



FINAL
Examination Paper

(COVER PAGE)

Session : August 2016

Programme : Diploma In Business (DIB)

Course : **FIN2102: Financial Management**

Date of Examination : 09 December, 2016 (Friday)

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

Duration : 2 Hours

Special Instructions :

SECTION A: Answer the **COMPULSORY** questions.

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

Materials permitted : Non-Programmable Calculator

Materials provided : Mathematical Tables

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Timmy Ng and Ainul

Moderator : Lim Lay Kong

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

DIPLOMA IN BUSINESS PROGRAMME (DIB)
FIN2102: FINANCIAL MANAGEMENT
FINAL EXAMINATION: AUGUST 2016 SESSION

Instruction: 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 the **COMPULSORY** questions in the answer booklet provided.
(75 marks)

Question 1

- (a) Elise has been offered a future payment of \$500 three years from today. If his opportunity cost is 7% compounded annually, what value should he place on this opportunity today?
(5 marks)
- (b) Suppose you make an investment of \$1,000. This first year the investment returns 12%, the second year it returns 6%, and the third year in returns 8%. How much would this investment be worth, assuming no withdrawals are made?
(5 marks)
- (c) An investor deposits \$10,000. Ten years later it is worth \$17,910. What rate of return did the investor earn on the investment?
(5 marks)
- (d) What would you pay for an ordinary annuity of \$2,000 paid every six months for 12 years if you could invest your money elsewhere at a nominal interest rate of 10% compounded semiannually?
(5 marks)
- (e) Suppose you deposit RM100,000 in an account today that pays 6% interest, compounded annually. How long does it take before the balance in your account is RM500,000?
(5 marks)

(Total: 25 marks)

Question 2

- (a) BS Enterprises has just paid a dividend of \$2.00, and you expect the dividend to increase at 3% forever. How much would you pay for the stock, if your required rate of return were 9%?

(5 marks)

- (b) A firm pays a preferred dividend of \$5.50, and the required rate of return is 10.2%. What should be the price of the preferred share?

(5 marks)

- (c) Valley Products, Inc. is considering two independent investments having the following cash flow streams:

Year	Project A	Project B
0	-\$50,000	-\$40,000
1	20,000	20,000
2	20,000	10,000
3	10,000	5,000
4	5,000	40,000
5	5,000	40,000

Valley uses a 10 percent discount rate and sets a desired payback period no longer than 3 years.

- (i) Calculate the net present value of each project. (8 marks)

- (ii) Calculate the payback period of each project. (4 marks)

- (iii) Which project should Valley accept based on the techniques analyzed in (i) and (ii)? (3 marks)

(Total: 25 marks)**Question 3**

- (a) The bonds of the Nordy Company have a coupon interest rate of 9%. The interest on the bonds is paid semiannually, the bonds mature in 8 years, and their par value is \$1,000. If the required rate of return, $k_d = 8\%$, what is the value of each bond?

(5 marks)

- (b) Consider a \$1,000 par value bond with a 11 percent annual coupon. The bond pays interest annually. There are 8 years remaining until maturity. What is the yield to maturity on the bond assuming that the bond has a market price of \$1,130?

(5 marks)

(c) You are considering to invest in Stock A:

Probability	Return
20%	-24%
30%	0
30%	5%
20%	25%

- (i) Calculate the expected rate of return of Stock A. (3 marks)
- (ii) Calculate the standard deviation of Stock A. (5 marks)
- (iii) Assuming that Stock A has a beta of 1.26, and the risk free rate is at 6% and the expected market return is 12.5%. Calculate the required rate of return. (5 marks)
- (iv) Should you invest in Stock A based on the analysis done above? (2 marks)

(Total: 25 marks)

SECTION B: Answer any ONE (1) question in the answer booklet provided. (25 marks)

Question 1

Explain the following terms of financial management:

- (a) Cost of debt (5 marks)
- (b) Working capital management (5 marks)
- (c) Diversification (5 marks)
- (d) Yield to maturity (5 marks)
- (e) Flotation costs (5 marks)

(Total: 25 marks)

Question 2

- (a) Explain the difference between primary markets and secondary markets. (10 marks)
- (b) Explain the meaning of “Initial Public Offering”. (7 marks)
- (c) Explain the **TWO (2)** differences between corporate bonds and common stocks. (8 marks)

(Total: 25 marks)

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