



INTI
International College Subang
LAUREATE INTERNATIONAL UNIVERSITIES*

FINAL
Examination Paper

(COVER PAGE)

Session : January 2015

Programme : Diploma in Business (DIB)
Diploma in Business In Administration (DBADI)

Course : FIN2102 /2101 : FINANCIAL MANAGEMENT

Date of Examination : March 9, 2015

Time : 8:00am – 10:00am Reading Time : Nil

Duration : 2 Hours

Special Instructions :

Section A: Answer **ALL** questions.

Section B: Answer any **ONE (1)** question in the answer booklet provided.

Materials permitted : Nil

Materials provided : Mathematical Tables

Examiner(s) : Mr. Lee See Seong, Johnny Tay Tsung Fui.

Moderator : Mr. Lim Lay Kong

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

INTI INTERNATIONAL COLLEGE SUBANG

DIPLOMA IN BUSINESS (DIB)
DIPLOMA IN BUSINESS ADMINISTRATION (DBAD)
FIN 2101/2102: FINANCIAL MANAGEMENT
FINAL EXAMINATION: JANUARY 2015 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. (75 marks)

Question 1

- (a) McCoy is a diploma student at a college. Recently, he has won RM 15,000 from a competition. He needs your advice on his investment options:

Option A: Invest in a fund that pays 8% compounded annually for 2 years.

Option B: Invest in a fund that pays 6% compounded semi-annually for 2 years.

Option C: Invest in a fund that pays 4% compounded weekly for 2 years.

You are required to calculate the accumulated sum from each option and to advise McCoy on the best option available.

(10 marks)

- (b) Alicia borrows \$230,000 on a loan with maturity of 8 years. How much does she have to pay each month, if the interest rate is charged at 5% compounded monthly?

(5 marks)

- (c) What is the present value of a 4-year *annuity due*, if the annual interest is 5%, and the annual payment is \$800?

(5 marks)

- (d) GM is selling a new issue of bonds to raise funds. The bonds will pay a coupon rate of 10% and will mature in 6 years. The face value of the bonds is \$1,000; interest is paid semi-annually. The market rate of interest is currently 8% for similar bonds. What is the price of these bonds to an investor?

(5 marks)

Question 2

(a) What is the estimated value of a share with a required rate of return of 16.9%, a projected constant growth rate of dividends of 11.5% and expected dividend of \$2.40? (5 marks)

(b) TL's share is currently selling for \$160.00 per share and the firm's dividends are expected to grow at 5 percent indefinitely. Assuming TL's most recent dividend was \$5.50, what is the required rate of return on TL's share? (5 marks)

(c) What is the expected return for the following share? (State your answer in percent with one decimal place.)

Outcomes	Possible returns	Probability
Better	32%	0.50
Same	17%	0.20
Worse	-10%	0.30

(5 marks)

(d) You are considering buying a share with a beta of 1.43. If the risk-free rate of return is 7.9 percent, and the expected return for the market is 13.2 percent, what should the expected rate of return be for this share? (State your answer as a percentage.) (5 marks)

(e) What is the value of a preferred share that pays a \$2.10 dividend annually to an investor with a required rate of return of 11%? (5 marks)

Question 3

(a) A \$1,000 par value bond with a market price of \$970 and a coupon interest rate of 10 percent. Flotation costs for a new issue would be approximately 5 percent. The bonds mature in 10 years and the corporate tax rate is 34 percent. Calculate the cost of debt after tax. (5 marks)

(b) New common share where the most recent dividend was \$2.80. The company's dividend per share should continue to increase at an 8 percent growth rate into the indefinite future. The market price of the share is currently \$53; however, flotation costs of \$6 per share are expected if the new share is issued. (5 marks)

- (c) The target capital structure for XYZ Manufacturing is 40 percent common share, 10 percent preferred share, and 50 percent debt. If the cost of equity for the firm is 16 percent, the cost of preferred share is 9 percent, and the before-tax cost of debt is 11 percent, and the firm's tax rate is 35 percent, what is XYZ's weighted average cost of capital? (5 marks)
- (d) As a financial manager of a corporation, you are evaluating a project, the cash flows of which appear to the right, and that your company uses a required rate of return of 8 percent to evaluate on the project such as these:

Year	Cash flows
0	(\$7,000)
1	3,000
2	(2,000)
3	5,500
4	2,000
5	800

- i. What is the project's net present value? (4 marks)
- ii. What is the project's internal rate of return? (4 marks)
- iii. Should your company accept the project? Why? (2 marks)

SECTION B: Answer any **ONE (1)** question only. (25 marks)

Question 4

- (a) Define “risk” in financial management field? (5 marks)
- (b) Distinguish between systematic risk and unsystematic risk. (10 marks)
- (c) How could investors reduce the risks in an investment? (10 marks)

Question 5

- (a) Explain the interaction between a corporation and the financial markets. Use appropriate diagram to illustrate your answer. (15 marks)
- (b) What are the net proceeds from the sale of a bond? What are flotation costs and how do they affect a bond’s net proceeds? Explain. (10 marks)

-THE END-
FIN2102 (F) / JAN 2015 /SSLEE

