

FINAL
Examination Paper

(COVER PAGE)

Session : August 2015

Programme : Diploma In Business (DIB)

Course : FIN2102: Financial Management

Date of Examination : December 10, 2015

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 : Non-Programmable Calculator

Materials provided : Mathematical Tables

Examiner(s) : Mr. Lee See Seong, Mr. Teoh Yin Shien, Ms. Norhasni Abdul Razak, Ms. Timmy Ng Yau Fung, Mr. Lai Chee Kin

Moderator : Mr. Lim Lay Kong

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

DIPLOMA IN BUSINESS (DIB)
FIN2102: FINANCIAL MANAGEMENT
FINAL EXAMINATION: AUGUST 2015 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.

Question 1

- (a) You borrow \$10,000 at 13% for 4 years. The loan is repayable in four equal installments at year end. How much is your yearly installment? (4 marks)
- (b) Bank A offers you 13% of interest with annual compounding while Bank B provides 12.5% of interest with quarterly compounding. Which bank should you choose to borrow? (4 marks)
- (c) If you could receive \$2,376.50 10 years from now in return for an investment of \$700 currently; what annual rate of interest would you earn if you took the offer? (4 marks)
- (d) You are considering two lottery payment options: Option A pays \$30,000 today and Option B pays \$40,000 at the end of ten years. Assume you can earn 7 percent on your savings. Which option will you choose if you base your decision on present values? Which option will you choose if you base your decision on future values? Explain why your answers are either the same or different. (8 marks)
- (e) Shark Corporation owns a bond that pays 9% annual interest rate, with a RM1,000 par value. The yield to maturity of the bond is 12% and is expected to mature in 25 years. Interest is paid semiannually. Calculate the value of the bond. (5 marks)

Question 2

- (a) HiTech Software has 5.2% coupon bonds on the market with a par value of RM1,000 and 18 years to maturity. The bonds make semiannual payments and currently sell for 105.7% of par. What is the yield to maturity of these bonds?

(5 marks)

- (b) The Jackson-Timberlake Wardrobe Co. just paid a dividend on \$1.95 per share on its stock. The dividends are expected to grow at a constant rate of 6% per year indefinitely. If investors require a return of 11%, calculate the current price of Jackson-Timberlake Wardrobe Co. stock?

(4 marks)

- (c) The College Copy Shop is in process of purchasing a high-tech copier. In their search, they have gathered the following information about two possible copiers A and B.

	A		B	
Initial Investment	\$10,000		\$10,000	
Annual rate of return				
	Return	Prob.	Return	Prob.
Pessimistic	11%	0.30	9%	0.30
Most Likely	18	0.45	18	0.45
Optimistic	22	0.25	25	0.25

- (i) Compute expected rate of return for each copier. (4 marks)

- (ii) Compute variance and standard deviation of rate of return for each copier. (6 marks)

- (iii) Which copier should they purchase? (2 marks)

- (d) You are considering buying a stock with a beta of 0.58. If the risk-free rate of return is 7.3 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.) (4 marks)

Question 3

(a) Why is capital budgeting important for an organization? (2 marks)

(b) You are the Finance Manager of INTI College. There are two capital budgeting projects to be evaluated. The investment cost for each project is RM15,000 and the cost of capital for each project is 10%. Further information for the projects is as follows:

Year	Project A	Project B
1	9,700	5,200
2	4,500	5,200
3	4,500	5,200
4	1,500	5,200

(i) Calculate the payback period for these two projects. (4 marks)

(ii) Determine the net present value of each project at a 10% cost of capital. (6 marks)

(iii) Calculate the net present values for the two projects using a 20% discount rate. (6 marks)

(iv) Calculate the internal rate of return for both projects. (6 marks)

(iv) Since Project A and Project B are mutually exclusive, which project should management select? Why? (1 mark)

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

Question 1

- (a) Profit maximization should be the preferable goal for a firm, by which it proves how firms behave rationally to increase profit. How far do you agree with this statement? Discuss this statement with relevant examples. (15 marks)
- (b) Is exploitation of customers by a monopoly supplier, who charges very high prices, consistent with the objective of maximizing shareholders' wealth? Discuss. (10 marks)

Question 2

- (a) What do you understand of the term, "*Time Value of Money*"? Why is it so important to financial managers? (7 marks)
- (b) What are the net proceeds from the sale of a bond? What are flotation costs and how do they affect a bond's net proceeds? Explain. (9 marks)
- (c) Explain how we should go about computing the WACC for a project which uses both retained earnings and a new equity issue? (9 marks)

~THE END~
FIN2102 (F) August 2015

