



INTI
International College Penang

FINAL
Examination Paper

(COVER PAGE)

Session : August 2018

Programme : Diploma In Finance (DIF)

Course : **FIN2150 FINANCIAL MANAGEMENT**

Date of Examination : 6th December 2018 (Thursday)

Time : 05:00pm-07:00pm 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 :

Present Value and Future Value Tables

Examiner(s) :

Ms. Eunice Mok Pei Sea

Moderator :

Ms. Lim Tan Chin

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

INTI INTERNATIONAL COLLEGE PENANG
DIPLOMA IN FINANCE (DIF)
FIN2150: FINANCIAL MANAGEMENT
FINAL EXAMINATION: AUGUST 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) Shareholder wealth maximization should be the preferable goal for a firm, by which it proves how firms behave rationally to increase profit. How far do you agree with this statement? Discuss this statement with relevant examples. (10 marks)
- b) Financial managers is to ensure the financial health of an organization through investment activities and long-term financing strategies. Discuss the **THREE (3)** primary duties as a financial manager. (15 marks)

Question 2

- a) Applied Corporation has issued 30-year semiannual coupon bonds with a face value of \$1,000. If the annual coupon rate is 12% and the current yield to maturity is 16%, what is the firm's current price per bond? (5 marks)
- b) Eddy Roger Inc. has outstanding \$1,000 face value 7% coupon bonds that make semiannual payments, and have 15 years remaining to maturity. If the current price for these bonds is \$957.50, what is the annualized yield to maturity? (5 marks)
- c) How are the cash flows of a zero-coupon bond different from those of a coupon bond? (5 marks)

- d) Universal Ltd is concerned about changes its short-term financial position. The following financial information is provided:

Year to 31 December	2016	2017
	RM	RM
Sales	773,000	843,000
Cost of goods sold	620,000	660,000
Cash (overdraft)	15,000	(20,000)
Debtors	93,400	126,800
Creditors	18,700	38,200
Stocks	106,500	194,000

Calculate the length (in days) of Universal's cash conversion cycle (CCC) for 2016 and 2017. Assume 365 days a year. Comment on the relationship between CCC and working capital. (10 marks)

Question 3

- a) Beta plc is just about to pay an annual equity dividend of \$0.15 per share. The current share price cum dividend is \$2.65. Using the dividend valuation model or dividend growth model, what is the cost of Beta plc's equity if:
- No dividend growth is expected in the future (3 marks)
 - Annual dividend growth of 5.5% per annum is expected into the foreseeable future. (3 marks)
- b) A company currently pays a dividend of \$0.32; five years ago the dividend was \$0.20. Estimate the annual growth rate in dividends. (4 marks)
- c) You buy a stock for which you expect to receive an annual dividend of \$1.10 for the twenty years that you plan on holding it. After 20 years, you expect to sell the stock for \$28.50. What is the present value of a share for this company if you want a 10% return? (5 marks)
- d) Determining a dividend payout policy is one of the major responsibilities of a company's board of directors. Suggest factors that should be considered before paying out dividends to shareholders. (10 marks)

Question 4

- a) Northern Quest Sdn. Bhd. provides you with the following details of two projects. All cash flows are shown on an after-tax basis.

<u>Year</u>	<u>Project A1</u> RM	<u>Project B2</u> RM
0	(125,000)	(125,000)
1	150,000	20,000
2	25,000	25,000
3	20,000	150,000

Required:

- i) Calculate the payback period for each project. (8 marks)
- ii) If the cost of capital is 18%, calculate the net present value for each job. (8 marks)
- iii) Based on (i) & (ii), which project would you prefer and why? (2 marks)
- b) Rogue River, Inc. is considering a project that has an initial outlay or cost of \$410,000. The respective future cash inflows from its four-year project for years 1 through 4 are: \$90,000, \$110,000, \$125,000, and \$160,000, respectively. Use internal rate of return method to evaluate projects. Shall Rogue River accept the project if its expected return rate is 10%? (7 marks)

Question 5

- a) Zetaplidy plc plans to invest \$1,250,000 in a new plant and machinery. The following is an extract from the balance sheet of Zetaplidy plc at 31st December 2017:

	\$'m
Ordinary Shares of \$1 nominal value	50
10% coupon bond	<u>15</u>
Long term funds	<u>65</u>

Other information

The current share price is \$13.50 ex div and a dividend of \$1.55 per share has been paid for many years. Zetaplidy plc has no intention of changing the existing dividend policy. The bond is giving 10% coupon interest and the corporation tax is 23%.

Zetaplid plc uses the Weighted Average Cost of Capital (WACC) to evaluate investment projects.

Required:

Calculate the Weighted Average Cost of Capital of Zetaplid plc, using the above relevant financial information. (9 marks)

- b) Please calculate the number for (i) to (iii). (You do not require to copy the table) (7 marks)

Expected return, ER	Risk Free, R_f	Beta, β	Expected Market Return
18%	5%	(i)	15%
(ii)	4%	1.25	12%
15%	7%	0.65	(iii)

- c) Modigliani and Miller (M & M) theorized that the market value of a firm is determined by its earning power and by the risk of its underlying assets, and that its value is independent of the way it chooses to finance its investments or distribute dividends. Discuss the THREE (3) key assumption the basic M&M proposition made. (9 marks)

Question 6

- a) What do you regard as the main limitations of the CAPM? (10 marks)
- b) i) Calculate the expected returns and standard deviation of returns for Investments in project X & Y below. (10 marks)

Economic Climate	Probability	Return from X (%)	Returns from Y (%)
Recession	0.2	10	6
Stable	0.5	14	15
Expansion	0.3	20	11

1.0

- ii) Based on your calculation at (i), which project is the preferable investment? And to justify your decision. (5 marks)

- The End -

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