



Private & Confidential

BERJAYA BUSINESS SCHOOL

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) : _____

Subject Code & Name : **FIN1314 FUNDAMENTALS OF FINANCE**
Semester & Year : September- December 2017
Lecturer/Examiner : Ms. Tey Sheik Kyin
Duration : 2 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 written in the Answer Booklet 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) short essay questions. Answer ALL questions in the Answer Booklet(s) provided

Question 1

- a. “The case of Enron’s scandal is an example where the agency problem reached such substantial proportion that it has led to a collapse of the company where heavy financial losses to the shareholders are involved.” Explain what is meant by agency problem and how shareholders can reduce agency problems.

(9 marks)

- b. Explain preferred stock and what makes preferred stock “preferred”?

(6 marks)

[Total: 15 marks]

Question 2

- a. The Extract Balance sheet for ABC, Inc. spanning the period are as follows:

Extract of Balance sheet (RM millions) December 31, 2016

Current Asset	643.5	Current Liabilities	288
Net plant and equipment	1327.5	Long term debt	771.75
Total asset	1971	Total liabilities	1059.75
		Total common stockholders’ equity	911.25
		Total liabilities and stock holders’ equity	1971

Explain term “net working capital” and identify ABC’s net working capital.

(4 marks)

- b. Distinguish the notions of weak-form and strong form market efficiency.

(6 marks)

[Total: 10 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

XYZ's management has long viewed UVW as an industry leader and uses this firm as a model for analyzing its own performance. The balance sheets and income statements for the two firm are as follows:

	XYZ, Inc. Balance sheet (RM000)	UVW, Inc. Balance sheet (RM000)
Cash	2,000	1,500
Accounts receivable	4,500	6,000
Inventories	1,500	2,500
Current Asset	8,000	10,000
Net fixed assets	16,000	25,000
Total Assets	24,000	35,000
Account payable	2,500	5,000
Accrued expenses	1,000	1,500
Short term notes	3,500	1,500
Current liabilities	7,000	8,000
Long term debt	8,000	4,000
Owners' equity	9,000	23,000
Total liabilities and owners' equity	24,000	35,000

	XYZ, Inc. Income Statement (RM000)	UVW, Inc. Income Statement (RM000)
sales	48,000	70,000
Cost of goods sold	(36,000)	(42,000)
Gross profit	12,000	28,000
Operating expense	(8,000)	(12,000)
Net operating income	4,000	16,000
Interest expense	(1,150)	(550)
Earnings before taxes	2,850	15,450
Income taxes (40%)	(1,140)	(6,180)
Net Income	1,710	9,270

Analyze and compare two firms' financial position in terms of liquidity, capital structure, asset management efficiency and profitability.

(20 marks)

[Total: 20 marks]

Question 2

Nicki, a sophomore mechanic engineering student, received a call from an insurance agent who believes that Nicki is an older woman who is ready to retire from teaching. He talks to her about several annuities that she could buy that would guarantee her a fixed annual income. The annuities are as follows:

Annuity	Purchase Price of the Annuity	Amount of Money received per year	Duration of the Annuity (Years)
A	50000	8500	12
B	60000	7000	25
C	70000	8000	20

Nicki could earn 11 percent on her money by placing it in a savings account. Alternatively, she could place it in any of the above annuities. Which annuities in the table above, if any, will earn Nicki a higher return than investing in the savings account earning 11 percent?

(15 marks)

[Total: 15 marks]

Question 3

- a. Generation Public Utilities issued a bond with a RM1000 par value that pays RM80 in annual interest. It matures in 20 years. Your required rate of return is 7 percent.

- i. Calculate the value of the bond

(2 marks)

- ii. How does the value change if your required rate of return increases to 10 percent?

(2 marks)

- iii. Explain the implications of your answers in part i and ii.

(3 marks)

- b. You are planning to purchase 100 shares of preferred stock and must choose between stock in Kirsten Corporation and Titus Corporation. Your required rate of returns is 9 percent. If the stock in Kristen pays a dividend of RM2 and is selling for RM23 and the stock in Titus pays a dividend of RM3.25 and is selling for RM31, which stock should you choose?

(8 marks)

[Total: 15 marks]

Question 4

You are considering buying a machine that will require an initial outlay of RM54,200. The machine has an expected life of 5 years and will generate free cash flows to the company as a whole of RM20,608 at the end of each year over its 5-year life. In addition to the RM20,608 cash flow from operations during the fifth and final year, there will be an additional free cash inflow of RM13,200 at the end of the fifth year associated with the salvage value of the machine, making the cash flow in year 5 equal to RM33,808. Given a required rate of return of 15 percent. Visualize the cash flows and calculate the project's net present value (NPV), profitability index (PI) and internal rate of return (IRR). Should this project be accepted? Explain your answers based on the investment criteria of NPV, PI and IRR.

(25 marks)

[Total: 25 marks]

END OF QUESTION PAPER