

**FINAL**

**ALTERNATIVE ASSESSMENT**

(COVER PAGE)

Session : April 2020

Programme : Diploma in Finance (DFIN)

Course : **FIN2150: Financial Management**

Date of Examination : 6<sup>th</sup> August 2020 (Thursday)

Time : 12:00pm – 2:30pm Reading Time : Nil

Duration : 2 Hours 30 Minutes

**Special Instructions :**

This paper consists of **FOUR (4)** questions. Answer **ALL** questions. All questions carry equal marks.

---

Material permitted : Non-Programmable Calculator

Materials provided : NIL

Examiner(s) : **Mr. Yap Kok Leong**

Moderator : Ms. Ainul Zariney binti Aziz

*This paper consists of 5 printed pages, including the cover page*

DIPLOMA IN FINANCE (DFIN)  
 FIN2150: FINANCIAL MANAGEMENT  
 FINAL ALTERNATIVE ASSESSMENT: APRIL 2020 SESSION  
 DURATION: 2 HOURS 30 MINUTES

**Instructions:** This paper consists of **FOUR (4)** questions. Answer all **FOUR (4)** questions. All questions carry equal marks.

**Question 1**

A business owner has a choice of two investment projects. The estimated costs and returns are as follows:

	Project 1 (RM)	Project 2 (RM)
	Cash flow inflow/(outflow)	Cash flow inflow/(outflow)
Cost initial outlay	(120,000)	(92,000)
Year 1	31,000	(10,000)
Year 2	47,000	66,000
Year 3	63,000	48,000

- (a) Calculate the payback period for Project 1 and Project 2. Give your answers in years and months. (6 marks)
- (b) Using your answers to part (a) to advise the business owner which project is the better investment. Give a reason. (2 marks)
- (c) Using a discount factor of 14%, calculate the NPV for Project 1 and Project 2. (10 marks)
- (d) Using your answers to part (c) to advise the business owner further which project is the better investment, with reasons. (2 marks)
- (e) Estimate the IRR for Project 2. (5 marks)

**Question 2**

P(x <sub>i</sub> y <sub>i</sub> )	Economic condition	Investment	
		Passive Fund A	Aggressive Fund B
0.2	Recession	-RM50	-RM100
0.5	Stable economy	+RM100	+RM160
0.3	Expanding economy	+RM200	+RM350

- (a) What is the expected return for Passive Fund A? (5 marks)
- (b) What is the expected return for Aggressive Fund B? (5 marks)
- (c) Compute the standard deviation for Passive Fund A. (5 marks)
- (d) Compute the standard deviation for Aggressive Fund B. (5 marks)
- (e) What is the portfolio return, assume 50% of the portfolio is in Passive Fund A and 50% is in Aggressive Fund B? (5 marks)

**Question 3**

- (a) Suppose you are thinking of purchasing the stock of Kensor Limited. and you expect it to pay a \$2 dividend in one year and you believe that you can sell the stock for \$14 at that time.
- (i) If you require a return of 20% on investments of this risk, what is the maximum price you would be willing to pay? (5 marks)
- (ii) Now what if you decide to hold the stock for two years? In addition to the dividend in one year, you expect a dividend of \$2.10 in and a stock price of \$14.70 at the end of year 2. Now how much would you be willing to pay? (5 marks)
- (iii) Finally, what if you decide to hold the stock for three periods? In addition to the dividends at the end of years 1 and 2, you expect to receive a dividend of \$2.205 at the end of year 3 and a stock price of \$15.435. Now how much would you be willing to pay? (5 marks)

- (b) Calculate the market value of price of a 5-year RM 1,000 bond with an 8% coupon rate and the investor required rate of return is 6%. Is the bond selling at discount/par/premium?  
(6 marks)
- (c) What are the **TWO (2)** elements that affect the bond value?  
(4 marks)

#### Question 4

- (a) A firm is planning a \$25 million expansion project. The project will be financed with \$10 million in debt and \$15 million in equity stock (equal to the company's current capital structure). The before-tax required return on debt is 10% and 15% for equity. If the company is in the 35% tax bracket, what cost of capital should the firm use to determine the project's net present value (NPV)?  
(5 marks)
- (b) The debt of Tensor Berhad has an average maturity of ten years and a BBB rating. A market yield to maturity is not available because the debt is not publicly traded, but the market yield on debt with similar characteristics is 8.33%. Tensor Berhad is planning to issue new ten-year notes that would be subordinate to the firm's existing debt. The company's marginal tax rate is 40%. What is the most appropriate estimate of the after-tax cost of this new debt?  
(5 marks)
- (c) Karing Berhad has a capital structure that is comprised of 60% common equity and 40% debt. In order to finance several capital projects, Karing Berhad will raise \$1.6 million by issuing common equity and debt in proportion to its current capital structure. The debt will be issued at par with a 9% coupon and flotation costs on the equity issue will be 3.5%. Karing Berhad's common stock is currently selling for \$21.40 per share, and its last dividend was \$1.80 and is expected to grow at 7% forever. The company's tax rate is 40%.  
What is the Karing Berhad's WACC based on the cost of new capital?  
(5 marks)
- (d) The following information applies to a corporation:  
The company has \$200 million of equity and \$100 million of debt.  
The company recently issued bonds at 9%.  
The corporate tax rate is 30%.  
The company's beta is 1.125.  
If the risk-free rate is 6% and the expected return on the market portfolio is 14%, what is the company's after-tax weighted average cost of capital?  
(5 marks)

- (e) Gemini Berhad is considering a project that requires a RM175,000 cash outlay and is expected to produce cash flows of RM65,000 per year for the next four years. Gemini's tax rate is 40% and the before-tax cost of debt is 9%.  
The current share price for Gemini stock is RM32 per share and the expected dividend next year is RM1.50 per share. Gemini's expected growth rate is 5%. Gemini finances the project with 70% newly issued equity and 30% debt, and the flotation costs for equity are 4.5%.  
What is the NPV for the project, assuming that flotation costs are accounted for correctly?

(5 marks)

**~ The End ~**