



FINAL  
Examination Paper

(COVER PAGE)

Session : AUGUST 2017

Programme : Diploma In Business (DIB)

Course : FIN2102: Financial Management

Date of Examination : 9 December, 2017 (Saturday)

Time : 2:00 pm – 4:00 pm 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

Examiner(s) : Liew Wenn Hing, Teoh Yin Shien, Lee Chun Feng, Timy Ng, and Eddie Yap

Moderator : Lim Lay Kong

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

DIPLOMA IN BUSINESS PROGRAMME (DIB)  
 FIN 2102: FINANCIAL MANAGEMENT  
 FINAL EXAMINATION: AUGUST 2017 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 **ALL** questions.

**Question 1**

The directors of your organization, Keswick Bhd., have to choose one of the following two projects:

	Project A RM	Project B RM
Initial investment	60,000	120,000
Anticipated income		
Year 1	10,000	20,000
Year 2	12,000	26,000
Year 3	14,000	48,000
Year 4	15,000	50,000
Year 5	8,000	40,000
Year 6	6,000	32,000

The firm uses a discount rate of 6%.

- (a) Calculate the payback period of each project. (6 marks)
- (b) Calculate the net present value of each project. (13 marks)
- (c) Which project, if either, should Keswick Bhd. select and why? (2 marks)
- (d) What are the advantages of the net present value in investment appraisal? Explain. (4 marks)

**(Total: 25 marks)**

**Question 2**

- (a) Crosby Corporation's common stock paid RM1.32 in dividends last year and is expected to grow indefinitely at an annual 7 percent rate. What is the value of the stock if you require an 11 percent return? (5 marks)
- (b) A firm borrows RM30,000 from the bank at 13% compounded annually to purchase some new machinery. This loan is to be paid in equal annual installments at the end of each year over the next four years. Prepare an amortization schedule for the loan payment. (8 marks)
- (c) You would like to have RM75,000 in 15 years. To accumulate this amount, you plan to deposit each year an equal sum in the bank, which will earn 8% interest compounded annually. Your first payment will be made at the end of the year.
- (i) How much must you deposit annually to accumulate this amount? (4 marks)
- (ii) If you decide to make a lump-sum deposit today instead of the annual deposits, how large should this lump-sum deposit be? (Assume you can earn 8% on this deposit.) (3 marks)
- (d) A bond has a 10% coupon rate and a \$100 face value. Interest is paid semi-annually, and the bond has 20 years to maturity. If investors require a 12% return, what is the bond's value? (5 marks)

**(Total: 25 marks)**

**Question 3**

Kelly B. Stites, Inc., is considering an investment in one of two common stocks.

<i>Common Stock A</i>		<i>Common Stock B</i>	
<i>Probability</i>	<i>Return</i>	<i>Probability</i>	<i>Return</i>
		0.15	6%
0.20	10%	0.30	8%
0.60	13%	0.40	15%
0.20	20%	0.15	19%

(a) Given the above information, calculate the expected returns and risks for these two shares. (12 marks)

(b) The expected return for the general market is 12.8 percent, and the risk premium in the market is 4.3 percent. E and F have betas of 0.82 and 0.57, respectively. What are the corresponding required rates of return for the both securities? (6 marks)

(c) Kelly B. Stites, Inc., is contemplating the above investment to be financed from bonds and preferred stocks.

The firm could sell new RM1,000 par value bonds with the coupon interest rate is 13%, and the yield to maturity of these bonds is 12.5%.

The firm also has preferred stock that can be sold for RM28 per share. The preferred stock pays an annual dividend of 5% based on a par value of \$100. Flotation costs associated with the sale of preferred stock equal RM1.50 per share.

The company is in a 34% tax bracket.

Calculate the weighted average cost of capital for the firm if the proportion is equal for each mix. (7 marks)

**(Total: 25 marks)**

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

**Question 1**

- (a) Explain the “agency problem.” (7 marks)
- (b) Critically explain the difference between unsystematic and systematic risk. (8 marks)
- (c) Explain the following terms:
- (i) flotation costs (5 marks)
  - (ii) default risk (5 marks)

**(Total: 25 marks)**

**Question 2**

- (a) Identify **THREE(3)** distinct ways that savings are ultimately transferred to business firms in need of cash. (11 marks)
- (b) (i) Explain any **THREE (3)** features of common stock in the corporation. (12 marks)
- (ii) The common stockholders receive **TWO (2)** types of return from their investment. What are they? (2 marks)

**(Total: 25 marks)**

