

FINAL
Examination Paper

(COVER PAGE)

Session : April 2019

Programme : Diploma In Finance (DIF/DFIN)

Course : FIN1150: Finance Principles

Date of Examination : July 27th, 2019 (Saturday)

Time : 2:00 pm – 4:00 pm Reading Time : Nil

Duration : 2 Hours

Special Instructions :

This paper consists of **SIX (6)** questions. Answer **both (2)** questions in **Section A** and Any **TWO(2)**

Question in **Section B** in the answer booklet provided. All questions carry equal marks

IMPORTANT NOTE : THIS PAPER SHOULD NOT BE TAKEN OUT OF THE EXAMINATION HALL

Material permitted : Non-Programmable Scientific Calculator

Materials provided : Answer Booklet and Formula Sheets

Examiner(s) : Mr. Bernard Joseph and Yap Kok Leong

Moderator : Dr. Phua Lian Kee

This paper consists of 7 printed pages, including the cover page

INTI INTERNATIONAL COLLEGE PENANG

**DIPLOMA IN FINANCE (DIF)
FIN1150: FINANCE PRINCIPLES
FINAL EXAMINATION: APRIL 2019 SESSION**

Instructions: Instructions: This paper consists of **SIX (6)** questions. **Answer BOTH (2) questions in Section A and Any TWO (2) Questions in Section B** in the answer booklet provided. All questions carry equal marks.

Section A (50 marks)

Answer BOTH Questions (COMPULSORY)

Question 1

Below are the Income Statement and Balance Sheet for Babylon Sdn. Bhd. for the last two years.

Babylon Sdn. Bhd. - Income Statement

	<u>Year 2017</u>	<u>Year 2018</u>
	RM ('000)	RM ('000)
Sales	7,856	6,375
Less : Cost of Sales	5,700	4,212
Gross Profit	2,156	2,163
<u>Less : Expenses</u>		
Selling & Distribution	(1,120)	(840)
Depreciation	(1,000)	(935)
Operating Profit	36	388
Interest	(25)	(20)
Profit Before Tax	11	368
Taxation	(5)	(85)
Profit for the Year	6	283

Babylon Sdn Bhd - Balance Sheet

	<u>Year 2017</u>		<u>Year 2018</u>	
	RM '000	RM '000	RM '000	RM '000
Non-Current Assets		5,125		5,700
Current Assets				
Inventories	2,543		1,750	
Debtors	<u>3,784</u>		<u>2,714</u>	
	6,327		4,464	
Current Liabilities				
Bank Overdraft	587		110	
Creditors	<u>3,852</u>		<u>3,420</u>	
	<u>4,439</u>		<u>3,530</u>	
Net Current Assets		<u>1,888</u>		<u>934</u>
		<u>7,013</u>		<u>6,634</u>
Financed by :				
Ordinary Share Capital		5,000		5,000
Retained Profit		<u>2,013</u>		<u>1,634</u>
		<u>7,013</u>		<u>6,634</u>

Required:

- (a) "Ratios are meaningless if considered in isolation" said the Finance Manager. How can you make them useful? Explain. **(5 marks)**
- (b) Calculate the following ratios for both the years:
- Gross Profit Margin
 - Return on Capital Employed
 - Current Ratio
 - Quick Ratio
 - Average Debtors Collection Period
- (10 marks)**
- (c) Comment on the ratios that you have calculated for both the periods. **(10 marks)**
- (Total : 25 marks)**

Question 2

- a) Ning Gao is planning to buy a house in five years. She is looking to invest \$25,000 today in an index managed fund that will provide her a return of 12 percent annually. How much will she have at the end of five years? (Round to the nearest dollar.)
(4 marks)
- b) Jack Robbins is saving for a new car. He needs to have \$ 21,000 for the car in three years. How much will he have to invest today in an account paying 8 percent annually to achieve his target? (Round to nearest dollar.)
(4 marks)
- c) Your brother has asked you to help him with choosing an investment. He has \$5,000 to invest today for a period of two years. You identify a bank term deposit that pays an interest rate of 4.25 percent with the interest being paid quarterly. What will be the value of the investment in two years?
(4 marks)
- d) Christine Suela plans to invest \$25,000 a year for the next 7 years in an investment that will pay her a rate of return of 11.4 per cent. He will invest at the end of each year. How much money will Christine have at the end of 7 years?
(5 marks)
- e) The Bridge Bar & Grill has a 7-year loan of \$23500 with Bankwest. It plans to repay the loan in 7 equal instalments starting today. If the rate of interest is 8.4 per cent, how much will each payment be worth?
(5 marks)
- f) Your grandfather is retiring at the end of next year. He would like to ensure that he, and after he dies, his heirs receive a payment of \$10,000 a year forever, starting when he retires. If he can invest at 6.5 per cent, how much does he need to invest to receive the desired cash flow?
(3 marks)

(Total : 25 marks)

Section B (50 marks)

Answer Any TWO (2) out of Four (4) Questions

Question 3

a) Describe three (3) roles of a financial system. **(6 marks)**

b) Describe the three (3) major financial instruments which are traded in a 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 4

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 suggest two (2) ways to overcome this problem. **(10 marks)**
(Total: 25 marks)

Question 5

- (a) Describe commercial banks activities and give examples of the services they offer.
(8 marks)
- (b) Discuss the importance of financial intermediation to the financial system.
(8 marks)
- (c) Life insurance is one of the most expensive insurance policies in personal financing.
Discuss life insurance and the factors one should consider whether to purchase life insurance.
(9 marks)
- (Total: 25 marks)**

Question 6

- a) Olympus 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.
- a) If the market interest rate is 6%, how much can the bond be sold for and what do you call this bond?
(6 marks)
- b) If the market interest rate is 10%, how much can the bond be sold for and what do you call this bond?
(6 marks)
- b) Describe two (2) disadvantages of consumer credit.
(4 marks)
- c) Mishin borrowed RM8,000 for one year on 1 January 2019 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 Sammy repaid the total amount owing on December 31, 2019, what is the Annual Percentage Rate (APR)?
(5 marks)
- (Total: 25 marks)**

~ The End ~

FIN1150(F)Apr 2019

Formula Sheet

(DIF – FIN1150)

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

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

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

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

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

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

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

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

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