INTI International University & Colleges

FINAL
Examination Paper

(COVER PAGE)

Session : **APRIL 2017**

Programme : Diploma In Business (DIB)

Course : **FIN2102: Financial Management**

Date of Examination : 02 August, 2017 (Wednesday)

Time : 5:00pm – 7:00pm 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

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Moderator : Lim Lay Kong

*This paper consists of **6** printed pages, including the cover page*

DIPLOMA IN BUSINESS PROGRAMME (DIB)
FIN 2102: FINANCIAL MANAGEMENT
FINAL EXAMINATION: APRIL 2017 SESSION

Section A: (75 marks)
Instruction: Answer **COMPULSORY** questions.

Question 1

(a) What would the total value of RM50,000 invested today be in eight-year time:

(i) if the interest rate is 10% per annum?

(ii) if the interest rate is 20% per annum compounded monthly?

(iii)if the interest rate is 8% per annum compounded weekly?

(iv)if the interest rate is 7% per annum compounded daily?

(10 marks)

(b) Jane thinks that she will need to have a total of $105,000 in 5 years to pay for his education fees. If the bank is willing to pay 10 percent compounded annually, how much must she deposit annually.

(5 marks)

(c) What is the present value of an 8-year *annuity due*, if the annual interest is 6%, and the annual payment is $1000?

(5 marks)

(d) Super Inc. owns a bond that pays 9 percent annual interest rate, with a $1,000 par value. The yield to maturity of the bond is 12 percent and is expected to mature in 20 years. If interest is paid annually, calculate the value of the bond.

(5 marks)

Question 2

(a) Calculate the value of a share with a required rate of return of 15%, a projected constant growth rate of dividends of 8% and expected dividend of $1.80?

(5 marks)

(b) Trio's share is currently selling for $130.00 per share and the firm's dividends are expected to grow at 8 percent indefinitely. Assuming Trio's most recent dividend was $4.00, what is the required rate of return on Trio's share?

(5 marks)

(c)

State	Probability	Return on Stock A	Return on Stock B
1	25%	14%	17%
2	20%	-13%	10%
3	15%	25%	23%
4	40%	-5%	3%

i. Calculate the expected return on Stock A and Stock B.

(4 marks)

ii. Calculate the standard deviation on Stock A and Stock B.

(6 marks)

(d) You are considering buying a stock with a beta of 0.9. If the risk-free rate of return is 4 percent, and the expected return for the market is 8 percent, what should the required rate of return be for this stock? (State your answer as a percentage.)

(5 marks)

Question 3

(a) A firm has determined its optimal structure which is composed of the following sources and target market value proportions.

Source of Capital	Target Market Proportions
Long-term debt	25%
Common stock equity	75%

Debt: The firm can sell a 15-year, $1,000 par value, 7 percent bond for $1,050. A flotation cost of 3 percent of the face value would be required in addition to the premium of $50.

Common Stock: A firm's common stock is currently selling for $72 per share. The dividend expected to be paid at the end of the coming year is $6. Its dividend payments have been growing at a constant rate for the last five years. Five years ago, the dividend was $3.00. It is expected that to sell, a new common stock issue must be underpriced $2 per share and the firm must pay $1 per share in flotation costs.

Additionally, the firm has a ***marginal tax rate*** of 40 percent.

(i) Calculate the firm's after-tax cost of debt. (4 marks)

(ii) Calculate the cost of a new issue of common stock. (4 marks)

(iii) Calculate Cost of Retained Earnings. (2 marks)

(iv) Calculate weighted average cost of new capital to be issued. (1 marks)

(b) Consider the following two projects,

	Initial Outlay	Net Cash Flow Each Period			
		1	2	3	4
Project A	$300,000	$150,000	$150,0000	$150,000	$150,000
Project B	$300,000	0	0	0	$1,000,000

(i) Calculate the net present value of each of the above projects, assuming a 12 percent discount rate. (4 marks)

(ii) What is the internal rate of return for each of the above projects? (6 marks)

(iii) If 12 percent is the required rate of return, and these projects are independent, what decision should be made? (2 marks)

(iv) If 12 percent is the required rate of return, and the projects are mutually exclusive, what decision should be made? (2 marks)

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

Question 1

(a) Discuss for the macroeconomic factors in which can influence on the company's business decisions.

(15 marks)

(b) Distinguish between unsystematic risk and systematic risk. Why do we only consider systematic risk in the Capital Asset Pricing Model? (10 marks)

Question 2

(a) Explain for the shareholders' wealth maximization.

(6 marks)

(b) Explain THREE (3) major objectives of financial management.

(6 marks)

(c) Explain two advantages and two disadvantages of using equity finance.

(6 marks)

(d) List down the characteristics of Primary Market and Secondary Market.

(7 marks)

~ The End ~

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