INTI International University & Colleges

FINAL
Examination Paper

(COVER PAGE)

Session	:	**APRIL 2018**
Programme	:	Diploma In Business (DIB)
Course	:	**FIN2102: Financial Management**
Date of Examination	:	July 27, 2018 (Friday)
Time	:	11:00am – 1:00pm Reading Time : Nil
Duration	:	2 Hours

Special Instructions :

SECTION A: Answer **THREE (3) COMPULSORY** questions.

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

Materials permitted :
Non-Programmable Calculator

Materials provided :
Mathematical Tables

Examiner(s) : **Lee See Seong**, Eunice Mok Pei Sea, Yap Kok Leong, and Timmy Ng

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: APRIL 2018 SESSION

Instruction: This paper consists of **TWO (2) SECTIONS**. Answer **THREE (3) COMPULSORY** questions in **SECTION A** and any **ONE (1)** question from **SECTION B** in the answer booklet provided.

SECTION A: Answer **THREE (3) COMPULSORY** questions. **(75 marks)**

Question 1

(a) Matt Corral borrowed $250,000 to buy a house. His loan cost was 12% and he promised to repay the loan in 20 equal annual payments. How much are the annual payments?

(5 marks)

(b) Suppose you make an investment of $16,000. This first year the investment returns 6.8%, the second year it returns 7.2%, and the third year in returns 8%. How much would this investment be worth at the end of the third year?

(5 marks)

(c) Lloyd Murray will receive $9,000 a year from the end of the first year to the end of the 12th year (12 payments). The discount rate is 8%. The present value today of this deferred annuity is:

(5 marks)

(d) A Rich bank staff has just presented the following offer. If you deposit $25,000 with the firm today, it will pay you $10,000 per year at the end of years 8 through 15. If you require a 15 percent annual rate of return on this type of investment, would you make this investment?

(5 marks)

(e) If interest is paid at a rate of 10% per year, compounded at (i) semi-annually and (ii) monthly, what is the effective interest rate for both?

(5 marks)

Question 2

(a) A 20-year bond pays 6% on a face value of $1,000. If similar bonds are currently yielding 5%, what is the market value of the bond?

(5 marks)

(b) A ten-year bond pays 7% interest on a $1000 face value annually. If it currently sells for $1,195, what is its approximate yield to maturity?

(5 marks)

(c) Landshark Ltd. is evaluating a project with an initial cost of $9,500. Cash inflows are expected to be $1,500, $1,500 and $10,000 in the three years over which the project will produce cash flows. If the discount rate is 9%, what is the net present value of the project?

(5 marks)

(d) What is the payback period for Oxford Exxon company's new project if its initial after tax cost is $5,000,000 and it is expected to provide after-tax operating cash inflows of $1,800,000 in year 1, $1,900,000 in year 2, $700,000 in year 3 and $1,800,000 in year 4?

(5 marks)

(e) You buy a new piece of equipment for $7,360, and you receive a cash inflow of $1,000 per year for 10 years. What is the internal rate of return?

(5 marks)

Question 3

(a) A corporation is considering a capital project for the coming year.
The project has an internal rate of return of 14 percent. If the firm has the following target capital structure and costs, what should their decision be and why?

Source of Capital	Proportion	After-Tax Cost
Long-term debt	0.40	10%
Preferred stock	0.10	15%
Common stock equity	0.50	20%

(8 marks)

(b) Sullivan Cement Company can issue debt yielding 13 percent. The company is paying a 36 percent rate. What is the after-tax cost of debt?

(5 marks)

(c) Suppose that you have $100 to invest and there are two projects that you can invest your money into. The returns on each of these projects are unrelated to each other. The returns on Project A depend on oil prices in the following manner:

Project A

Oil Prices	Probability	Return
High	0.2	20%
Average	0.6	10%
Low	0.2	0

The return on Project B depend on amount of snow fall in New York's Central park in the following manner:

Project B

Amount of snow	Probability	Return
High	0.2	18%
Average	0.6	10%
Low	0.2	2%

You consider two investment strategies: either invest all your $100 in Project A or invest all your $100 in Project B. For each of these strategies compute the expected return and the risk of the returns. If you are risk averse, which one you would choose?

(12 marks)

SECTION B: Answer any **ONE (1)** question. **(25 marks)**

Question 1

(a) Given the following corporate objectives, provide a reasonable argument explaining which of them should be the main goal of the financial manager:

i. profit maximisation;
ii. maximisation of shareholder wealth.

(10 marks)

(b) Explain any **THREE (3)** important decisions that made by financial managers.

(9 marks)

(c) Contrast between systematic risk and unsystematic risk

(6 marks)

Question 2

(a) Explain the term working capital. What is the primary objective of working capital management?

(10 marks)

(b) What do you understand of "efficient market"? Identify and discuss the THREE (3) forms of efficiency under the efficient market hypothesis?

(15 marks)

~ The End ~

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