



**INTI**  
International College Penang

**FINAL**  
Examination Paper

(COVER PAGE)

Session : April 2018

Programme : Diploma In Finance (DIF)

Course : **FIN1150: FINANCE PRINCIPLES**

Date of Examination : 30<sup>th</sup> July 2018 (Monday)

Time : 08:00am – 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 :

Nil

Examiner(s) :

**Bernard Joseph**

Moderator :

**Ms. Lim Tan Chin**

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

**INTI INTERNATIONAL COLLEGE PENANG****DIPLOMA IN FINANCE (DIF)  
FIN1150 :FINANCE PRINCIPLES  
FINAL EXAMINATION :APRIL 2018 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) Describe the roles of a financial system. **(6 marks)**
- b) Describe the three (3) major financial instruments which are traded in the financial market. **(9 marks)**
- c) Briefly describe the features of the following financial markets :
- i) Primary Market
  - ii) Secondary Market
  - iii) Money Market
  - iv) Foreign Exchange Market

**(10 marks)**  
**(Total : 25 marks)**

**Question 2**

- a) Discuss the goal of financial management. **(4 marks)**
- b) Discuss the three (3) main decisions which have to be made by a finance manager. Provide an example for each decision. **(6 marks)**
- c) Define corporations and discuss the two (2) advantages and two (2) disadvantages of a corporation. **(5 marks)**
- d) Describe agency problem, support with examples and provide some ways to overcome this problem. **(10 marks)**

**(10 marks)**  
**(Total : 25 marks)**

**Question 3**

Under each separate circumstance, calculate the following:

- (a) Mr. Najib invests a lump sum of RM20,000 into a savings account yielding 8% p.a compounded monthly. After six months the interest rate raised to 9% p.a. compounding monthly. How much interest will Mr. Najib earn if he keeps his money in the account for a total of two years?  
(6 marks)
- (b) How much would RM15,000 accumulate in six (6) years with interest?
- (i) Compounding quarterly at 10.5% p.a. (3 marks)
- (ii) Compounding semi-annually at 10.5% p.a. (3 marks)
- (iii) Compounding fortnightly at 10.5% p.a. (3 marks)
- (c) Rosmah needs RM100,000 in 10 years time for her son's education. From a survey she realizes that banks are paying on an average 6% interest rate and interest is computed by using compound interest every 6 months. How much does Rosmah need to put into the bank now in order to have that sum after 10 years?  
(3 marks)
- (d) If Anwar is thinking of putting RM10,000 into the savings account at the end of each year, for the duration of 10 years, what sum can he accumulate if 8% interest rate is given but computed on a yearly basis?  
(3 marks)
- (e) John wants to have a million dollars at retirement, which is 15 years away. He already has \$200,000 in an investment account earning 8 percent annually. How much does he need to save each year, beginning at the end of this year to reach his target? Assume he could earn 8 percent on any investment he makes. (Round to the nearest dollar.)

(4 marks)

(Total : 25 marks)

**Question 4**

The following are extracts from the financial statements of Sun-Bear Sdn. Bhd. for two financial years.

**Balance Sheet as of 31 December**

	<b>2016</b>	<b>2017</b>
	RM	RM
<b><u>Assets</u></b>		
Cash	13,221	9,720
Accounts receivables	31,323	17,900
Inventory	77,244	91,615
Total current assets	<u>121,788</u>	<u>119,235</u>
Net fixed assets	344,712	290,800
Total assets	<u>466,500</u>	<u>410,035</u>
<b><u>Liabilities and Shareholders' Equity</u></b>		
Accounts payable	38,549	50,800
Notes payable	12,004	35,005
Deferred tax liability	21,934	30,000
Total current liabilities	<u>72,487</u>	<u>115,805</u>
Long-term debt	78,445	100,290
Ordinary share capital	125,000	125,000
Retained earnings	190,568	68,940
Total liabilities and Shareholders' equity	<u>466,500</u>	<u>410,035</u>

**Additional information – Income Statement**

	<b>2016</b>	<b>2017</b>
	RM	RM
Sales	950,000	760,000
Gross profit	320,000	250,000
Operating profit (before finance cost)	120,000	75,000
Interest cost	<u>75,000</u>	<u>91,000</u>
Profit Before Tax	45,000	(16,000)
Tax : 30%	<u>13,500</u>	<u>0</u>
Profit after tax	31,500	(16,000)

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) Total Debt/Total Asset 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)**

**(Total : 25 marks)**

### Question 5

Nexus Bhd. is planning to issue bonds in the capital market for the first time. The bond has a par value of the RM1,000 and a coupon rate of 8% per annum, coupon payable once per annum. The maturity of the bond is 5 years.

At the moment the CEO is unsure on how much to price the bond because the market interest rate is quite volatile. Thus, he has asked your assistance in calculating the value of the bond in different market interest rates.

a) If the market interest rate is 8%, how much can the bond be sold for and what do you call this bond?

**(3 marks)**

b) If the market interest rate is 6%, how much can the bond be sold for and what do you call this bond?

**(4 marks)**

c) If the market interest rate is 10%, how much can the bond be sold for and what do you call this bond?

**(4 marks)**

d) From the answers obtained from Part (a-c), explain the relationship between market interest rate and bond pricing.

**(4 marks)**

e) Briefly describe five (5) characteristics of a bond.

**(10 marks)**

**(Total : 25 marks)**

**Question 6**

- a) Explain the concept of consumer credit  
(4 marks)
- b) Describe three (3) Advantages of consumer credit.  
(6 marks)
- c) Describe three (3) Disadvantages of consumer credit  
(6 marks)
- d) Hector borrowed RM8,000 for one year on 1 April 2017 and paid RM100 interest.  
The bank charged him a RM10 service fee.
- i) What is the finance charge on this loan?  
(4 marks)
- ii) If John repaid the total amount owing on 31 March 2018 (one year), what is  
the Annual Percentage Rate (APR)?  
(5 marks)
- (Total : 25 marks)**

## Formula Sheet

(DIF – FIN1150)

$$FV_t = PV \times (1+r)^t$$

$$PV = \frac{FV_t}{(1+r)^t}$$

$$PVA = C \times \left[ \frac{1 - \frac{1}{(1+r)^t}}{r} \right]$$

$$FVA = C \times \left[ \frac{(1+r)^t - 1}{r} \right]$$

$$PV = \frac{C}{r}$$

$$EAR = \left[ 1 + \frac{APR}{m} \right]^m - 1$$

$$P_B = C \times \left[ \frac{1 - \frac{1}{(1+i)^n}}{i} \right] + \frac{F}{(1+i)^n}$$

$$P_B = C/2 \times \left[ \frac{1 - \frac{1}{(1+i/2)^{2n}}}{i/2} \right] + \frac{F}{(1+i/2)^{2n}}$$

$$P_B = \frac{F_{mn}}{(1+i/m)^{mn}}$$

