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BERJAYA
UNIVERSITY COLLEGE
OF HOSPITALITY

BERJAYA BUSINESS SCHOOL

FINAL EXAMINATION

Student ID (in Figures) :

Student ID (in Words) : ______________________________

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Subject Code & Name : **FIN2213 FINANCIAL MANAGEMENT**
Semester & Year : September - December 2017
Lecturer/Examiner : Ms. Tey Sheik Kyin
Duration : 3 Hours

INSTRUCTIONS TO CANDIDATES

1. **This question paper consists of 2 parts:**
   PART A (25 marks) : TWO (2) short essay questions. Answers are to be shaded in the Multiple Choice Answer Sheet provided.
   PART B (75 marks) : FOUR (4) 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)**

INSTRUCTION : **TWO (2)** structure-type questions. Answer **ALL** questions in the Answer Booklet(s) provided.

Question 1

a. Briefly explain the three types of business decisions that a financial manager faces.

(6 marks)

b. Compare the notions of weak-form, semi-strong-form and strong market efficiency.

(6 marks)

[Total: 12 marks]

Question 2

a. Describe Franco Modigliani and Merton Miller's (M&M) capital structure theory and the fundamental assumption of M&M.

(9 marks)

b. Distinguish between permanent asset investments and permanent sources of financing.

(4 marks)

[Total: 13 marks]

END OF PART A

PART B : **PROBLEM SOLVING QUESTIONS (75 MARKS)**

INSTRUCTION(S) : **FOUR (4)** problem solving questions. Answer **ALL** questions in the Answer Booklet(s) provided.

Question 1

As a member of Finance Department of Ranch Manufacturing, your supervisor has asked you to compute the appropriate discount rate to use when evaluating the purchase of new packaging equipment for the plant. Under the assumption that the firm's present capital structure reflects the appropriate mix of capital sources for the firm, you have determined the market value of the firm's capital structure as follows:

Source of capital	Market values (RM)
Bonds	4,000,000
Preferred stock	2,000,000
Common stock	6,000,000

To finance the purchase, Ranch Manufacturing will sell 10-year bonds paying interest at a rate of 7 percent per year (with semiannual payments) at the market price of RM1,050. Preferred stock paying a RM2.00 dividend can be sold for RM25. Common stock for Ranch Manufacturing is currently selling for RM55 per share and the firm paid a RM3 dividend last year. Dividends are expected to continue growing at a rate of 5 percent per year into the indefinite future. If the firm's tax rate is 30 percent, what discount rate should you use to evaluate the equipment purchase?

(15 marks)

[Total: 15 marks]

Question 2

Family Security is considering introducing tiny GPS trackers that can be inserted in the sole of a child's shoe, which would then allow for the tracking of that child if he or she was ever lost or abducted. The estimates, which might be off by 10 percent (either above or below), associated with this new product are as follows:

Unit price:	**RM125**
Variable costs	RM75
Fixed costs	RM250,000 per year
Expected sales:	10,000 unit per year

Because this is a new product line, you are not confident in your estimates and would like to know how well you will fare if your estimates in the items listed above are 10 percent higher or 10 percent lower than expected. Assume that this new product line will require an initial outlay of RM1 million with no working capital investment, no residuals or salvage value and will last for 10 years. In addition, the firm's required rate of return or cost of capital is 10 percent, and the firm's marginal tax rate is 34 percent. Calculate the project's NPV under the "best-case scenario" (that is, use the high estimates – unit price 10 percent above expected, variable costs 10 percent less than expected, fixed cost 10 percent less than expected, and expected sales 10 percent more than expected) and worst-case scenario (unit price 10 percent less than expected, variable costs 10 percent more than expected, fixed cost 10 percent more than expected and expected sales 10 percent less than expected).

(25 marks)

[Total: 25 marks]

Question 3

You are putting together a portfolio made up of four different stocks. However, you are considering two possible weightings:

		Portfolio Weightings	
Asset	**Beta**	**First portfolio**	**Second portfolio**
A	2.5	10%	40%
B	1.0	10%	40%
C	0.5	40%	10%
D	-1.5	40%	10%

a. What is the beta on each portfolio? Which portfolio is riskier?

(5 marks)

b. If the risk-free rate of interest were 4 percent and the market risk premium were 5 percent, what rate of return would you each of the portfolios?

(5 marks)

[Total: 10 marks]

Question 4

The most recent balance sheet for the Armadillo Dog Biscuit Co. is shown in the following table. The company is about to embark on an advertising campaign that is expected to raise sales from the current level of RM5 million to RM7 million by the end of next year. The firm is currently operating at full capacity and will have to increase its investment in both current and fixed assets to support the projected level of new sales. In fact, the firm estimates that both categories of assets will rise in direct proportion to the projected increase in sales.

Armadillo Dog Biscuit Co., Inc. (RM million)

	Present Level	Percent of sales	Projected level
Current assets	2.0		
Net fixed assets	3.0		
Total	5.0		
Account payable	0.5		
Accrued expenses	0.5		
Notes payable			
Current liabilities	1.0		
Long- term debt	2.0		
Common stock	0.5		
Retained earning	1.5		
Common equity	2.0		
Total	5.0		

The firm's net profits were 6 percent of current year's sales but are expected to rise to 7 percent of next year's sales. To help support its anticipated growth in asset needs next year, the firm has suspended plans to pay cash dividends to its stockholders. In past year, a RM1.50 per share dividend was paid annually. Armadillo's payables and accrued expenses are expected to vary directly with sales. In addition, notes payable will be used to supply the funds that are needed to finance next year's operations that are not forthcoming from other sources.

a. Fill in the table and projects the firm's needs for discretionary financing. Uses notes payable as the balancing entry for future discretionary financing needs.

(15 marks)

b. Compare Armadillo's current ratio and debt ratio before the growth in sales and after. What was the effect of the expanded sales on these two dimensions of Armadillo's financial condition?

(10 marks)

[Total: 25 marks]

END OF QUESTION PAPER