

**FINAL ALTERNATIVE ASSESSMENT**  
Examination Paper

(COVER PAGE)

Session : August 2021

Programme : Diploma in Finance (DIF/DFIN)

Course : FIN2150: Financial Management

Date of Examination : December 10, 2021 (Friday)

Time : 8:00am – 10:30am Reading Time : Nil

Duration : 2 Hours 30 Minutes

**Note: 30 minutes is added into the duration of the examination to factor in any connectivity matters and for you to scan and upload your scripts.**

**Special Instructions :**

This paper consists of **FOUR (4)** questions. Answer **ALL** questions.

Materials permitted : Non-Programmable Calculator

Materials provided : Mathematical Tables

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Moderator : Dr. Asri bin Osman

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

## INTI INTERNATIONAL UNIVERSITY &amp; COLLEGES

DIPLOMA IN FINANCE (DIF/DFIN)  
 FIN2150: FINANCIAL MANAGEMENT  
 FINAL ALTERNATIVE ASSESSMENT: AUGUST 2021 SESSION

**Instruction:**

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

**Question 1**

There are two machines, Zenith and Super. The relevant data relating to each of these are as follows:

	<i>Zenith</i>	<i>Super</i>
	RM	RM
Cost (payable immediately)	20,000	25,000
Annual savings:		
Year 1	4,000	8,000
2	6,000	6,000
3	6,000	11,000
4	7,000	6,000
5	6,000	3,000

- (a) Calculate the net present value for each machine, if the required return is 12% per annum. Recommend if any, of these two machines that should be bought. (9 marks)
- (a) Calculate the payback period of Zenith and Super. (5 marks)
- (b) If only one machine can be selected, would you propose Zenith or Super? Explain your answer based on (a) and (b) above. (4 marks)
- (c) Calculate net present value of Zenith, if the required rate of return is revised to 20% per annum. (3 marks)
- (d) Based on your earlier answers to (a) and (d), calculate the internal rate of return of Zenith. (4 marks)

**(TOTAL = 25 marks)**

**Question 2**

- (a) Provide **THREE (3)** reasons to explain why debt capital is usually most cost-effective than equity. (3 marks)
- (b) Explain why high borrowing levels by a corporation can be risky to its shareholders. (2 marks)
- (c) Hazelwood Co is financed by 1 million ordinary shares, 0.6 million 6% preference shares and RM0.8 million (nominal) loan notes.

1 million ordinary shares (issue price per share: RM1.20): These are expected to yield a dividend of RM0.10 per share in one year's time. Dividends are expected to grow by 10% of the previous year's dividend, each year. The current market price of the share is RM1.80 each;

0.6 million 6% preference shares (issue price per share: RM1.00): The current market price of the preference share is RM0.60 each;

RM0.8 million (nominal) loan notes: These will pay interest at the end of each year of 9.625% (of nominal) for three years. After three years, the loan notes will be redeemed at their nominal value. Currently the loan notes are quoted in the capital market at RM96.71 (per RM100 nominal).

Income tax rate is 20%.

**Required:**

Calculate the following items:

- (i) cost of ordinary shares (3 marks)
- (ii) cost of preference shares (3 marks)
- (iii) after-tax cost of loan notes (6 marks)
- (iv) weighted average cost of capital (8 marks)

**(TOTAL = 25 marks)**

**Question 3**

- (a) An ordinary shares has dividend growth of 10% for Years 1 to 5, and 8% thereafter. Shareholders require a return of 12%. The dividend recently paid in Year 0 was RM0.25.

Calculate the price of the ordinary shares.

(12 marks)

- (b) A business owns a bond that pays a 6% coupon rate with a RM 100 par value. It matures in 3 years. The market's required yield to maturity on a comparable risk bond is 9%.

Calculate the price of the bond.

(5 marks)

- (c) If a business has RM10 million to invest for two years, which of the following investment options should it select?

- (i) Invest the monies at compound return of 12% per annum, compounded semi-annually.  
(ii) Invest the monies at compound return of 11.88% per annum, compounded monthly.

(8 marks)

**(TOTAL = 25 marks)**

**Question 4**

- (a) Explain **SIX (6)** factors that should be taken into account when determining the level/ amount of dividend payment.

(9 marks)

- (b) Mandalorian Co is a newly formed company. The board of directors of the company is currently trying to decide upon the most appropriate dividend policy to adopt for the company's shareholders. However, there is strong disagreement between two of the directors (Ben White and Ahmad Shah) regarding the benefits of declaring cash dividends.

Ben argues that whether a cash dividend is paid or not is irrelevant in the context of shareholder wealth maximization.

Ahmad states that cash dividends would be welcomed by investors. According to him, a higher dividend payout ratio as possible would result in a bigger increase in the market value of the company's shares.

**Required:**

Discuss the views, including drawbacks, of the following dividend policies:

- (i) The dividend policy based on the research work of Miller and Modigliani (the view taken by Ben White).  
(8 marks)
- (ii) The traditional view of dividend policy (the view taken by Ahmad Shah).  
(8 marks)

**(TOTAL = 25 marks)**

**~THE END~**

*FIN2150 (F)/ August 2021 Session/ formatted*