

FINAL
Examination Paper

(COVER PAGE)

Session : April 2016

Programme : Diploma In Business (DIB)

Course : **FIN2102: Financial Management**

Date of Examination : 26 July, 2016 (Tuesday)

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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Moderator : Lim Lay Kong

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

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

Question 1

- (a) What will a deposit of \$10,300 at 12% compounded quarterly be worth if left in the bank for five years?
(5 marks)
- (b) You are schedule to receive a \$500 cash flow in year one, a \$1,000 cash flow in year two, and pay a \$800 payment in year three. If interest rate is 10 percent per year, what is the combined present value of these cash flows?
(5 marks)
- (c) About how many years would it take for your investment to grow sixfold if it were invested at 12% compounded semiannually?
(5 marks)
- (d) How much must you deposit at the end of each year in an account that pays an annual interest rate of 9% percent, if at the end of 5 years you want \$100,000 in the account?
(5 marks)
- (e) Homer's Trucking Company bonds have a 14% coupon rate. Interest is paid semi-annually. The bonds have a par value of \$1,000 and will mature 6 years from now. Compute the value of Homer's Trucking Company bonds if investors' required rate of return is 10%.
(5 marks)

Question 2

- (a) 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?
(6 marks)
- (b) The price of Geeslin Corporation stock is expected to be \$68 in 5 years. Dividends are anticipated to increase at an annual rate of 20 percent from the most recent dividend of \$2.00. If your required rate of return is 16 percent, how much are you willing to pay for Geeslin stock?
(6 marks)
- (c) As a financial analyst for an investment firm, you are to advise your company to invest in stocks, and you are provided with two different investment: Stock ABC and Stock XYZ. Below is the information presented to you:

Possible Outcomes	Probability	Stock ABC	Stock XYZ
		Returns	Returns
Pessimistic	0.25	7%	13%
Most likely	0.50	15	15
Optimistic	0.25	23	17

- (i) Calculate the expected value for each stock. (4 marks)
- (ii) Calculate the standard deviation for each stock. (6 marks)
- (iii) Which stock should you advise him to choose? Justify your answer. (3 marks)

Question 3

- (a) Your company is considering an investment in the following project.

Initial Investment = -\$150,000

Cash Flow Year 1 = \$40,000

Cash Flow Year 2 = \$90,000

Cash Flow Year 3 = \$60,000

Cash Flow Year 4 = \$0

Cash Flow Year 5 = \$80,000

The required rate of return on this project is 15%.

- (i) Calculate the Payback Period of the project (3 marks)
- (ii) Calculate the Net Present Value of the project (5 marks)

- (b) The Benny Company has the following sources of financing:

Bond: A bond selling to yield 12 percent after flotation costs, but prior to adjusting for the marginal corporate tax rate of 34 percent. In other words, 12 percent is the rate that equates the net proceeds from the bond with the present value of the future cash flows (principal and interest).

Preferred stock: A preferred stock selling for \$100 with an annual dividend payment of \$8. If the company sells a new issue, the flotation cost will be \$9 per share.

Internal common equity: Totaling \$4.8 million. The price of the common stock is \$75 per share, and the dividend per share was \$9.80 last year. The dividend is not expected to increase.

Compute the following:

- (i) After-tax cost of debt (5 marks)
- (ii) Cost of preferred stock (5 marks)
- (iii) Cost of internal common equity (5 marks)
- (iv) If the weighted average cost is to be measured by following weights: 40% bond, 10% preferred stock, and 50% internal common equity, what is the firm's weighted cost of capital? (2 marks)

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

Question 1

- (a) Explain the concept of unique risk and market risk. How do investors minimize these risks? Discuss. (15 marks)
- (b) Explain what should be the goal of a company from a financial management's point of view. (5 marks)
- (c) Discuss why is it necessary to have inventory control? (5 marks)

Question 2

- (a) Explain the difference between primary markets and secondary markets. (7 marks)
- (b) What are the essential characteristics of a preferred stock? (3 marks)
- (c) List any **TWO (2)** advantages and **TWO (2)** disadvantages of common stock issues, from the viewpoint of issuing firms. (8 marks)
- (d) Explain the difference between money markets and capital markets. (7 marks)

