

**FINAL**  
Examination Paper

(COVER PAGE)

Session : AUGUST 2019

Programme : DIPLOMA IN FINANCE (DIF/DFIN)

Course : FIN2150: FINANCIAL MANAGEMENT

Date of Examination : 9<sup>th</sup> December 2019,(Monday)

Time : 2.00 pm - 4.00 pm 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 Calculator

Materials provided :  
Answer Booklet

Examiner(s) : Ms Eunice Mok Pei Sea, Mr Yap Tat Hiung

Moderator : Ms Lim Tan Chin

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

INTI INTERNATIONAL UNIVERSITY & COLLEGES  
DIPLOMA IN FINANCE (DIF)  
FIN2150: FINANCIAL MANAGEMENT  
FINAL EXAMINATION: AUGUST 2019 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) Given the following corporate objectives, provide a reasonable argument explaining which of them should be the main goal of the financial manager:
- (i) profit maximisation;
  - (ii) maximisation of benefit to employees and the local community;
  - (iii) maximisation of shareholder wealth. (15 marks)
- b) A typical company has many types of shareholders, from individuals holding a few shares, to large institutions that hold very large numbers of shares. How does a financial manager ensure that the priorities and concerns of such disparate stockholders are met? (4 marks)
- c) Explain with an example why the Valuation Principle is a key concept in making financial decisions. (6 marks)

**Question 2**

- a) Which of the following bonds would have highest returns: a corporate Aaa bond, a Treasury Bill or a corporate Baa bond? What determines the differences in returns among these bonds? (Assuming that the maturities of all these bonds are the same) (5 marks)
- b) BigHero Corporation's recent earnings per share were RM15.50. Their dividend payout ratio is 20%. Earnings are expected to grow at an average of 5% per year and the company's policy is to maintain the same payout ratio. If investors are requiring a 13% rate of return on this stock, what will they be willing to pay for one share? (5 marks)

- c) Benitech's preferred stock is selling at RM64 on the market and pays an annual dividend of RM3.85 per share. (5 marks)
- What is the expected rate of return on the stock?
  - If an investor's required rate of return is 9%, what is the value of the stock for that investor?
  - Considering the investor's required rate of return (ii), does this stock seem to be a desirable investment?
- d) Eddy Roger Inc. has outstanding RM1,000 face value 7% coupon bonds that make annual payments, and have 15 years remaining to maturity. If the current price for these bonds is RM957.50, what is the annualized yield to maturity? (5 marks)
- e) Techcorn Ltd plans on issuing ten-year bonds with a face value of RM1,000 and a coupon rate of 6.8% (annual payments). The following table summarizes the YTM for similar ten-year corporate bonds of various credit ratings:

Rating	AAA	AA	A	BBB	BB
YTM	6.65%	7.25%	8.05%	8.55%	9.05%

Assuming that Luther's bonds receive an AA rating, what will be the bond's value? (5 marks)

### Question 3

- a) The firm has 1,000 bonds outstanding, each selling for RM1,100.00 with a required rate of return of 8.00%. Blenders has 5,000 shares of preferred stock outstanding, selling for RM40.00 per share and 50,000 shares of common stock outstanding, selling for RM18.00 per share. If the preferred stock has a required rate of return of 11.00% and the common stock requires a 14.00% return, and the firm has a corporate tax rate of 30%, calculate the firm's WACC adjusted for taxes. (10 marks)

b) A company provided the following information:

i. Trade receivables turnover	12.5 times
ii. Inventory turnover	5 times
iii. Trade payables turnover	9 times

Define the cash operating cycle and calculate the number of day by showing the full workings. (6 marks)

c) A company is evaluating its current stock control policy. Its daily demand for widgets is steady at 50 a day for each of the 250 working days (50 weeks) of the year. The widgets are currently bought weekly in batches of 300 from a local supplier for RM2.50 each. The cost of ordering the boxes from the local supplier is RM75 per order, regardless of the size of the order. The inventory holding costs, expressed as a percentage of inventory value, are 28%.

Calculate the economic order quantity of the company. (4 marks)

d) Interpret the following statement:

“A company has a quick ratio of 1.6 and a current ratio of 1.8. Industry averages are 1.0 for the quick ratio and 2.0 for the current ratio.” (5 marks)

#### Question 4

a) Orientgold, Inc. is considering a four-year project that has an initial outlay or cost of RM110,000. The future cash inflows from its project are RM40,000, RM40,000, RM40,000, and RM40,000 for years 1, 2, 3 and 4, respectively. Orientgold uses the internal rate of return method to evaluate projects. What is the approximate IRR for this project? Shall Orientgold accept the project if its expected return rate is 10% (10 marks)

b) River Inc. is considering a project that has an initial after-tax outlay or after-tax cost of RM220,000. The respective future cash inflows from its four-year project for years 1 through 4 are: RM50,000, RM60,000, RM70,000 and RM80,000. Rogue River uses the net present value method and has a discount rate of 11%. Will River accept the project? (7 marks)

c) Net Present value (NPV) is commonly in capital budgeting to analysis the project investment. Discuss the TWO (2) advantages and TWO (2) disadvantages of using NPV (8 marks)

**Question 5**

- a) The Algebra Corporation is planning to undertake a new project for investment. They are considering between Project X and Project Y by analyst the following information.

	Project X		Project Y	
Initial Investment	RM10,000		RM10,000	
Annual rate of return				
	Return	Prob.	Return	Prob.
Pessimistic	11%	0.30	9%	0.30
Most Likely	18%	0.45	18%	0.45
Optimistic	22%	0.25	25%	0.25

- i) Compute expected rate, variance and standard deviation for each machine. (10 marks)
- ii) Which project should the company undertake? (2 marks)
- b) Given the following data:
- Beta  
 Share X = 0.75  
 Share Y = 1.34  
 Share Z = 0.98
- Returns on the Market Portfolio = 12.1%  
 Expected Returns on Share X = 9.7%
- Using the Capital Asset Pricing Model (CAPM), what are the expected returns on Shares Y and Z? (7 marks)
- c) Discuss a market risk that caused by factors beyond the control of a specific company, provide ONE (1) example. (6 marks)

**Question 6**

A company is thinking of rewarding shareholders and has suggested these three options:

Option 1: 2-for-5 bonus issue in addition to the normal dividend

Option 2: 1-for-5 scrip dividend instead of the normal cash dividend

Option 3: 1-for-1 share split in addition to the normal dividend.

The company's shares are trading at RM3.00 cum div and the company has RM50 million of profit from this year's activities available to ordinary shareholders of which RM30 million will be paid as a dividend if option (1) or option (3) is chosen.

- a) Compute and demonstrate the likely effect on the company's share price for each option. (5 marks)
- b) Comment on the usefulness of these methods in fulfilling the objective of providing an extra return to the company's shareholders. (5 marks)
- c) Explain the reasons the company would consider proposing a share split. (5 marks)
- d) Discuss whether investors would prefer an efficient or inefficient stock market. (5 marks)
- e) Explain Modigliani and Miller's theories on the impact of gearing levels on the value of a business. (5 marks)

- The End -

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