

**FINAL
Examination Paper**

(COVER PAGE)

Session : JANUARY 2018

Programme : Diploma In Business (DIB)

Course : FIN2102: Financial Management

Date of Examination : 7 March, 2018 (Wednesday)

Time : 8:00 am – 10:00 am 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

Examiner(s) : Teoh Yih Shien

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: JANUARY 2018 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 **ALL** questions.

Question 1

- (a) You borrow \$10,000 at 10% for 5 years. The loan is repayable in five equal installments at year end. How much is your yearly installment?
(5 marks)
- (b) RHB Bank offers you 13% of interest with annual compounding while CIMB Bank provides 12.5% of interest with quarterly compounding. Which bank should you choose to borrow?
(5 marks)
- (c) If you could receive \$50,000 8 years from now in return for an investment of \$30,000 currently, what annual rate of interest would you earn if you took the offer?
(5 marks)
- (d) Deposit of RM 5,000 in an account that pays 6% interest, how much will be in the account after 3 years if the compounding is based on:
(i) Monthly
(ii) Weekly
(iii) Quarterly
(iv) Semiannually
(10 marks)

(Total 25 marks)

Question 2

- (a) Sweet Dream Corporation has a bond outstanding with a \$100 annual interest payment, a market price of \$950, and a maturity date in 10 years. Calculate the approximate yield to maturity.

(9 marks)

- (b) Calculate for the required return of preference share if the dividend is RM0.70 and the value of share is RM7.

(2 marks)

- (c) Uncle Lim Group is a holding company with four main subsidiaries. The percentage of its business coming from each of the subsidiaries, and their respective betas, are as follows:

Subsidiary	Percentage of Business	Beta
A	60%	0.70
B	25%	0.90
C	10%	1.30
D	5%	1.50

- (i) What is the holding company's beta? (6 marks)

- (ii) Uncle Lim Group is considering a change in its strategic focus: it will reduce its reliance on the subsidiary 'A', so the percentage of business for the subsidiary 'A' will be 50 percent. At the same time, Uncle Lim Group will increase its reliance on the subsidiary 'D', so the percentage of business from the subsidiary 'D' will rise to 15 percent. What will be the shareholders' required rate of return (K_e) if they adopt these changes?

(8 marks)

(Total 25 marks)

Question 3

- (a) David's Star Co. just paid a dividend on \$1.50 per share on its stock. The dividends are expected to grow at a constant rate of 4% per year indefinitely. If investors require a return of 9%, calculate the current price of David's Star stock?

(2 marks)

- (b) B2B Company issued preferred stock many years ago. It carries a fixed dividend of \$4.00 per share. With the passage of time, yields have soared from the original 6 percent to 10 percent.

a. What was the original issue price? (2 marks)

b. What is the current value of this preferred stock? (2 marks)

- (c) There are two capital budgeting projects to be evaluated. The investment cost for each project is RM15,000 and the cost of capital for each project is 10%. Further information for the projects is as follows:

Year	Project X	Project Y
1	9,700	5,200
2	4,500	5,200
3	4,500	5,200
4	1,500	5,200

- (i) Calculate the payback period for these two projects.

(4 marks)

- (ii) Determine the net present value of each project at a 10% cost of capital.

(6 marks)

- (iii) Which project should management select? Why?

(2 mark)

- (d) Explain how we should go about computing the WACC for a project which uses both retained earnings and a new equity issue?

(7 marks)

(Total 25 marks)

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

Question 1

Explain each of the following terms that you learn:

- (i) Secondary Market (4 marks)
- (ii) Economic Order Quantity (EOQ) (4 marks)
- (iii) Credit Policy (4 marks)
- (iv) Working Capital (4 marks)
- (v) Money Market (5 marks)
- (vi) Primary Market (4 marks)

(Total 25 marks)

Question 2

- (a) Draw a cash flow cycle in diagram and briefly explain on the diagram. (12 marks)
- (b) What are the components of Financial System? (13 marks)

(Total 25 marks)

~THE END~

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