



## BERJAYA BUSINESS SCHOOL

### FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) :

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Subject Code & Name : **BBM2306 FINANCIAL MANAGEMENT**  
 Semester & Year : JANUARY – APRIL 2016  
 Lecturer/Examiner : JOEL THAM  
 Duration : 3 Hours

#### INSTRUCTIONS TO CANDIDATES

- This question paper consists of 2 parts:
  - PART A (25 marks) : Answer all THREE (3) short answer questions. Answers are to be written in the Answer Booklet provided.
  - PART B (75 marks) : Answer all THREE (3) problem solving questions. Answers are to be written in the Answer Booklet provided.
- Candidates are not allowed to bring any unauthorized materials except writing equipment into the Examination Hall. Electronic dictionaries are strictly prohibited.
- 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.
- ONLY ballpoint pens are allowed to be used in answering the questions, with the exception of objective questions, where 2B pencils are to be used.

**WARNING:** The University Examination Board (UEB) of BERJAYA University College of Hospitality 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 of Hospitality.

Total Number of pages = 4 (Including the cover page)

## **SECTION A**

**Answer ALL questions**

### **Question 1**

List down (10) major factors affecting the dividend policy of a company.

(10 marks)

### **Question 2**

List down any seven (7) sources of short term credit financing.

(7 marks)

### **Question 3**

Identify and explain the four (4) main factors that influence personal income.

(8 marks)

## SECTION B

### ANSWER ALL QUESTIONS

#### QUESTION 1

	Current	Proposed	
Assets	RM5,000,000	RM5,000,000	
Debt	RM0	RM2,500,000	
Equity	RM5,000,000	RM2,500,000	
Debt / Equity Ratio	0	1	
Share Price	RM10	RM10	
Shares Outstanding	500,000	250,000	
Interest Rate	N/A	10%	
	Recession	Expected	Expansion
EBIT	RM300,000	RM65,0000	RM1,000,000

- a) How would the proposed capital structure affect shareholder return? (8 marks)
- b) What are the main conclusions that can be drawn from the proposed change in capital structure? (5marks)
- c) List down the main assumptions behind the first M&M proposition relating to capital structure. (12 marks)

**[Total: 25 marks]**

#### QUESTION 2

Suppose that you have \$20,000 and you wish to put \$6,000 in stock A and the remainder in Stock B.

State of Economy	Probability of state of economy	Stock A : Rate of return if state occurs	Stock B : Rate of return if state occurs
Recession	0.10	- 0.20	0.30
Normal	0.60	0.10	0.20
Boom	0.30	0.70	0.50

- a) Determine the expected return of your portfolio. (5 marks)
- b) Compute the standard deviation of your portfolio (8 marks)

- c) Explain in detail the purpose of computing beta coefficient and its role in determining investment risk.

(12 marks)

**[Total: 25 marks]**

### QUESTION 3

Suppose we have the following investment. You have \$100,000 and you wish to put \$30,000 in stock Euro and the remainder in Stock Asia.

Stock	Amount invested \$	Expected Return %	Beta
A	2,000	8	0.80
B	2,800	12	0.95
C	3,800	15	1.10
D	4,600	18	1.40

- a) Compute the expected return on this portfolio.

(6 marks)

- b) Compute the beta coefficient of this portfolio

(6 marks)

- c) Evaluate the level of market risk for this portfolio.

(6 marks)

- d) Explain the importance of diversification in investment.

(7 marks)

**[Total: 25 marks]**

**END OF QUESTION PAPER**