C/n 0/151351

UNIVERSITI MALAYSIA TERENGGANU

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# UNIVERSITI MALAYSIA TERENGGANU

## FINAL EXAMINATION

## SEMESTER I 2020/2021 SESSION (DEGREE PROGRAMME)

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|---|---|---|
| **COURSE** | **:** | **KEWANGAN PENGURUSAN** |
| **COURSE CODE** | **:** | **FIN3000** |
| **DATE** | **:** | **20 FEBRUARY 2021 (SATURDAY)** |
| **VENUE** | **:** | **ONLINE** |
| **TIME** | **:** | **9.00 AM – 12.00 NOON (3 HOURS)** |

| | | |
|---|---|---|
| **STUDENT NO.** | **:** | ____________________ |
| **PROGRAMME** | **:** | ____________________ |
| **SEAT NO.** | **:** | ____________________ |

**INSTRUCTIONS TO CANDIDATES**

i. Answer all questions

**DO NOT OPEN THE QUESTION PAPER UNTIL INSTRUCTED**

THIS QUESTION PAPER CONSISTS OF (23) PRINTED PAGES

**MULTIPLE CHOICE QUESTIONS (100 Marks – 2 marks for each question)**

1. Suzy wants to buy a house but does not want to get a loan. The average price of her dream house is RM550,000 and its price is growing at 5 percent per year. How much should Suzy invest in a project at the end of each year for the next 5 years in order to accumulate enough money to buy her dream house with cash at the end of the fifth year? Assume the project pays 12 percent rate of return.

A) RM110,495.35
B) RM701,954.86
C) RM638,141.00
D) RM78,705.45

2. A certain investment that costs RM10,000 today promises to pay you RM10,500 in five years. This investment ________.

A) is unambiguously a good investment
B) is unambiguously a bad investment
C) may be a good investment if the rate of return you can earn an alternative investments is very low
D) may be a good investment if the rate of return you can earn on alternative investments is very high

3. Calculate the future value of RM4,500 received today if it is deposited at 10 percent for 8 years.

A) RM5,5957.13
B) RM9,646.15
C) RM9,860.51
D) RM6,122.60

4. You have been given the opportunity to earn RM20,000 five years from now if you invest RM9,524 today. What will be the rate of return to your investment?

A) 14%
B) 15%
C) 16%
D) 17%

5. Calculate the present value of RM109,000 to be received in 20 years, assuming an opportunity cost of 14 percent.

A) RM12,468.59
B) RM6,475.79
C) RM38,210.94
D) RM7,931.03

6. Mona has deposited RM33,000 today in an account which will earn 10 percent annually. She plans to leave the funds in this account for seven years earning interest. If the goal of this deposit is to cover a future obligation of RM65,000, what recommendation would you make to Mona?

   A) Mona should continue with her planning.
   B) Mona should find an account with higher interest rate.
   C) Mona should deposit a lower sum of money today.

D) Mona should find an account with a lower interest rate.

7. Maveles Manufacturing is preparing a five-year plan. Today, sales are RM2,500,000. If the growth rate in sales is projected to be 20 percent over the next 6 years, calculate the amount of sales be in year 6.

A) RM1,610,510
B) RM4,026,275
C) RM10,610,510
D) RM7,464,960

8. Omar and Hana are have just purchased a condominium for RM570,000. Since the condo is very small, they hope to move into a single-family house in 5 years. Determine how much will their condo be worth in 5 years if inflation is expected to be 12 percent.

A) RM602,852.97
B) RM1,004,534.76
C) RM1,102,852.97
D) RM952,453.26

9. Calculate the future value of an ordinary annuity of RM6,000 each year for 9 years, deposited at 6 percent.

A) RM49,487.34
B) RM68,946.00
C) RM73,082.76
D) RM52,456.58

10. The time value concept/calculation used in amortizing a loan is ________.

A) future value of a dollar
B) future value of an annuity
C) present value of a dollar
D) present value of an annuity

11. The future value of RM800 received today and deposited at 8 percent for 8 years is approximately ________.

A) RM1,481
B) RM2,521
C) RM1,591
D) RM2,531

12. ________ is the amount earned on a deposit that has become the part of the principal at the end of a specified time period.

A) Discount interest
B) Compound interest
C) Primary interest
D) Future value

13. Bonds that sell more than face value are priced at a ________, while bonds which sell at face value sell at a ________.

A) par; premium
B) premium; par
C) discount; par

D) coupon; premium

14. An art collector has agreed to sell her entire collection to an art gallery in three years at a price of RM150,000. Assume that an appropriate discount rate is 8 percent. Calculate the value of her collection today.

A) RM81,629.79
B) RM79,383.22
C) RM119,074.84
D) RM150,000

15.

| Bond | Par value (RM) | Annual coupon interest (%) | Years to maturity | Required return (%) |
|---|---|---|---|---|
| L | 1,000 | 9 | 5 | 6 |
| M | 100 | 10 | 10 | 10 |
| N | 500 | 18 | 17 | 15 |

Calculate the current value of Bond L.

A) RM1,126.08
B) RM1,000
C) RM883.28
D) RM1,183.28

16.

| Bond | Par value (RM) | Annual coupon interest (%) | Years to maturity | Required return (%) |
|---|---|---|---|---|
| L | 1,000 | 9 | 5 | 6 |
| M | 100 | 10 | 10 | 10 |
| N | 500 | 18 | 17 | 15 |

Calculate the current value of Bond M.

A) RM 883.28
B) RM 1,000
C) RM 1,126.08
D) RM 100

17.

| Bond | Par value (RM) | Annual coupon interest (%) | Years to maturity | Required return (%) |
|---|---|---|---|---|
| L | 1,000 | 9 | 5 | 6 |
| M | 100 | 10 | 10 | 10 |
| N | 500 | 18 | 17 | 15 |

Calculate the current value of Bond M if the time of maturity is 6 years.

A) RM 883.28
B) RM 1,000
C) RM 1,126.08

D) RM 100

18.

| Bond | Par value (RM) | Annual coupon interest (%) | Years to maturity | Required return (%) |
|---|---|---|---|---|
| L | 1,000 | 9 | 5 | 6 |
| M | 100 | 10 | 10 | 10 |
| N | 500 | 18 | 17 | 15 |

Calculate the current value of Bond N.
A) RM500
B) RM203.51
C) RM590.70
D) RM553.54

19. The purpose of the restrictive debt covenant that imposes fixed assets restrictions is to ________.
A) protect the lender by controlling the risk and marketability of the borrower's security investment alternatives
B) limit the amount of fixed-payment obligations
C) ensure a cash shortage does not cause an inability to meet current obligations
D) prevent the firm from liquidation and ensure its ability to repay the debt

20. Which of the following affects the cost of a bond to the issuer?
A) maturity of a bond
B) dividend policy
C) fixed assets purchased from the proceeds of bond issue
D) money market regulations

21. A RM1,000, 8% bond sells for 980. RM1,000 is called the ________.
A) current value
B) market value
C) par value
D) auction value

22. A firm has an issue of RM1,000 par value bonds with a 8 percent stated interest rate outstanding. The issue pays interest annually and has 10 years remaining to its maturity date. If bonds of similar risk are currently earning 12 percent, the firm's bond will sell for ________ today.
A) RM1,000
B) RM1,805.20
C) RM774.02
D) RM1,268.40

23. A firm has an issue of RM1,000 par value bonds with a 11 percent stated interest rate outstanding. The issue pays interest annually and has 20 years remaining to its maturity date. If bonds of similar risk are currently earning 9 percent, the firm's bond will sell for ________ today.
A) RM1,000
B) RM1,182.54
C) RM840.73
D) RM912.33

24. If the coupon rate of a bond is equal to its required rate of return, then ________.
A) the market value is less than par value
B) the market value is equal to par value
C) the market value is greater than par value
D) the bond has just been issued

25. Which of the following is a difference between ordinary share and bonds?
A) Bondholders have a voice in management; ordinary shareholders do not.
B) Bondholders have a senior claim on assets and income relative to stockholders.
C) Stocks have a stated maturity but bonds do not.
D) Dividend paid to stockholders is tax-deductible but interest paid to bondholders are not.

26. Because equityholders are the last to receive any distribution of assets as a result of bankruptcy proceedings, they expect ________.
A) fixed dividend payments
B) greater returns from their investment than the return that bondholders expect
C) all profits to be paid out in dividends
D) warrants to be attached to the stock issue

27. Which of the following is true of outstanding shares?
A) A firm cannot sell more shares than the outstanding shares mentioned in the charter.
B) Authorized shares become outstanding shares when they are issued or sold to investors.
C) Outstanding shares are indicated in a firm's corporate charter.
D) Outstanding shares are the shares repurchased by the firm.

28. The purpose of nonvoting ordinary share is to ________.
A) limit the voting power of the management
B) allow the minority interest to elect one director
C) raise capital without giving up any voting control
D) give preference on distribution of earnings to those shareholders who own the stock

29. A 9 percent preference share with a market price of RM120 per share and a RM100 par value pays a cash dividend of ________. The current interest rate is 8%.
A) RM10.80
B) RM8.00
C) RM9.60
D) RM9.00

30. A firm has issued cumulative preference share with a RM100 par value, RM110 market price and a 12 percent annual dividend. For the past two years, the board of directors has decided not to pay a dividend. At the end of the current year, the preference shareholders must be paid ________ prior to paying the ordinary shareholders.
A) RM0/share
B) RM26.40/share
C) RM39.60/share
D) RM36.00/share

31. A firm has an issue of preference share outstanding that has a stated annual dividend of RM4. The required return on the preference share has been estimated to be 16 percent. The value of the preference share is ________.
A) RM64
B) RM16
C) RM25
D) RM50

32. Anna and Co. paid dividend for this year of RM5.60 per share, a growth rate of dividends of 10 percent, and a required return of 20 percent. The value of a share of Anna and Co.'s ordinary share is ________.
A) RM28.00
B) RM56.00
C) RM61.60
D) RM30.80

33. A firm has experienced a constant annual rate of dividend growth of 10 percent on its ordinary share and expects the dividend per share in the coming year to be RM2.70. The required return on the firm's stock is 14 percent. The value of the firm's ordinary share is ________.
A) RM67.50/share
B) RM19/share
C) RM99/share
D) RM30/share

34. ABC Sdn Bhd's ordinary share is expected to pay a dividend of RM5.00 forever and currently sells for RM41.67. Calculate the required rate of return.
A) 10%
B) 12%
C) 13%
D) 14%

35. Ismail Company's share is currently selling for RM133.00 per share. The expected dividend one year from now is RM4.00 and the required return is 13 percent. Calculate the dividend growth rate assuming that dividends are expected to grow at a constant rate forever.
A) 8%
B) 9%
C) 10%

D) 11%

36. A proxy battle is the attempt by ________.

A) the creditors of a bankrupt corporation to seize assets of the corporation
B) the management to dismiss the board of directors for their incapability to manage the operations
C) a nonmanagement group to unseat the existing management and gain control of the firm
D) the employees to form trade unions to influence decisions on behalf of members

37. Which of the following is a disadvantage of issuing preference share from the ordinary shareholders' perspective?

A) There is a seniority of preference shareholder's claim over ordinary shareholders.
B) The preference shareholders have superior voting rights in the selection of board of directors.
C) The preference shareholders are always paid a higher proportion of dividend payments.
D) Issuance of preference shares will result in a higher risk, to the disadvantage of ordinary shareholders.

38. The board of directors of Legolen has declared RM5.00 ordinary share dividend, payable one year from today, and accepted a plan to freeze the dividend at RM5 per year indefinitely. Calculate the Legolen's ordinary share value if the required rate of interest is 15 percent.

A) RM33.33
B) RM66.66
C) RM11.11
D) RM15.15

39. In response to the stock market's reaction to its dividend policy, the Syarikat Kasut Me has decided to increase its dividend payment at a rate of 5 percent per year. The firm's most recent dividend is RM3.25 and the required rate of interest is 10 percent. Determine the maximum price that you would be willing to pay for the share.

A) RM67.60
B) RM3.25
C) RM65
D) RM68.25

40. The ________ is the firm's desired optimal mix of debt and equity financing.

A) book value
B) market value
C) cost of capital
D) target capital structure

41. In order to recognize the interrelationship between financing and investments, a firm should use ________ when evaluating an investment.

A) the least costly source of financing
B) the most costly source of financing
C) the weighted average cost of all financing sources

D) the current opportunity cost

42. Although a firm's existing mix of financing sources may reflect its target capital structure, it is ultimately ________.

A) the internal rate of return that is relevant for evaluating the firm's future investment opportunities
B) the marginal cost of capital that is relevant for evaluating the firm's future investment opportunities
C) the risk-free rate of return that is relevant for evaluating the firm's future investment opportunities
D) the risk-free rate of return that is relevant for evaluating the firm's future financing opportunities

43. The before-tax cost of debt for a 10-year, 10 percent, RM1,000 par value bond selling at RM930 is ________.

A) 10.3 percent
B) 10.7 percent
C) 12 percent
D) 11.09 percent

44. If a corporation faces a tax rate of 18 percent, the after-tax cost of debt for a 15-year, 12 percent, RM1,000 par value bond, selling at RM950 is ________.

A) 10.37 percent
B) 12.76 percent
C) 10.08 percent
D) 15.11 percent

45. Calculate the dividend on an 8 percent preference share that currently sells for RM45 and has a face value of RM60 per share.

A) RM4.80
B) RM3.60
C) RM4.00
D) RM15.00

46. A firm has issued 10 percent preference share, which sold for RM100 per share par value. The cost of issuing and selling the stock was RM5 per share. The firm's marginal tax rate is 40 percent. The cost of the preference share is ________.

A) 10 percent
B) 6.1 percent
C) 10.5 percent
D) 6.3 percent

47. A firm has ordinary share with a market price of RM25 per share and an expected dividend of RM5 per share at the end of the coming year. The growth rate in dividends has been 7 percent. The cost of the firm's ordinary share equity is ________.

A) 27 percent
B) 18 percent
C) 10 percent
D) 13 percent

48. A firm has a beta of 1.5. The market return equals 14 percent and the risk-free rate of return equals 7 percent. The estimated cost of ordinary share equity is ________.
A) 16 percent
B) 17.5 percent
C) 14 percent
D) 15.6 percent

49. When discussing weighing schemes for calculating the weighted average cost of capital, ________.
A) market value weights are preferred over book value weights and target weights are preferred over historical weights
B) book value weights are preferred over market value weights and target weights are preferred over historical weights
C) book value weights are preferred over market value weights and historical weights are preferred over target weights
D) market value weights are preferred over book value weights and historical weights are preferred over target weights

50. A firm has determined its cost of each source of capital and the percentage of each source making up the firm's capital structure:

| **Sources of Capital** | **Capital Structure Proportions (%)** | **After-tax Cost (%)** |
|---|---|---|
| Long-term Debt | 30 | 6 |
| Preference Share | 20 | 11 |
| Ordinary share | 50 | 15 |

The weighted average cost of capital is ________.
A) 11.5 percent
B) 10.7 percent
C) 11 percent
D) 12.5 percent

51. A firm has determined its cost of each source of capital and the percentage of each source making up the firm's capital structure:

| **Sources of Capital** | **Capital Structure Proportions (%)** | **After-tax Cost (%)** |
|---|---|---|
| Long-term Debt | 30 | 6 |
| Preference Share | 20 | 11 |
| Ordinary share | 50 | 15 |

The weighted average cost of capital is ________.
A) 11.5 percent
B) 10.7 percent
C) 11.8 percent
D) 13.5 percent

52. Since retained earnings are viewed as a fully subscribed issue of additional ordinary share, the cost of retained earnings is ________.
A) less than the cost of new ordinary share equity
B) equal to the cost of new ordinary share equity
C) greater than the cost of new ordinary share equity
D) not related to the cost of new ordinary share equity

53. The term ex dividend refers to ________.
A) a period beginning 2 business days prior to the date of record, during which a stock is sold without the right to receive the current dividend
B) the date on which all investors whose names are recorded as stockholders receive a declared dividend at a specified future time
C) a period beginning 7 business days prior to the date of record, during which a stock is sold without the right to receive the current dividend
D) the actual date on which a firm mails the dividend payment to the holders of record

54. After a recession when the economy starts to expand again, firms tend to ________.
A) increase share repurchases faster than they increase dividends
B) increase dividends faster than they increase share repurchases
C) increase share repurchases and dividends at a similar rate
D) increase dividends and hold share repurchases constant until they are confident that the recovery will last for a few years

55. Which of the following is true of a dividend payout?
A) When a firm announces that it will increase its dividend, the share price usually decreases on that news.
B) Dividend payments send a positive signal to investors in the marketplace that management believes that the stock is overvalued.
C) When a stock begins to trade ex dividend the share price will fall.
D) When a stock begins to trade ex dividend there is no impact on the share price if the market. is efficient

56. A firm's dividend payout ratio is calculated by ________.
A) dividing cash dividend per share by its earnings per share
B) dividing earnings per share by its cash dividend per share
C) dividing cash dividend per share by its net income
D) dividing net income by its cash dividend per share

57. A firm has had the following earnings history over the last five years:

| Year | Earning per share (RM) |
|---|---|
| 2019 | 2.50 |
| 2018 | 2.00 |
| 2017 | 1.75 |
| 2016 | 1.25 |

| | |
|---|---|
| 2015 | -1.00 |

If the firm's dividend policy was based on a constant payout ratio of 50 percent for all of the years with earnings over RM1.50 per share and a zero payout otherwise, the annual dividends for 2016 and 2019 were ________.
A) RM0.50 and RM1.25, respectively
B) RM0 and RM2.00, respectively
C) RM0 and RM1.25, respectively
D) RM0 and RM0.88, respectively

58. A firm has had the following earnings history over the last five years:

| Year | Earning per share (RM) |
|---|---|
| 2019 | 2.50 |
| 2018 | 2.00 |
| 2017 | 1.75 |
| 2016 | 1.25 |
| 2015 | -1.00 |

If the firm's dividend policy is based on a RM0.50 payout per share whenever it makes a positive earnings, increasing by RM0.05 to previous year dividends per share whenever earnings exceed RM1.50 per share, the annual dividends for 2018 and 2019 were ________.
A) RM0.50 and RM0.60, respectively
B) RM0.50 and RM0.55, respectively
C) RM0.55 and RM0.65, respectively
D) RM0.60 and RM0.65, respectively

59. Stock dividends are ________.
A) taxable at a higher level than dividend taxes
B) taxable at a lower level than dividend taxes
C) non taxable
D) are taxable only to the shareholders

60. Legend Berhad has 100,000 shares outstanding and just declared a 2-for-1 stock split. Before the announcement, the firm's shares were trading at RM50.00 per share. After the stock split, the firm's shares should trade at ________ per share.
A) RM100.00
B) RM25.00
C) RM50.00
D) RM75.00

61. The primary purpose of a stock split is to ________.
A) issue additional shares
B) increase the dividend
C) reduce the price of a stock
D) reduce trading activity

62. Which of the following is a reason for a firm for repurchasing its shares?
A) to diminish the shareholder value by increasing the number of shares outstanding and thereby raising earnings per share
B) to help encourage a friendly takeover by increasing the number of publicly traded shares
C) to distribute cash to stockholders
D) to make shares available for cash dividends

63. The agency problem arises due to an issue with incentives and the presence of discretion in task completion. Which of the list below is one of the solutions to the agency problem in publicly-held corporations?
A) Share options
B) Share split
C) Demotion of employee designation
D) Distribution of dividends

64. Encik Amran is a manager in Ziqky Bhd. Which of the following is the best measure for Encik Amran to ensure that his decisions are in the best interest of the shareholders?
A) fire managers who are inefficient
B) remove management's perquisites
C) tie management compensation to the performance of the company's common stock price
D) tie management compensation to the level of dividend per share

65. Which of the following has the ultimate responsibility in guiding corporate affairs and carrying out policies in a firm?
A) Board of directors
B) Chief financial officer
C) Shareholders
D) Creditors

66. Which of the following determines a financial manager's financing decision?
A) The mix and the type of assets found on the firm's balance sheet
B) Most appropriate mix of short-term and long-term financing
C) The mix and the type of assets and liabilities found on the firm's balance sheet
D) The proportion of the firm's earnings to be paid as dividend

67. In planning and managing the requirements of a firm, which of the followings is the financial manager's concern?
A) The mix and type of assets, but not the type of financing utilized
B) The type of financing utilized, but not the mix and type of assets
C) The acquisition of fixed assets, allowing someone else to plan the level of current assets required, and the market value of the share
D) The mix and type of assets, the type of financing utilized, and analysis in order to monitor the financial condition

68. A firm has just ended its calendar year making a sale in the amount of RM200,000 of merchandise purchased during the year at a total cost of RM150,500. Although the firm paid in full for the merchandise during the year, it is yet to collect at year end from the customer. What is the possible problem this firm may face?
A) high taxes
B) lack of cash flow
C) inability to receive credit
D) high leverage

69. By concentrating on cash flows within a firm, the financial manager should be able to ________.
A) prepare tax returns
B) control the share price
C) avoid insolvency
D) maintain public relations

70. What is the primary economic principle used in managerial finance?
A) Monte Carlo theory
B) Asset pricing theory
C) Porter's theory of five forces
D) Marginal cost-benefit analysis

71. Why is a financial manager more interested in the cash inflows and outflows of a firm, rather than the accounting data?
A) To ensure profitability
B) To maintain healthy public relations
C) To ensure timely payment of taxes
D) To maintain an optimum solvency level

72. In the next planning period, a firm plans to change its policy of all cash sales and initiate a credit policy requiring payment within 30 days. What are the statements that will be immediately and directly affected?
A) pro forma income statement, balance sheet, and cash budget
B) pro forma balance sheet and cash budget
C) cash budget and statement of retained earnings
D) pro forma income statement and pro forma balance sheet

73. Mr Rashid, the financial analyst for Titian Bhd has compiled sales and disbursement estimates for the coming months of January through May. Historically, 75 percent of sales are for cash with the remaining 25 percent collected in the following month. The ending cash balance in January is RM3,000.

| Month | Sales (RM) | Disbursements (RM) |
|---|---|---|
| January | 5,000 | 6,000 |
| February | 6,000 | 7,000 |
| March | 10,000 | 4,000 |
| April | 10,000 | 5,000 |

| | | |
|---|---|---|
| May | 10,000 | 5,000 |

Calculate the total cash receipts for March.
A) RM5,750
B) RM7,500
C) RM9,000
D) RM10,000

74. A firm has prepared the coming year's pro forma balance sheet resulting in a plug figure in a preliminary statement—called the external financing required—of RM250,000. What should the firm prepare for?
A) To repurchase common stock totaling RM250,000
B) To arrange for a loan of RM250,000
C) To do nothing; the balance sheet balances
D) To invest in marketable securities totaling RM250,000

75. The followings are the information for the month of August, for Sutradara Sdn Bhd. The firm had :
i. total cash receipts of RM10,000,
ii. itotal cash disbursements of RM8,000,
iii. depreciation expense of RM1,000,
iv. beginning cash balance of RM500.

At the end of August, Sutradara Sdn Bhd wants a minimum cash balance of RM3,000. What is amount at the end of August?
A) required total financing of RM500
B) had an excess cash balance of RM5,500
C) had an excess cash balance of RM500
D) required total financing of RM2,500

76. In the month of August, AliAba Bhd had total cash receipts of RM10,000, total cash disbursements of RM8,000, depreciation expense of RM1,000, and a beginning cash balance of RM500. What is the total ending cash balance for August?
A) RM1,500
B) RM5,500
C) RM2,500
D) RM3,500

77. In October 2020, Sutera Lembut Sdn Bhd had an ending cash balance of RM35,000. In November 2020, the firm had a net cash flow of RM40,000. The minimum cash balance required by Sutrera Lembut Sdn Bhd is RM20,000. How much does Sutera Lembut Sdn Bhd has at the end of November 2020?
A) an excess cash balance of RM55,000
B) an excess cash balance of RM75,000
C) required total financing of RM20,000
D) required total financing of RM5,000

78. Below is the information of SASA Sdn Bhd.

| | 2020 | | 2021 |
|---|---|---|---|
| | **November** | **December** | **January** |
| Actual sales | RM1,000 | | |
| Projected sales | | RM3,000 | RM4,000 |

SASA Sdn Bhd makes 10 percent of its sales for cash every month.
The collection for the credit sales are :

i. 40 percent of its sales one month following the sale,
ii. the balance will be collected two months following the sale.

What is the total cash receipts in January 2021?
A) RM400
B) RM2,100
C) RM2,000
D) RM3,300

79. AiAi Sdn Bhd has projected sales in May of RM100 and June of RM200. The firm makes 20 percent of sales for cash and collects the balance one month following the sale. The firm's total cash receipts in July is RM220. What is the projected sales for July?
A) RM160
B) RM200
C) RM380
D) RM300

80. Below is the information for DIDI Bhd.

| | |
|---|---|
| Net operating profit after taxes | RM60,000 |
| Depreciation expense | RM10,000 |
| Net fixed asset investment requirement | RM40,000 |
| Net current asset requirement | RM30,000 |
| Tax rate | 30% |

What is DIDI Bhd's free cash flow?
A) RM0
B) RM30,000
C) -RM30,000
D) RM60,000

81. Cocoa Bhd has arranged for a lockbox system to reduce collection time of accounts receivable. Currently the company has an average collection period of 43 days, an average age of inventory of 50 days, and an average payment period of 10 days. The lockbox system will reduce the average collection period by 3 days by reducing processing, mail, and clearing float. What is the cash conversion cycle?
A) increases by 3 days
B) decreases by 3 days

C) increases by 6 days
D) decreases by 6 days
82. What is a good strategy in managing accounts payable?
A) Pay as early as possible creating better credit rating for a firm
B) Pay as slowly as possible without damaging a firm's credit rating
C) Pay big customers early to maintain good relations and small customers on a later date
D) Pay only when a firm has adequate funds to meet its liabilities

83. An increase in accounts receivable turnover for a firm due to an increase in collection efforts will ________.
A) decrease the firm's marginal investments in accounts receivable
B) increase the firm's marginal investments in accounts receivable
C) decrease the firm's collection expense
D) increase the firm's bad debt expense

84. What is the effect on an increase in collection efforts by a firm towards:
i. sales volume,
ii. the investment in accounts receivable,
iii. bad debt expenses, and
iv. collection expenditures?

| | | | | |
|---|---|---|---|---|
| A) | i. increase | ii. decrease | iii. increase | iv. decrease |
| B) | i. increase | ii. decrease | iii. decrease | iv. increase |
| C) | i. increase | ii. decrease | iii. increase | iv. increase |
| D) | i. decrease | ii. decrease | iii. decrease | iv. increase |

85. A breakdown of Teffan, Inc.'s outstanding accounts receivable dated June 30, 2019 on the basis of the month in which the credit sale was initially made follows. The firm extends 30-day credit terms.

| **Month of credit sale in 2020** | **Account receivable (RM)** |
|---|---|
| January | 40,000 |
| February | 60,000 |
| March | 200,000 |
| April | 270,000 |
| May | 340,000 |
| June | 410,000 |
| Total | 1,320,000 |

What is the total amount for accounts receivable over 90 days?
A) RM200,000
B) RM470,000
C) RM300,000
D) RM100,000

86. As credit standards are tightened, how will it effect the sales and the investment in account receivables?

| | Sales are expected to | The investment in accounts receivable is expected to |
|---|---|---|
| A) | increase | increase |
| B) | increase | decrease |
| C) | decrease | decrease |
| D) | decrease | increase |

87. In the EOQ model, if the size of order increases, the ________.
A) carrying cost will increase
B) order cost will remain unchanged
C) order cost will increase
D) storage cost will decrease

88. For minimizing the cash conversion cycle, a firm should ________.
A) grant longer credit terms to customers to maintain healthy business relations
B) pay off accounts payables as fast as possible to gain credibility
C) turn over inventory as quickly as possible without stockouts
D) increase mail managing, processing, and clearing time when collecting from customers

89. What is the goal of working capital management?
A) To achieve a balance between short-term and long-term liabilities so that they add to the achievement of a firm's overall goals
B) To achieve a balance between a firm's non-current assets and non-current liabilities
C) To achieve a balance between profitability and risk that contributes positively to a firm's value
D) To achieve a balance between short-term and long-term assets so that they add to the achievement of a firm's overall goals

90. Global Logistics purchased a new machine on October 20th, 2019 for RM1,000,000 on credit. The supplier has offered A&A terms of 2/10, net 45. The current interest rate the bank is offering is 16 percent. Assuming 360 days a year, what is the cost of giving up cash discount?
A) 20%
B) 21%
C) 22%
D) 23%

91. A firm arranged for a 120-day bank loan at an annual rate of interest of 5 percent. If the loan is for RM150,000, how much interest in dollars will the firm pay? (Assume a 360-day year.)
A) RM15,000
B) RM7,500
C) RM2,500

D) RM5,000

92. A firm arranges a discount loan at a 11 percent interest rate, and borrows RM200,000 for one year. What is the stated interest rate and the effective interest rate?
A) 11.00%; 11.00%
B) 13.64%; 11.00%
C) 11.00%; 12.36%
D) 11.00%; 13.00%

93. Which of the list below are two major spontaneous liabilities that provide sources of short-term financing?
A) a line of credit and notes payable
B) accounts payable and accruals
C) a line of credit and term loans
D) accounts receivable and notes payable

94. JoJo Sdn Bhd currently pays its employees at the end of a week. The weekly payroll totals RM200,000. If it were to extend the pay period so as to pay its employees 1 week later throughout an entire year, how much the employees would in effect be lending the firm for a year?.
A) RM200,000
B) RM400,00
C) RM4,800,000
D) RM9,600,000

95. As part of a union negotiation agreement, the GCC Bhd's Union conceded to be paid every two weeks instead of every week. A major firm employing hundreds of clerical workers had a weekly payroll of RM3,000,000 and the cost of short-term funds was 12 percent. The effect of this concession was to delay clearing time by one week. What is the effect on the concession? The firm ________.
A) GCC Bhd realized an annual loss of RM36,000
B) GCC Bhd realized an annual savings of RM360,000
C) GCC Bhd increased its cash cycle by RM180,000
D) GCC Bhd decreased its cash turnover RM3,000

96. Kalibar Sdn Bhd's extended credit terms is 3/15 net 30 EOM.
i. Assuming that payment would be made on the last day of the credit period, what is the cost of giving up the cash discount?
ii. If Kalibar Sdn Bhd were able to stretch its accounts payable to 60 days without damaging its credit rating, determine the cost of giving up the cash discount.
A) 72.99%; 18.81%
B) 72.99%; 18.25%
C) 75.25%; 21.90%
D) 75.26%; 25.09%

97. Rimo Sdn Bhd is a service delivery company, is in need of a short-term financing and considering to borrow from Bank Mualamat at 10 percent annual interest. Rimo Sdn Bhd calculated the cost of giving up cash discount to evaluate the credit terms of

each supplier to help in the decision making.

| Supplier | Credit terms | Cost of giving up cash discount |
|---|---|---|
| Cenderawasih Sdn Bhd | 1/15 net 40 | 14.5% |
| Saga Ria Sdn Bhd | 2/10 net 30 | 36.7% |
| Selasih Sdn Bhd | 2/15 net 35 | 36.7% |

Referring to the above information, give your recommendation to Rimo Sdn Bhd?.
A) Rimo Sdn Bhd should not borrow from the banks and take the cash discount offered by all the suppliers
B) Rimo Sdn Bhd should borrow from the banks and give up the cash discount offered by all the suppliers
C) Rimo Sdn Bhd should take cash discount offered by Saga Ria Sdn Bhd and Selasih Sdn Bhd and give up the cash discount offered by Cenderawasih Sdn Bhd
D) Rimo Sdn Bhd should take the cash discount of Cenderawasih Sdn Bhd and give up the cash discount of Saga Ria Sdn Bhd and Selasih Sdn Bhd

98. Adam wants to determine the required return on a stock portfolio with a beta coefficient of 0.5. Assuming the risk-free rate of 6 percent and the market return of 12 percent, calculate the required rate of return.
A) 12%
B) 6%
C) 9%
D) 15%

99. Below is the information of Asset XY.

| | |
|---|---|
| Beta | 1.5 |
| Expected return | 20 percent |
| Expected market return | 15 percent |

Calculate is the risk-free rate of return of Asset XY.
A) 5.0%
B) 7.5%
C) 15.0%
D) 22.5%

100. Assuming all others are unchanged, in general, an increase in the beta of a firm will indicate ____.
A) a decrease in risk, a higher required rate of return, and hence a lower share price
B) an increase in risk, a higher required rate of return, and hence a lower share price
C) a decrease in risk, a lower required rate of return, and hence a higher share price
D) an increase in risk, a lower required rate of return, and hence a higher share price

101. Below are the statements about risk aversion. Which of the following is **TRUE**?
A) Greater risk aversion results in lower required returns for each level of risk.
B) A reduction in risk aversion causes the required return for each level of risk to increase.
C) In general, widely shared expectations of hard times ahead tend to cause investors to become less risk averse.
D) Changes in risk aversion, and therefore shifts in the SML, result from changing preferences of investors.

102. Etiqqa Antiques has a beta of 1.40, the annual risk-free rate of interest is currently 10 percent, and the required return on the market portfolio is 16 percent. The firm estimates that its future dividends will continue to increase at an annual compound rate consistent with that experienced over the 2017-2020 period.

| Year | Dividend |
|---|---|
| 2017 | RM2.70 |
| 2018 | RM2.95 |
| 2019 | RM3.25 |
| 2020 | RM3.40 |

Estimate the value for the shares of Etiqqa Antiques.
A) RM35.31
B) RM34.31
C) RM32.69
D) RM33.69

103. If you expect the market to increase, which of the following portfolios should you purchase?
A) a portfolio with a beta of 1.9
B) a portfolio with a beta of 1.0
C) a portfolio with a beta of 0
D) a portfolio with a beta of -0.5

104. Mr Raju, an investment banker, has recommended a RM100,000 portfolio containing assets B, D, and F. Further information of the investment is as follows:
   i. RM20,000 will be invested in asset B, with a beta of 1.5;
   ii. RM50,000 will be invested in asset D, with a beta of 2.0;
   iii. RM and RM30,000 will be invested in asset F, with a beta of 0.5.
Calculate the beta for the portfolio.
A) 1.25
B) 1.33
C) 1.45
D) 1.85

105. Combining two assets having perfectly positively correlated returns will result in the creation of a portfolio with an overall risk that ________.
A) remains unchanged

B) decreases to a level below that of either asset
C) increases to a level above that of either asset
D) lies between the asset with the higher risk and the asset with the lower risk

106. Given the information for Asset A and Asset B as follows:

| Asset | Expected returns | Standard deviation |
|---|---|---|
| A | 10% | 20% |
| B | 15% | 30% |

The correlation between the two assets is less than 1.0. Mt Lee form a portfolio by investing half of your money in Asset A and another half in Asset B.
Which of the following best describes the expected return and standard deviation of your portfolio?
A) The expected return is 12.5% and the standard deviation is less than 25%.
B) The expected return is between 10% and 15% and the standard deviation is greater than 30%.
C) The expected return is 12.5% and the standard deviation is 25%.
D) The expected return is 12.5% and the standard deviation is greater than 25%.

107. Nagasaki has a portfolio of three assets, namely X,Y and Z.

| Asset | Rate of return (r) | Weight (W) |
|---|---|---|
| X | 10% | 0.50 |
| Y | 20% | 0.30 |
| Z | 30% | 0.20 |

Calculate the expected rate of return for the portfolio.
A) 12%
B) 17%
C) 18%
D) 15%

108. Table below shows the expected returns for three assets; J, K and L, for three years.

| Year | Asset | | |
|---|---|---|---|
| | J | K | L |
| 2018 | 6% | 8% | 6% |
| 2019 | 7% | 7% | 7% |
| 2020 | 8% | 6% | 8% |

Which of the answers below describe the correlation of returns between the three assets?
A) perfectly positively correlated
B) perfectly negatively correlated
C) uncorrelated
D) partially correlated

109. Saga Pro Sdn Bhd must choose between two asset purchases. The annual rate of return and related probabilities given below summarize the firm's analysis.

| Year | Asset C | | | Asset D | | |
|---|---|---|---|---|---|---|
| | Rate of return (r) | Probability (Pr) | r x Pr | Rate of return (r) | Probability (Pr) | r x Pr |
| 1 | 10% | 30% | 3% | 5% | 40% | 2% |
| 2 | 15% | 40% | 6% | 15% | 20% | 3% |
| 3 | 20% | 30% | 6% | 25% | 40% | 10% |
| | SD = 3.87% | | | SD = 8.94% | | |
| | CV = 0.26 | | | CV = 0.60 | | |

Which asset should Saga Pro select?
A) Asset C because lower CV shows lower risk
B) Asset D because higher CV shows to lower risk
C) Asset C because higher average returns
D) Asset D because higher average returns