



FINAL
Examination Paper

(COVER PAGE)

Session : January 2017

Programme : Diploma In Business (DIB)

Course : **FIN2102: Financial Management**

Date of Examination : 06 March, 2017 (Monday)

Time : 2:00pm – 4:00pm 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) : **Lee See Seong**

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 2017 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 the **COMPULSORY** questions in the answer booklet provided.
(75 marks)

Question 1

- (a) John Doeber borrowed \$150,000 to buy a house. His loan cost was 6% and he promised to repay the loan in 15 equal annual payments. How much are the annual payments?
(5 marks)
- (b) Suppose you make an investment of \$5,000. This first year the investment returns 10%, the second year it returns 6%, and the third year it returns 8%. How much would this investment be worth, assuming no withdrawals are made?
(5 marks)
- (c) Mike Carlson will receive \$12,000 a year from the end of the third year to the end of the 12th year (10 payments). The discount rate is 10%. The present value today of this deferred annuity is:
(5 marks)
- (d) To save for her newborn son's college education, Lea Wilson will invest \$1,000 at the beginning of each year for the next 18 years. The interest rate is 12 percent. What is the future value?
(5 marks)
- (e) Mr. Darden is selling his house for \$200,000. He bought it for \$164,000 ten years ago. What is the annual return on his investment?
(5 marks)

(Total: 25 marks)

Question 2

- (a) A 20-year bond pays 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)
- (b) A ten-year bond pays 7% interest on a \$1000 face value annually. If it currently sells for \$1,195, what is its approximate yield to maturity?
(5 marks)
- (c) Stone Inc. is evaluating a project with an initial cost of \$9,500. Cash inflows are expected to be \$1,500, \$1,500 and \$10,000 in the three years over which the project will produce cash flows. If the discount rate is 9%, what is the net present value of the project?
(5 marks)
- (d) What is the payback period for Tangshan Mining company's new project if its initial after tax cost is \$5,000,000 and it is expected to provide after-tax operating cash inflows of \$1,800,000 in year 1, \$1,900,000 in year 2, \$700,000 in year 3 and \$1,800,000 in year 4?
(5 marks)
- (e) You buy a new piece of equipment for \$7,360, and you receive a cash inflow of \$1,000 per year for 10 years. What is the internal rate of return?
(5 marks)

(Total: 25 marks)**Question 3**

- (a) The growth rate for the firm's common stock is 7%. The firm's preferred stock is paying an annual dividend of \$3. What is the preferred stock price if the required rate of return is 8%?
(5 marks)
- (b) An issue of common stock's most recent dividend is \$1.75. Its growth rate is 5.7%. What is its price if the market's rate of return is 7.7%?
(5 marks)

- (c) Champion Breweries 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

For each asset, compute:

- (i) The expected rate of return. (4 marks)
- (ii) The standard deviation of the expected return. (8 marks)
- (iii) Which asset should Champion select? Explain. (3 marks)

(Total: 25 marks)

SECTION B: Answer any ONE (1) question in the answer booklet provided. (25 marks)

Question 1

Differentiate the following terms of financial management:

- (a) Primary market and secondary market (5 marks)
- (b) Profit maximization and shareholder's wealth maximization (5 marks)
- (c) Cost of retained earnings and cost of newly issued common stock (5 marks)
- (d) Systematic risk and unsystematic risk (5 marks)
- (e) Present value and future value (5 marks)

(Total: 25 marks)

Question 2

- (a) Explain the term working capital. What is the primary objective of working capital management? (10 marks)
- (b) What do you understand of "efficient market"? Identify and discuss the **THREE (3)** forms of efficiency under the efficient market hypothesis? (15 marks)

(Total: 25 marks)

~ The End ~

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