



FINAL
Examination Paper

(COVER PAGE)

Session : January 2016

Programme : Diploma In Business (DIB)

Course : FIN2102: Financial Management

Date of Examination : March 12, 2016 (Saturday)

Time : 11.00am – 1.00pm 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 : Non-Programmable Calculator

Materials provided : Mathematical Tables

Examiner(s) : Mr. Lee See Seong and Mr. Tirukumar

Moderator : Mr. Lim Lay Kong

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

DIPLOMA IN BUSINESS (DIB)
FIN2102: FINANCIAL MANAGEMENT
FINAL EXAMINATION: JANUARY 2016 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) What will a deposit of \$4,500 at 10% compounded semiannually be worth if left in the bank for six years? (4 marks)
- (b) If you require a 9 percent annual return on your investments, you would prefer \$15,000 five years from today rather than an ordinary annuity of \$1,000 per year for 15 years. (7 marks)
- (c) How long does it take for \$5,000 to grow into \$6,724.44 at 10% compounded quarterly? (5 marks)
- (d) How much must you deposit at the end of each year in an account that pays an annual interest rate of 20 percent, if at the end of 5 years you want \$10,000 in the account? (4 marks)
- (e) Land Shark Corporation offers bonds that pay 10.6% annual interest rate, with a RM1,000 par value. The yield to maturity of the bond is 9% and is expected to mature in 25 years. Interest is paid annually. Calculate the value of the bond. (5 marks)

Question 2

- (a) Consider a \$1,000 par value bond with a 7 percent annual coupon. The bond pays interest annually. There are 9 years remaining until maturity. What is the yield to maturity on the bond assuming that the bond has a market price of \$830?

(5 marks)

- (b) Your required rate of return is 15%. Z Corp. is currently selling for \$40 and the most recent dividend paid was \$2.55. The expected constant growth rate is 8%. What is the maximum you should pay for this stock?

(5 marks)

- (c) Given the following probability distribution of returns for a stock, what is the expected rate of return, standard deviation of the returns, and coefficient of variation on the investment?

<u>Probability</u>	<u>Rate of Return</u>
.10	-10%
.20	5%
.30	10%
.40	25%

(10 marks)

- (d) You are considering buying a stock with a beta of 1.48. If the risk-free rate of return is 6.9 percent, and the expected return for the market is 14.2 percent, what should the required rate of return be for this stock? (State your answer as a percentage.)

(5 marks)

Question 3

(a) Explain any **TWO (2)** weaknesses of Payback Period technique. (5 marks)

(b) X-treme Vitamin Company is considering two investments, both of which cost \$10,000. The cash flows are as follows:

Year	Project A	Project B
1	\$12,000	\$10,000
2	8,000	6,000
3	6,000	16,000

(i) Which of the two projects should be chosen based on the payback method? (5 marks)

(ii) Which of the two projects should be chosen based on the net present value method? Assume a cost of capital of 10 percent. (7 marks)

(c) Elgin Restaurant Supplies is analyzing the purchase of manufacturing equipment that will cost \$20,000. The annual cash inflows for the next three years will be:

Year	CashFlow
1	\$10,000
2	9,000
3	6,500

(i) Determine the internal rate of return using interpolation. (5 marks)

(ii) With a cost of capital of 12 percent, should the machine be purchased? Explain. (3 marks)

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

Question 1

- (a) Profit maximization should be the preferable goal for a firm, by which it proves how firms behave rationally to increase profit. How far do you agree with this statement? Discuss this statement with relevant examples. (15 marks)
- (b) Is exploitation of customers by a monopoly supplier, who charges very high prices, consistent with the objective of maximizing shareholders' wealth? Discuss. (10 marks)

Question 2

- (a) What do you understand of the term, "*Time Value of Money*"? Why is it so important to financial managers? (7 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. (9 marks)
- (c) Explain how we should go about computing the WACC for a project which uses both retained earnings and a new equity issue? (9 marks)

