



Private & Confidential

BERJAYA BUSINESS SCHOOL

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) : _____

Subject Code & Name : **FIN1013 INTRODUCTION TO 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. Simon and Sally went to business school together 10 years ago. They have just been hired by a mid-sized corporation that wants to bring in new financial managers. Simon studied finance, with an emphasis on financial markets and institutions. Sally majored in accounting and became a Certified Public Accountant (CPA) 5 years ago. Who is more suited to treasurer and who is controller? Explain.

(6 marks)

- b. Explain the **FOUR (4)** differences between a debt security and an equity security.

(8 marks)

[Total:14 marks]

Question 2

- a. Define the required rate of return of a stock. How can it be measured?

(4 marks)

- b. Balance sheet (RM millions) December 31, 2016

Current Asset	477	Current Liabilities	292.5
Net plant and equipment	1,287	Long term debt	720
Total asset	1,764	Total liabilities	1,012.50
		Total common stockholders' equity	751.50
		Total liabilities and stock holders' equity	1,764

Based on table above,

- i. Identify the firm's net working capital.

(2 marks)

- ii. What can you say about the company's financial condition?

(5 marks)

[Total:11 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

The balance sheet and income statement for ABC corporation are as follows :

ABC, Inc. Balance Sheet (\$000)			
Cash	500	Account payable	1,100
Accounts receivable	2,000	Accrued expenses	600
Inventories	1,000	Short term notes	300
Current Asset	3,500	Current liabilities	2,000
Net fixed assets	4,500	Long term debt	2,000
		Owners' equity	4,000
Total Assets	8,000		
		Total liabilities and owners' equity	8,000

ABC, Inc. Income Statement (\$000)	
sales	8,000
Cost of goods sold	(3,300)
Gross profit	4,700
Operating expense(includes \$500 depreciation)	(3,000)
Net operating income	1,700
Interest expense	(367)
Earnings before taxes	1,333
Income taxes (40%)	(533)
Net Income	800

- a. Calculate the following ratios:

	Industry averages	ABC
Current ratio	1.90	
Debt ratio	40%	
Times interest earned	4.02	
Total asset turnover	0.8	
Operating return on assets	19.8%	

(10 marks)

- b. Compare ABC's financial ratios to the industry norms listed above (part a) and assess each of the following attributes of the firm's financial condition: profitability, management efficiency, liquidity and capital structure.

(10 marks)

[Total: 20 marks]

Question 2

You would like to have RM75,000 in 15 years. To accumulate this amount, you plan to deposit an equal sum in the bank each year that will earn 8 percent interest compounded annually. Your first payment will be made at the end of the year.

- a. How much must you deposit annually to accumulate this amount?
- (4 marks)
- b. If you decide to make a large lump-sum deposit today instead of the annual deposits, how large should the lump-sum deposit be? (Assume you can earn 8 percent on this deposit.)
- (4 marks)
- c. At the end of five years, you will receive RM20,000 and deposit it in the bank in an effort to reach your goal of RM75,000 at the end of 15 years. In addition to the deposit, how much must you deposit in equal annual deposits to reach your goal? (Again, assume you can earn 8 percent on this deposit.)

(7 marks)

[Total: 15 marks]

Question 3

- a. The Saleemi Corporation's RM1,000 bonds pay 5 percent interest annually and have 12 years until maturity. You can purchase a bond for RM915.
- i. Determine the yield to maturity. (4 marks)
 - ii. What is the value of the bond to you given the yield to maturity on a comparable-risk bond is 9 percent? (2 marks)
 - iii. Should you purchase the bond? (3 marks)
- b. Given that a firm's return on equity is 18 percent and management plans to retain 40 percent of earnings for investment purpose, what will be the firm's growth rate? If the firm decides to increase its retention rate, what will happen to the value of its stock? (6 marks)
- [Total: 15 marks]**

Question 4

FIN, Inc. is considering a major expansion of its product line and has estimate the following cash flows associated with such an expansion. The initial outlay would be RM1,950,000, and the project would generate cash flows of RM450,000 per year for six years. The appropriate discount rate is 9 percent. Visualize cash flows and calculate the project's net present value (NPV), probability 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