

FINAL
Examination Paper

(COVER PAGE)

Session : AUGUST 2018

Programme : Diploma In Business (DIB)

Course : FIN2102: Financial Management

Date of Examination : 10 December 2018, (Monday)

Time : 2:00pm – 4:00pm 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

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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: AUGUST 2018 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) Naruto invests RM450 in a saving account paying 12% interest per year compounded monthly. How much will Naruto have in the account after 5 years?
(4 marks)
- (b) You are schedule to receive a \$5,000 cash flow in year one, a \$10,000 cash flow in year two, and pay a \$8,000 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) Nami won a contest organized by Jutaria Contest. He had two choices.
- i. To collect cash amounting to RM1,000,000 today.
 - ii. To collect RM200,000 a year for 6 years.
- If the amount is discounted at 5%, which alternative is the best?
(5 marks)
- (d) You are planning to retire in twenty years. You will live ten years after retirement. You want to be able to draw out of your savings of \$10,000 at the beginning of each year at retirement. How much would you have to pay in year-end equal annual deposits until retirement to meet your objectives? Assume interest rate is at 9%.
(6 marks)
- (e) Brook borrow from you RM67,000 now and promises to pay RM183,229 in the future with an interest rate of 9% annually. How long will it take for her to fulfill the promise?
(5 marks)

Question 2

- (a) A broker approaches you to buy a bond, called Bond GAMUDA. Bond GAMUDA has 5 percent, 15 years bond and yield at 8 percent. Calculate the price of the bonds. (5 marks)
- (b) A 9.5 percent, 25 years' bond issued 6 years ago is currently priced in the market at RM980. Calculate the yield to maturity. (5 marks)
- (c) KFC HOLDING is evaluating two mutually exclusive projects. Below are the after tax cash flows for both projects.

YEAR	PROJECT A (RM)	PROJECT B (RM)
0	(500,000)	(480,000)
1	50,000	132,000
2	150,000	132,000
3	250,000	132,000
4	200,000	132,000
5	100,000	132,000

- i. Calculate the payback period of each project. (5 marks)
- ii. Calculate the net present value of project A at 10% annual rate of return. (5 marks)
- iii. Calculate the internal rate of return for project A. Do interpolation. (5 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. Stock E and Stock 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)

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

Question 1

- (a) Differentiate between primary market and secondary market. (5 marks)
- (b) Define shareholders' wealth maximization. (4 marks)
- (c) Explain any **FOUR (4)** differences between common stock and preferred stock (16 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) Distinguish between unsystematic risk and systematic risk. Why do we only consider systematic risk in the Capital Asset Pricing Model? (10 marks)

-THE END-

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