason. (2 marks)

d) Briefly explain systematic risk and unsystematic risk. (2 marks)

Question 2

a) Clean Air Ltd has the following capital structure;

6,000,000 ordinary shares fully paid ($2 each)	$12,000,000
Retained Earnings	$500,000
50,000 – 10%Debentures of $100 (mature in 3 years)	$5,000,000
50,000 – 11% Preference Shares fully paid ($2 each)	$100,000

Additional Information:

- Market price of ordinary shares is $4.20 each. The next dividend is expected to be $0.50 per share. The dividends are expected to grow 8% annually.
- Market price of 11% Preference shares is $2.10 each.
- Market price of debentures is $95.20 each.
- The company tax rate is 28%.

Calculate

i) Cost of ordinary shares. (3 marks)

ii) Cost of preference shares (3 marks)

iii) Cost of debentures (after-tax cost) (5 marks)

iv) If proportions of the capital structure are 70% equity, 25% debt and 5% preference shares. What is the Weighted Average Cost of Capital? (3 marks)

b) Money Matters Ltd's shares are currently trading at $6.00 in the stock exchange. It's expected rate of return is 25%. The company's last dividend paid is $0.60 and it is expected to grow at a rate of 8%. Would you purchase the shares of this company? Support with workings on the expected market value. (6 marks)

c) Always Easy Ltd has $2,000 par value bonds outstanding at 10 percent interest. The bonds will mature in 20 years. Compute the current price of the bonds if the present yield to maturity is 6%. (5 marks)

Question 3

a) Homer is thinking borrowing a 2-year business loan from a local bank. The loan amount is $25,000 and it is to be repaid in two yearly installments at the end of each year. The bank charges Homer an annual interest of 9%.

(i) Calculate the yearly installment. (4 marks)

(ii) What is the balance loan amount outstanding after the first year installment is paid? (6 marks)

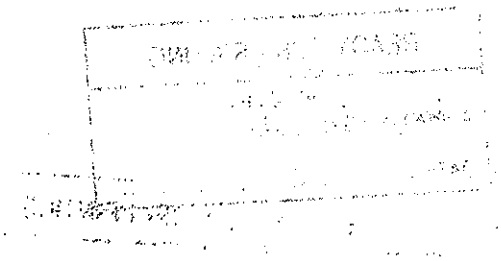
(iii) What would be the installment amount if Homer is required to pay on semi-annual basis? (4 marks)

b) Mr. Fred is thinking about saving for an education fund for his younger son. He has 15 years to save the money before his younger son needs the money. He could save an annual amount of $6,000 using his year-end bonus from employment. The annual interest he could earn is 6%. How much will Mr. Fred have after 15 years?

(5 marks)

c) With an appropriate example, differentiate simple interest and compound interest.

(6 marks)



Section B: Answer any **ONE (1)** question.

Question 4

Growing Fast is considering two alternatives for investing - Project Alpha and Project Romeo.

Details for the two projects:

Project	Alpha	Romeo
Estimated lifespan of project	5 years	5 years
Project cost	$	$
Estimated net cash flows	(1,000,000)	(1,200,000)
Year 1		
Year 2	80,000	50,000
Year 3	150,000	120,000
Year 4	280,000	240,000
Year 5	450,000	480,000
	880,000	960,000

The expected rate of return is 10% pa. Assume an annual depreciation of $200,000 for Project A, and $240,000 for project B. Assume all cash flows are after tax, and no salvage values for both projects.

Required:

(a) Calculate for both project Alpha and Romeo the:

(i) Net Present Value

(ii) Accounting rate of return (on initial cost of the project) (8 marks)

(iii) Payback period (8 marks)

(4 marks)

(b) State which project you would recommend to Growing Fast if only **ONE** project can be selected (i.e. mutually exclusive).
Your decision should be based on the above calculations. Give reasons to support your decision.

(5 marks)

Question 5

Efficient System sells 65,000 units of computer chips per year. The cost to place an order is $30 and the holding cost per unit per year is $5.

a) Please recommend them the Economic Order Quantity. (5 marks)

Dino Toys' quantity per order is 30 units. Annual usage is 800 units. Cost per order is $12 and holding cost per unit per year is $10.

b) What is the Order Cost and Holding Cost per year? (6 marks)

c) Please recommend them the Economic Order Quantity. (4 marks)

d) At EOQ what is the Order Cost and Holding Cost per year? (6 marks)

e) What is the cost savings if they practice EOQ? (4 marks)

-THE END-

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