



INTI
International College Penang
LAUREATE INTERNATIONAL UNIVERSITIES*

FINAL
Examination Paper

(COVER PAGE)

Session : AUGUST 2014

Programme : DIPLOMA IN FINANCE (DIF)

Course : FIN1150: FINANCE PRINCIPLES

Date of Examination : December 12, 2014 (Friday)

Time : 8.00am – 10.00am Reading Time : Nil

Duration : 2 Hours

Special Instructions :

This paper consists of SIX (6) questions. Answer any FOUR(4) questions in the answer booklet provided.
All questions carry equal marks.

Materials permitted :

Non-programmable scientific calculator

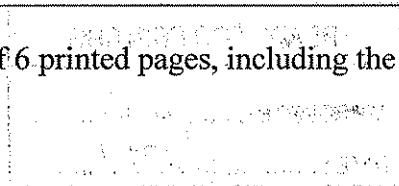
Materials provided :

Mathematical Booklet

Examiner(s) : Mr. Kee Cheun Howe

Moderator : Dr. Phua Lian Kee

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



INTI INTERNATIONAL COLLEGE SUBANG

DIPLOMA IN FINANCE (DIF)
FIN1150 :FINANCE PRINCIPLES
FINAL EXAMINATION :AUGUST 2014 SESSION

Instructions: This paper consists of **SIX (6)** questions. Answer any **FOUR (4)** questions in the answer booklet provided. All questions carry equal marks.

Question 1

(a)

Ming has just purchased a medium sized house. The house cost him \$280,000. Ming paid \$50,000 in cash, and financed the remainder with a 7-year loan.. The loan carries an interest rate of 3% per annum, compounding monthly.

(i) How much is one month's installment for Ming?

(4 marks)

(ii) After the third year, the bank announced an increase in the interest rate to 3.5% per annum, compounding monthly. How much will the new monthly installments be?

(5 marks)

(iii) If Ming settles the loan after hearing the announcement, how much interest will he save?

(3 marks)

(b)

Mr. Robbins intends to prepare an education savings fund for his son, Baskin, for his higher education. Total tuition fees are estimated to be \$78,000 for the complete course. Mr. Robbins can obtain an investment that gives him a return of 6% per annum compounding monthly.

Baskin has just turned 6 years old. How much does Mr. Robbins need to save at the end of each month so that he can afford the tuition fees by the time Baskin reaches his 18th birthday?

(5 marks)

(c)

How many years will it take for an investment of \$5,000 to grow to \$10,717.94 if the interest rate is 10% per annum compounding annually?

(5 marks)

(d)

ION, a retail store, advertises a 52 inch LCD television set for \$8,000. The advertisement states the television can be purchased by using an 'easi-payment plan' of \$255.55 per month for 3 years. How much is the interest amount being charged for the loan?

(3 marks)

Question 2

(a)

The financial statements of a corporation contain information regarding the performance of the corporation for a certain reporting period.

To what extent can these financial statements be of use to the financial manager?

Discuss.

(10 marks)

(b)

Explain what should be the goal of the company.

(3 marks)

(c)

Briefly explain the agency problem, and give ONE (1) suggestion to reduce it.

(5 marks)

(d)

What are the common types of business organisations? Why are most businesses adopting the structure of a company? Explain your answer.

(7 marks)

Question 3

The following are extracts from the financial statements of Super Trading for two financial years.

Super Trading—Balance Sheet as of 31**December**

Assets	2010	2011
	\$	\$
Cash	13,221	11,729
Accounts receivables	31,323	37,909
Inventory	77,244	91,617
Total current assets	<u>121,788</u>	<u>141,255</u>
Net fixed assets	344,712	390,836
Total assets	<u><u>466,500</u></u>	<u><u>532,091</u></u>

Liabilities and Shareholders' Equity

Accounts payable	38,549	42,881
Notes payable	12,004	16,753
Deferred tax liability	21,934	16,788
Total current liabilities	<u>72,487</u>	<u>76,422</u>
Long-term debt	78,445	61,290
Ordinary share capital	125,000	175,000
Retained earnings	190,568	219,379
Total liabilities and Shareholders' equity	<u><u>466,500</u></u>	<u><u>532,091</u></u>

Additional information

	<u>2010</u>	<u>2011</u>
	\$	\$
Sales	950,000	850,000
Gross profit	320,000	250,000
Net operating profit (before finance cost)	120,000	105,000
Finance cost	75,000	71,000
Profit after tax	25,000	28,000

From the above information given, calculate the following financial ratios for both financial years

- (a)
- (i) Current ratio
 - (ii) Quick ratio
 - (iii) Gross profit margin
 - (iv) Net profit margin
 - (v) Times interest coverage
 - (vi) Debt/Equity ratio

(12 marks)

(b)

From your calculations for part (a), comment on the business in terms of its liquidity, profitability and debt management (additional financial ratios may be added to support your comments).

(13 marks)

Question 4

It is now 1 January 2009, and you are considering the purchase of an outstanding bond that was issued on 1 January 2007. It has a 10% coupon and had a 20 year original maturity. There is 5 years of call protection, after which it can be called at \$1,090. The par value of the bond is \$1,000 per unit. It is now selling at \$1,165 per unit. Current interest rate for the country is at 6%.

- (a) What is the yield to maturity?

(7 marks)

- (b) What is the yield to call?

(8 marks)

- (c) If you bought this bond, which return would you actually earn? Explain your answer.

(10 marks)

Question 5

- (a) Explain the role of the central bank and the monetary policy for a country's economy.
(8 marks)
- (b) Discuss the importance of financial intermediation to the financial system.
(8 marks)
- (c) Managed funds are often categorised by the type of investments purchased by the fund. These include capital guaranteed funds and managed capital growth funds. For each of the two funds above, explain the types of investments the fund may accumulate and the purpose behind the investment strategies.
(9 marks)

Question 6

- (a) Explain consumer credit and give TWO (2) advantages and TWO (2) disadvantages of using consumer credit.
(11 marks)
- (b) Define bankruptcy and explain why it should be used as a last resort.
(8 marks)
- (c) David borrowed \$5,000 for one year and paid \$50 interest. The bank charged him a \$5 service fee.
- (i) What is the finance charge on this loan?
(3 marks)
- (ii) If David paid it all back at once on December 31, 2011, what is the Annual Percentage Rate (APR)?
(3 marks)

~ The End ~

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