

FINAL ALTERNATIVE ASSESSMENT

Examination Paper

(COVER PAGE)

Session : April 2021

Programme : Diploma in Business (DIB)
Diploma in Accounting (DIAN)

Course : FIN2102: Financial Management

Date of Examination : July 27, 2021 (Tuesday)

Time : 4.00pm – 6.30pm Reading Time : Nil

Duration : 2 Hours 30 Minutes

Note: 30 minutes is added into the duration of the examination to factor in any connectivity matters and for you to scan and upload your scripts.

Special Instructions :

This paper consists of **FOUR (4)** questions. Answer **ALL** questions.

Materials permitted : Non-Programmable Calculator

Materials provided : Mathematical Table

Examiner(s) : Ainul Zariney, Lee See Seong, Liew Wenn Hing, Syed Azlan
Aljaffree, Shindy Lee and Timmy Ng

Moderator : Christine Gan

This paper consists of 4 printed pages, including the cover page

INTI INTERNATIONAL UNIVERSITY & COLLEGES

DIPLOMA IN BUSINESS (DIB)
DIPLOMA IN ACCOUNTING (DIAN)
FIN2102: FINANCIAL MANAGEMENT
FINAL ALTERNATIVE ASSESSMENT: APRIL 2021 SESSION

Instruction: This paper consists of **FOUR (4)** questions. Answer **ALL** questions.

Question 1

- (a) Cheryl was given a gold bar originally purchased for \$10 by his great grandfather 30 years ago. Today the bar is worth \$27,500. Calculate the rate of return realized on the sale of this bar.

(5 marks)

- (b) Assume you have a choice between two deposit accounts. Account A has an annual percentage rate of 8.45 percent but with interest compounded monthly. Account B has an annual percentage rate of 8.25 percent with interest compounded daily. Which account provides the highest effective annual return?

(5 marks)

- (c) Recently Mr. Robert has allocated RM 25,000 for the investment purpose. He needs advice on his investment options:

Option A: Invest in a fund that pays 9% compounded annually for five years.

Option B: Invest in a fund that pays 8% compounded quarterly for five years.

Option C: Invest in a fund that pays 7% compounded semi-annually for five years.

Option D: Invest in a fund that pays 6% compounded daily for five years.

You are required to calculate the accumulated sum from each option and advice Mr. Robert on the best option available.

(10 marks)

- (d) A firm has an issue of \$1,000 par value bonds with 10 percent stated interest rate outstanding. The issue pays interest annually and has 5 years remaining to its maturity date. If bonds of similar risk are currently earning 6 percent, calculate the price of the bond today.

(5 marks)

(Total: 25 marks)

Question 2

- (a) You are planning to purchase the stock of HARTALEGA Corporation and you expect it to pay a dividend of \$2 in 1 year, \$3.25 in 2 years, and \$5.00 in 3 years. You expect to sell the stock for \$150 in 3 years. If your required return for purchasing the stock is 12 percent, how much would you pay for the stock today?
(5 marks)
- (b) Nestle's stock is currently selling for \$180 per share and the firm's dividend are expected to grow at 5 percent indefinitely. Assuming Nestle's most recent dividend was \$6, what is the required rate of return on its stock?
(5 marks)
- (c) A firm has determined its optimal capital structure, which is composed of the following sources and target market value proportions:

Source of Capital	Target Market Proportions
Long-term debt	30%
Preferred stock	5
Common stock equity	65

Debt: The firm can sell a 20-year, \$1,000 par value, 9 percent bond for \$980. A flotation cost of 2 percent of the face value would be required in addition to the discount of \$20.

Preferred Stock: The firm has determined that it can issue preferred stock at \$65 per share par value. The stock will pay an \$8.00 annual dividend. The cost of issuing and selling the stock is \$3 per share.

Common Stock: The firm's common stock is currently selling for \$40 per share. The dividend expected to be paid at the end of the coming year is \$5.07 and expected to grow 7 percent indefinitely. A new common stock issue must be underpriced at \$1 per share for trading and the firm must pay \$1 per share in flotation costs. Additionally, the firm's marginal tax rate is 40 percent.

Calculate the firm's weighted average cost of capital assuming the firm has exhausted all retained earnings.

(15 marks)

(Total: 25 marks)

Question 3

Top Glove Corporation intends to invest \$600,000 in Project Knight or Project Castle as shown below. Top Glove Corporation is considering the risk with time value of money and would prefer to invest in the best project. The required rate of return will be 7%. The cash flow streams for both of the projects are as follows:

Year	Project Knight (\$)	Project Castle (\$)
0	-600,000	-600,000
1	210,000	255,000
2	250,000	270,000
3	245,000	235,000
4	240,000	250,000

- (a) What is each project's payback period? (5 marks)
- (b) What is each project's net present value? (8 marks)
- (c) What is each project's internal rate of return? (10 marks)
- (d) Which project should be accepted? Why? (2 marks)
- (Total: 25 marks)**

Question 4

- (a) Define agency problem and explain **THREE (3)** reasons on how do agency issues bring impact on wealth maximization. (10 marks)
- (b) Financial manager must be concerned with **THREE (3)** basic types of questions in making financial management decision. Briefly explain **ALL** of them. (15 marks)
- (Total: 25 marks)**

~THE END~

FIN2102 (F)/ April 2021 Session/formatted