

**FINAL**  
Examination Paper

(COVER PAGE)

Session : AUGUST 2019

Programme : Diploma In Business (DIB)

Course : **FIN2102: Financial Management**

Date of Examination : December 7, 2019 (Saturday)

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, 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 PROGRAMME (DIB)  
FIN2102: FINANCIAL MANAGEMENT  
FINAL EXAMINATION: AUGUST 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) You are planning to deposit \$1,000,000 for 10 years to the company's panel bank that giving a 6% per annum interest. The bank informed you that the interest payment has recently revised to compound semiannual instead of annually. You want to know the different of accumulated amount between two compounded methods. (5 marks)
- (b) At what rate must \$400 be compounded annually for it to grow to \$716.40 in 10 years? (5 marks)
- (c) How many years will it take for an initial investment of \$200 to grow to \$544 if it is invested today at 8% compounded annually? (5 marks)
- (d) You are considering on two investments. Investment A yields 10% compounded quarterly. Investment B yields  $i\%$  compounded semiannually. Both investments have equal annual yields. Find  $i$ . (5 marks)
- (e) A 20-year bond pays an annual coupon rate of 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)

**(Total: 25 marks)**

**Question 2**

- (a) NCAA Champion must choose between two asset purchases. The annual rate of return and related probabilities given below summarize the firm's analysis.

Asset A		Asset B	
Rate of Return	Probability	Rate of Return	Probability
10%	30%	5%	40%
15%	40%	15%	20%
20%	30%	25%	40%

- (i) Calculate the expected rate of return for each asset. (4 marks)
- (ii) Calculate the standard deviation for each asset. (6 marks)
- (iii) Which asset should NCAA Champion select and why? (2 marks)
- (b) Land Shark Inc. is experiencing a period of rapid growth. Earnings and dividends are expected to grow at a rate of 18 percent during the next two years, 15 percent in the third year, and at a constant rate of 6 percent thereafter. Land Shark's last dividend, which has just been paid was \$1.15. If the required rate of return on the stock is 12 percent, what is the price of the stock today? (6 marks)
- (c) C. Kelly Motor Ltd. wants you to calculate its cost of common stock. During the next 12 months, the company expects to pay dividends (D1) of \$2.50 per share, and the current price of its common stock is \$50 per share. The expected growth rate is 8 percent.
- (i) Calculate the cost of retained earnings. (3 marks)
- (ii) If a \$3 floatation cost is involved, calculate the cost of new common stock. (4 marks)

**(Total: 25 marks)**

**Question 3**

- (a) After discovering a new gold mining in Bentong Pahang, Gold Digger Corporation must decide whether to mine the deposit. The most cost-effective method of mining gold is sulfuric acid extraction, a process that results in environment damage. To go ahead with the extraction, Gold Digger must spend \$900,000 for new mining equipment and pay \$165,000 for its installation. The gold mined will net the firm an estimated \$350,000 each year over the 5 years life of the vein. Gold Digger's cost of capital is 14%. For simplicity, assume that the cash inflows occur at the end of the year.
- (i) What is the project's payback period? (2 marks)
  - (ii) What is the project's net present value? (4 marks)
  - (iii) What is the project's internal rate of return? (5 marks)
  - (iv) Should Gold Digger accept the project? Why? (3 marks)
- (b) Dallas Cowboy Corporation has determined that its before-tax cost of debt is 9%. Its cost of preferred shares is 15%. Its cost of external equity is 17%. Currently, the firm's capital structure has \$378 million of debt, \$63 million of preferred shares, and \$459 million of common equity. The firm's marginal tax rate is 45%. The firm is currently making a potential investment. Its managers have determined that the firm should yield an internal rate of return of 18%. What is the firm's after tax weighted average cost of capital? Should the company pursue the investment? (7 marks)
- (c) Kansas Chief Inc. has the following net income: Year 1 \$20,000; Year 2 \$25,000; Year 3 \$40,000; Year 4 \$20,000; Year 5 \$35,000. The initial cost of investment is \$200,000 and has a salvage value of \$2,000 at the end of the project. Calculate the Accounting Rate of Return for the project. (4 marks)

**(Total: 25 marks)**

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

**Question 1**

- (a) What is the difference between a primary and a secondary market? (6 marks)
- (b) Which of the following bonds would have highest returns: a corporate Aaa bond, a Treasury Bill, a corporate Baa bond? What determines the differences in returns among these bonds? (Assuming that the maturities of all these bonds are the same) (6 marks)
- (c) You are considering in two portfolios. Portfolio A comprises two assets that have has a correlation coefficient of +1.0. Portfolio B has a correlation coefficient of -1.0. Which portfolio should you invest in? Explain. (8 marks)
- (d) Explain any **TWO (2)** features of preferences stock. (5 marks)

**(Total: 25 marks)**

**Question 2**

- (a) What is working capital management? (6 marks)
- (b) Explain any **THREE (3)** advantages of working capital management. (9 marks)
- (c) Why is the cost of issuing new common stock higher than the cost of retained earnings? (6 marks)
- (d) Explain any **TWO (2)** key activities of a financial manager in a large corporation. (4 marks)

**(Total: 25 marks)**

**~The End~**