



BERJAYA BUSINESS SCHOOL

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) : _____

Course Code & Name : **FIN1513 INTRODUCTION TO FINANCE**
 Trimester & Year : MAY – AUGUST 2019
 Lecturer/Examiner : MR.RAVINDRAN RAMAN
 Duration : 3 Hours

INSTRUCTIONS TO CANDIDATES

1. This question paper consists of 2 parts:
 PART A (25 marks) : TWO (2) short structured questions. Answers all question in the Answer Booklet provided.
 PART B (75 marks) : FOUR (4) problem solving and essay questions. Answers only THREE (3) out of FOUR (4) 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 = 4 (Including the cover page)

PART A : COMPULSORY QUESTION (25 MARKS)

INSTRUCTION (S) : There is **TWO (2)** compulsory question in this section. Write your answers in the Answer Booklet(s) provided.

Question 1

- (a) Define what security market line is and what does it represent. (5 marks)
- (b) Explain the meaning of beta and how is it used to calculate the investor's required rate of return. (3 marks)
- (Total 8 marks)**

Question 2

- (a) Explain the differences between the goals of profit maximization and maximization of shareholder wealth. (5 marks)
- (b) Discuss the **THREE (3)** legal form of business organizations. (12 marks)
- (Total 17 marks)**

END OF PART A

PART B : PROBLEM SOLVING AND ESSAY QUESTIONS (75 MARKS)

INSTRUCTION (S) : There are **FOUR (4)** questions in this section, answer only **THREE (3)** questions. Write your answers in the Answer Booklet(s) provided.

Question 1

Menang Sdn Bhd is considering a new project. The initial outlay for this project is RM80,000 and expected free cash flow of RM20,000 at the end of each year for 6 years. The required rate of return for this project is 10%.

- (a) Calculate the project's Payback and discounted payback period. (8 marks)
- (b) Calculate the project's Net Present Value (NPV). (4 marks)
- (c) Calculate the project's Profitability Index (PI). (3 marks)
- (d) Calculate the project's Internal Rate of Return (IRR). (3 marks)
- (e) Should this project be accepted? Give your reason. (3 marks)
- (f) Also Menang planned additional new plant which required initial outlay of RM10 million which will generate annual free cash inflows of RM3 million per year for 10 years. Calculate the new plant's MIRR, given a required rate of return of 10%. (4 marks)

(Total 25 marks)

Question 2

- (a) Calculate the present value of the following annuities
 - (i) RM2,500.00 a year for 10 years discounted back to the present at 7% (4 marks)
 - (ii) RM70.00 a year for 3 years discounted back to the present at 3% (4 marks)
- (b) Calculate the accumulated sum of each of the following streams of payment.
 - (i) RM500.00 a year for 10 years compounded annually at 5%. (4 marks)
 - (ii) RM100.00 a year for 5 years compounded annually at 10%. (4 marks)
- (c) Explain the concept of time value of money. (4 marks)
- (d) Discuss the differences between an annuity and a perpetuity. (5 marks)

(Total 25 marks)

Question 3

Diamond Good Bhd's 14 year, RM1,000 par value bonds pay 9% interest annually. The market price of the bond is RM1,100 and your required rate of return is 10%.

- (i) Calculate the bond's expected rate of return?
(4 marks)
 - (ii) Determine the value of the bond to you, given your required rate of return.
(4 marks)
 - (iii) Should you purchase the bond? Provide your comments.
(4 marks)
 - (iv) "In the bond investment the value of a long-term bond is more sensitive to a change in interest rates compared to a short-term bond". Discuss this statement.
(13 marks)
- (Total 25 marks)**

Question 4

- (a) Blue Stone Bhd's preferred stock is selling for RM33.00 in the market and pays an annual dividend of RM3.60.
 - (i) Calculate the expected rate of return on this stock.
(3 marks)
 - (ii) If an investor's required rate of return is 10%, what is the value of the stock for the investor?
(3 marks)
 - (iii) Should the investor acquire the stock? Explain.
(4 marks)
 - (b) The common stock of Best Design Bhd paid RM1.32 in dividends last year. Dividends are expected to grow at an 8% annual rate for an indefinite number of years.
 - (i) Suppose Best Design Bhd's current market price is RM23.50, what is the stock's expected rate of return?
(3 marks)
 - (ii) If your required rate of return is 10.5%, what is the value of the stock?
(3 marks)
 - (iii) Should you make this investment? Provide your comments.
(4 marks)
 - (c) Define what an investor's expected rate of return is.
(5 marks)
- (Total 25 marks)**

END OF QUESTION PAPER