

FINAL
Examination Paper

(COVER PAGE)

Session : APRIL 2019

Programme : Diploma In Business (DIB)

Course : FIN2102: Financial Management

Date of Examination : 2 August 2019, (Friday)

Time : 8:00am – 10:00am 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, Abdullah Sholehin, Yap Tat Hiung, and Eunice Mok
Pei Sea, and Timmy Ng

Moderator : Lim Lay Kong

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

DIPLOMA IN BUSINESS (DIB)
FIN 2102: FINANCIAL MANAGEMENT
FINAL EXAMINATION: APRIL 2019 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) How much will be in an account at the end of five years the amount deposited today is \$10,000 and interest is 8% per year, compounded semi-annually?
(5 marks)
- (b) Suppose you want to have \$0.5 million saved by the time you reach age 30 and suppose that you are 20 years old today. If you can earn 5% on your funds, how much would you have to invest today to reach your goal?
(5 marks)
- (c) You have just borrowed \$10,000 and will be required to make monthly payments for the next five years in order to fully repay the loan. How much is the monthly repayments on the loan if the interest rate is 13% per year?
(5 marks)
- (d) The CIMB's new saving account pays interest quarterly. It wishes to pay (effective annual return) 16% per year on this account. CIMB desires to advertise the annual percentage rate on this new account, instead of the effective rate, since its competitors state their interest on an annualized basis. What is the annualized rate that corresponds to an effective rate of 16% for this new account?
(5 marks)
- (e) Wallace Container Company issued \$100 par value preferred stock 12 years ago. The stock provided a 9 percent dividend yield at the time of issue. The preferred stock is now selling for \$72. What is the cost of the preferred stock?
(5 marks)
- (25 marks)**

Question 2

- (a) A 10-year bond pays 5% on a face value of \$1,000. If similar bonds are currently yielding 10%, what is the market value of the bond?
(5 marks)
- (b) Anfield Ltd bonds are currently selling for \$1,200 per \$1000 par-value bond. The bonds have a 10% coupon rate and will mature in 10 years. What is the approximate yield to maturity?
(5 marks)
- (c) Kenanga Investment Bank is evaluating an equity. Recently, Malaysia government's risk free rate is 3.5%. Calculate the following investment's expected return and its standard deviation. Should Kenanga Investment Bank invest in this equity compared to Malaysia risk free rate? Why?

Probability	Return
0.20	-5%
0.10	3%
0.40	7%
0.30	9%

(10 marks)

- (d) Using the CAPM (capital asset pricing model) and SML (security market line), what is the expected rate of return for an investment with a Beta of 1.8, a risk free rate of return of 4%, and a market rate of return of 10%.

(5 marks)

(25 marks)**Question 3**

- (a) As a project manager of UMBRELLA CORPORATION you are evaluating a new project, the cash flow of which appear as below, and that your company uses a require rate of return of 7% to evaluate on the project such as these:

Year	Cash Flows
0	(RM20,000)
1	RM5,000
2	RM4,000
3	RM6,000
4	RM7,000
5	RM8,000

- i. What is the project's payback period?
(4 marks)
 - ii. What is the project's net present value?
(5 marks)
 - iii. Should your company accept the project? Why?
(3 marks)
- (b) Emperor's Department Store is contemplating the purchase of a new machine at a cost of \$17,000. The machine will provide \$4,000 per year in cash flow for six years. King's has a cost of capital of 12 percent. Using the internal rate of return method, evaluate this project and indicate whether it should be undertaken.
(8 marks)
- (c) The capital structure of Sunway Corporation consists of 30% common stock, 25% preferred stock and 45% debt. If the cost common equity for the firm is 12%, the cost of preferred stock is 9%, the before-tax cost of debt is 7%, and the firm's tax rate is 30%, what is Sunway Corporation's weighted average cost of capital?
(5 marks)
- (25 marks)**

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

Question 1

- (a) Discuss the **FIVE (5)** factors, which determine the market price of bonds.
(10 marks)
- (b) Shareholder wealth 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.
(10 marks)
- (c) Discuss the risk/return tradeoff and how it relates to finance.
(5 marks)
- (25 marks)**

Question 2

- (a) What does low working capital say about a company's financial position?
(6 marks)
- (b) Explain any **THREE (3)** benefits of working capital management.
(9 marks)
- (c) Why is the cost of debt less than the cost of preferred stock if both securities are priced to yield 10 percent in the market?
(10 marks)
- (25 marks)**