



BERJAYA BUSINESS SCHOOL

FINAL EXAMINATION

Student ID :

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Student Name :

Course Code & Name : **BBM1306 Introduction to Finance**
Trimester & Year : January – April 2018
Lecturer/Examiner : Tey Sheik Kyin
Duration : 3 Hours

INSTRUCTIONS TO CANDIDATES

1. This question paper consists of 2 parts:
PART A (25 marks) : ONE (1) short essay question. Answers are to be written in the Answer Booklet provided.
PART B (75 marks) : THREE (3) problem solving questions. Answers are to be written in the Answer Booklet provided.
2. Candidates are not allowed to bring any unauthorised materials except writing equipment into the Examination Hall. Electronic dictionaries are strictly prohibited.
3. This question paper must be submitted along with all used and/or unused rough papers and/or graph paper (if any). Candidates are NOT allowed to take any examination materials out of the examination hall.
4. Only ballpoint pens are allowed to be used in answering the questions, with the exception of multiple choice questions, where 2B pencils are to be used.

WARNING: The University Examination Board (UEB) of BERJAYA University College regards cheating as a most serious offence and will not hesitate to mete out the appropriate punitive actions according to the severity of the offence committed, and in accordance with the clauses stipulated in the Students’ Handbook, up to and including expulsion from BERJAYA University College.

Total Number of pages = 5 (Including the cover page)

PART A : SHORT ESSAY QUESTION (25 MARKS)

INSTRUCTION : **ONE (1)** short essay question. Answer the question in the Answer Booklet(s) provided.

Question 1

- a. If you were considering starting up a lawn-care business for the summer, what type of business organization you might use? Explain the advantages and disadvantages of business organization you chose. (7 marks)
- b. Explain **THREE (3)** types of business decisions that a financial manager faces. (9 marks)
- c. Briefly explain the differences between money market and capital market. (9 marks)

[Total: 25 marks]

END OF PART A

PART B : PROBLEM SOLVING QUESTIONS (75 MARKS)

INSTRUCTION(S) : THREE (3) problem solving questions. Answer ALL questions in the Answer Booklet(s) provided.

Question 1

The financial statements and industry norms are shown below for ABC, Inc.:

Genius, Inc. Balance Sheet (\$000)			
Cash	200	Account payable	200
Accounts receivable	450	Accrued expenses	0
Inventories	550	Short term notes	0
Current Asset	1,200	Current liabilities	200
Net fixed assets	1,200	Long term debt	600
		Owners' equity	1,600
Total Assets	2,400		
		Total liabilities and owners' equity	2,400

Genius, Inc. Income Statement (\$000)	
sales	1,200
Cost of goods sold	(700)
Gross profit	500
Operating expense(includes \$500 depreciation	(250)
Net operating income	250
Interest expense	(50)
Earnings before taxes	200
Income taxes (40%)	(80)
Net Income	120

- a. Based on income statement and balance sheet statement above, discuss the company's financial condition. (6 marks)
- b. What fraction of the firm's asset does the firm finance using debt? What can you say about the capital structure of Genius If peer group average debt ratio is 40 percent? (4 marks)
- c. How liquid is the firm if peer group current ratio is 5 and inventory turnover is 2.2 days. (8 marks)
- d. Given Genius's stock was selling for RM 1.5, there were 350000 share outstanding. Calculate the price per earnings ratio and market-to book ratio. Interpret your answers. What do the shareholders think about the firm's future growth prospects if the peer group price earnings ratio is 3 times? (7 marks)
- [Total: 25 marks]**

Question 2

- a. You plan to buy property in Klang Valley five years from today. To do this, you estimate that you will need RM30,000 at that time for the purchase. You would like to accumulate these funds by making equal annual deposits in your saving account, which pays 10 percent annually. If you make your first deposits at the end of this year and you would like your account to reach 30,000 when the final deposit is made.
- i. What amount do you need to deposit annually? (4 mark)
- ii. If you decide to make a large lump-sum deposit today instead of the annual deposits, how large should the lump-sum deposit be? (Assume you can earn 10 percent on this deposit.) (4 marks)
- iii. At the end of two years, you will receive RM10,000 and deposit it in an effort to reach your goal of RM30,000 at the end of five years. In addition to the deposit, how much must you deposit in equal annual deposits to reach your goal? (Again, assuming you can earn 10 percent on this deposit). (8 marks)

- b. At the beginning of the year, you bought a RM1,000 par value corporate bond with a 6 percent annual coupon rate and a 10-year maturity date. When you bought the bond, it had an expected yield to maturity of 8 percent. Today the bond sells for RM1,060. What did you pay for bond? If you sold the bond at the end of the year, what would be your one-period return on the investment?

(9 marks)

[Total: 25 marks]

Question 3

You are considering two independent projects, project A and project B. The initial cash outlay associated with project A is RM50,000, and the initial cash outlay associated with project B is RM70,000. The required rate of return on both projects is 12 percent. The expected annual fee cash inflows from each project are as follows:

	Project A	Project B
Initial outlay	-50,000	-70,000
Inflow year 1	12,000	13,000
Inflow year 2	12,000	13,000
Inflow year 3	12,000	13,000
Inflow year 4	12,000	13,000
Inflow year 5	12,000	13,000
Inflow year 6	12,000	13,000

Calculate the net present value (NPV), profitability index (PI) and internal rate of return (IRR) for each project. Should this project be accepted? Explain your answers.

[Total: 25 marks]

END OF EXAM PAPER