

**BERJAYA BUSINESS SCHOOL****FINAL EXAMINATION**

Student ID (in Figures) :

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Student ID (in Words) :

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Subject Code & Name : **BBM1306 Introduction To Finance**  
Semester & Year : MAY – AUGUST 2017  
Lecturer/Examiner : KARNAL SINGH  
Duration : 3 Hours

**INSTRUCTIONS TO CANDIDATES**

- 1. This question paper consists of 2 Parts:**  
**Part A [25 marks]: Answer TWO[2] Short Essay Questions. Answers are to be written in the Answer Booklet provided.**  
**Part B [75 marks]: Answer Three[3] Problem Solving Questions. Answers are to be written in the Answer Booklet provided.**
- 2. Candidates are not allowed to bring any unauthorized 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 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 = 5 (Including the cover page)**

**PART A : Short Essay Questions [25 marks]**  
**INSTRUCTIONS: Answer Both The TWO[2] Questions. Write your answers in the Answer Booklet(s) provided.**

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**Question 1**

The main objective for finance can be stated as 'The company should make investment and financing decisions with aim of maximizing shareholders wealth.'

- (a) Briefly describe four reasons why shareholders should be given priority. [4 marks]
- (b) Briefly describe what is shareholders wealth? [2 marks]
- (c) Briefly describe how is shareholders wealth measured? [2 marks]
- (d) Briefly describe four reasons why profit maximization is not the same as shareholders wealth maximization. [4 marks]

**[Total: 12 marks]**

**Question 2**

- (a) Briefly describe the differences between preference shares and ordinary shares. [2 marks]
- (b) Rasamu Bhd, a food manufacturing company, from the year 2013 through 2016 paid the following dividends per share

<b>Year</b>	<b>Dividend per share (RM)</b>
2013	1.24
2014	1.31
2015	1.38
2016	1.44

- (i) Calculate the annual growth rate. [2 marks]
- (ii) If the required rate of return is 15%, calculate the most you would be willing to pay per share. [3 marks]
- (c) Beta's ordinary shares currently sells for RM23 per share. The company's executives anticipate a constant growth rate of 10.5% and an end of year dividend of RM2.50.
- (i) Calculate the expected rate of return? [3 marks]
- (ii) If given a 17% return, comment whether the shares are worth buying? [3 marks]

**[Total: 13 marks]**

**PART B : Problem Solving Questions [75 marks]**  
**INSTRUCTIONS: Answer Any Three[3] Questions. Write your answers in the Answer Booklet[s] provided.**

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**Question 3**

Liverpool Football Club has had a successful season. Championship victories have guaranteed a place in the European Club for next year, a year that will see the possible purchase of the internationally renowned player Ritchie. The purchase of Ritchie is at a delicate stage. Figures have been compiled as follows:

Purchase consideration	RM1 million
Annual salary	RM100,000 per annum
Contract length	5 years
Extra income from season ticket holders	RM320,000 per annum
Extra income from turnstile receipts	RM280,000 per annum
Additional capital investment in Year 0	RM50,000
Additional expenses	RM40,000 per annum

Ideally the Club would like a 15% return on the investment

For the proposal calculate the:

- (i) Net present value [7 marks]
- (ii) Internal Rate of Return [8 marks]
- (iii) Payback period [6 marks]
- (iv) Profitability index figure [4 marks]

**[Total: 25 marks]**

**Question 4**

- (i) Briefly describe unsystematic risk and systematic risk? [5 marks]

- (ii) Universal Corporation is planning to invest in a security that has several possible rates of return. Given the following probability distribution of returns, calculate the expected rate of return on the investment? Also compute the standard deviations of the returns. Comment on the resulting numbers?

Probability	Return
0.10	-10%
0.20	5%
0.30	10%
0.40	25%

[10 marks]

- (iii) Ms Donna collected information on 2 different companies from Bursa Saham Malaysia. Given the probability distribution for the states of economy in Malaysia, which shares would you invest in?

	Alph Biotech		Astratech Bhd	
State of economy	Probability	Return %	Probability	Return%
Recession	0.20	8	0.30	-4

Normal	0.50	12	0.40	9
Boom	0.30	18	0.30	16

[10 marks]

[Total: 25 marks]

### Question 5

- (i) Encik Ali wants to earn RM500,000 in 15 years by making equal semi-annual deposits. The bank will pay interest of 10% annually. Calculate Encik Ali's semi-annual deposit? [5 marks]
- (ii) Maria wants to buy an apartment in the city center after her graduation in 4 years. An apartment costs RM20,000 and the price is expected to increase by 4% each year. Maria wants to sell her old house in the suburbs and make a deposit for 8% per annum. Calculate the cost of Maria's new apartment and how much she must save today? [7 marks]
- (iii) Nikora bhd, based in Malaysia, produces meat and milk products. The company sold old machinery for RM100,000 and decided to put this amount in a term deposit, which usually pays 10% annually.
- (a) Calculate the amount that Nikora will receive after 2, 4 and 7 years of deposit.
- (b) Re-calculate results from part (a) if bank offers 10% annual compound interest on semi-annual basis.
- (c) Briefly describe the conclusions drawn from the calculations you have completed in (a) and (b)?

[13 marks]

[Total: 25 marks]

### Question 6

#### Part (a)

The statement of financial position and income statement for the Arora Company are as follows:

#### Statement of financial position (RM000)

Cash	500
Accounts receivable	2,000
Inventories	1,000
Current assets	3,500
Net fixed assets	4,500
Total assets	8,000
Accounts payable	1,100
Accrued expenses	600
Short-term notes payable	300
Current liabilities	2,000
Long term debt	2,000

Owners' equity	4,000
Total liabilities and owners' equity	8,000
<b>Income statement (RM000)</b>	
Sales (all credit)	8,000
Cost of goods sold	3,300
Gross profit	4,700
Operating expenses (includes RM500 depreciation)	3,000
Operating profits	1,700
Interest expense	(367)
Earnings before tax	1,333
Income tax (40%)	533
Net income	800

Calculate the following ratios:

1. Current ratio
2. Times interest earned
3. Inventory turnover
4. Total asset turnover
5. Operating profit margin
6. Operating return on assets
7. Debt ratio
8. Days in receivables
9. Fixed-asset turnover
10. Return on equity

[15 marks]

**Part (b)**

The Tabor Sales Company had a gross profit margin of 30% and sales RM9 million last year. 75% of the firm's sales are on credit and the remainder are cash sales. Tabor's current assets is RM1.5 million, its current liabilities is RM100,000, and it has RM100,000 in cash plus marketable securities.

- (i) If Tabor's accounts receivable are RM562,500, calculate the average collection period?
- (ii) If Tabor reduces its days in receivables to 20 days, calculate the new level of accounts receivables?
- (iii) Tabor's inventory turnover ratio is 9 times, calculate Tabor's inventories?

[10 marks]

**[Total: 25 marks]**

**END OF EXAM PAPER**