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UNIVERSITI MALAYSIA TERENGGANU

FINAL EXAMINATION

SEMESTER I 2020/2021 SESSION (DEGREE PROGRAMME)

COURSE	:	PENGURUSAN KEWANGAN
COURSE CODE	:	FNC3101
DATE	:	
VENUE	:	OCEANIA
TIME	:	

STUDENT NO.	:	_____
PROGRAMME	:	_____
SEAT NO.	:	_____

INSTRUCTIONS TO CANDIDATES

- This paper consists of **TWO (2)** parts; Part A and Part B. Part A consists of 40 multiple choice questions while Part B consists of 2 essay questions. Answer **ALL** questions.

DO NOT START ANSWERING UNTIL INSTRUCTED TO DO SO

PART A (40 questions (50% marks, 2.25 minutes each => 90 minutes total) will be randomly selected from these 81 questions).

Answer all questions. Choose the best answer for each question.

1) The present value of RM200 to be received 10 years from today, assuming an opportunity cost of 10 percent, is approximately _____.

- A) RM50
- B) RM400
- C) RM519
- D) RM77

2) The future value of a dollar _____ as the interest rate increases and _____ the longer the money remains invested.

- A) decreases; decreases
- B) decreases; increases
- C) increases; increases
- D) increases; decreases

3) The annual rate of return is referred to as the _____.

- A) discount rate
- B) marginal rate
- C) risk-free rate
- D) marginal cost

4) Your current income is RM50,000 per year, and you would like to maintain your current standard of living (i.e., your purchasing power) when you retire. If you expect to retire in 30 years and expect inflation to average 3% over the next 30 years, what amount of annual income will you need to live at the same comfort level in 30 years?

- A) RM121,363
- B) RM95,000
- C) RM20,599
- D) RM51,500

5) The future value of a RM2,000 annuity due deposited at 8 percent compounded annually for each of the next 10 years is _____.

- A) RM28,973
- B) RM31,291
- C) RM14,494
- D) RM13,420

6) The future value of a RM10,000 annuity due deposited at 12 percent compounded annually for each of the next 5 years is _____.

- A) RM36,050
- B) RM63,528
- C) RM40,376
- D) RM71,152

- 7) The future value of an ordinary annuity of RM1,000 each year for 10 years, deposited at 3 percent, is _____.
- A) RM11,808
 - B) RM11,464
 - C) RM8,530
 - D) RM8,786
- 8) The future value of an ordinary annuity of RM2,000 each year for 10 years, deposited at 12 percent, is _____.
- A) RM35,097
 - B) RM12,656
 - C) RM39,309
 - D) RM11,300
- 9) Thelma is planning for her son's college education to begin five years from today. She estimates the yearly tuition, books, and living expenses to be RM5,000 per year for a four-year degree, assuming the expenses incur only at the end of the year. How much must Thelma deposit today, at an interest rate of 8 percent, for her son to be able to withdraw RM5,000 per year for four years of college?
- A) RM20,000
 - B) RM13,620
 - C) RM39,520
 - D) RM11,270
- 10) Rita borrows RM4,500 from the bank at 9 percent annually compounded interest to be repaid in three equal annual installments. The interest paid in the third year is _____.
- A) RM277.95
 - B) RM405.00
 - C) RM352.00
 - D) RM147.00
- 11) Ai Lun, a management trainee at a large New York-based bank, is trying to estimate the real rate of return expected by investors. He notes that the 3-month T-bill currently yields 3 percent, and consumer prices have been rising steadily at a 2% rate for several years. What should Ai Lun's estimate of the real rate be?
- A) 5%
 - B) 1%
 - C) 3%
 - D) 2%
- 12) Assume the following returns and yields: U.S. T-bill = 8%, 5-year U.S. T-note = 7%, IBM common stock = 15%, IBM AAA Corporate Bond = 12% and 10-year U.S. T-bond = 6%. Based on this information, the shape of the yield curve is _____.
- A) upward sloping
 - B) downward sloping
 - C) flat
 - D) normal

13) To compensate for the uncertainty of future interest rates and the fact that the longer the term of a loan the higher the probability that the borrower will default, the lender typically _____.

- A) charges a higher interest rate on long-term loans
- B) reserves the right to change the terms of the loan at any time
- C) includes excessively restrictive debt provisions
- D) reserves the right to demand immediate payment at any time

14) A firm has an issue of RM1,000 par value bonds with a 12 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 8 percent, the firm's bond will sell for _____ today.

- A) RM1,000
- B) RM805.20
- C) RM1,115.50
- D) RM1,268.40

15) Zheng Corporation, an American company, plans to issue new bonds to finance its expansion plans. In its efforts to price the issue, Zheng Corporation has identified a company of similar risk with an outstanding bond issue that has an 8 percent coupon rate having a maturity of ten years. This firm's bonds are currently selling for \$1,091.96. If interest is paid annually for both bonds, what must the coupon rate of the new bonds be in order for the issue to sell at par?

- A) 5.78%
- B) 6.88%
- C) 6.50%
- D) 6.71%

16) The price of a bond that pays a fixed coupon rate and the bond's required return have a relationship that is best described as _____.

- A) perfect positive correlation
- B) constant
- C) direct
- D) inverse

17) When the required return is constant and equal to the coupon rate, the price of a bond as it approaches its maturity date will _____.

- A) remain at par
- B) increase
- C) decrease
- D) change depending on whether it is a discount or premium bond

18) Interest rate risk and the time to maturity have a relationship that is best characterized as _____.

- A) constant
- B) varying
- C) direct
- D) inverse

19) Hewitt Packing Company, an American company, has an issue of \$1,000 par value bonds with a 14 percent annual coupon interest rate. The issue has ten years remaining to the maturity date. Bonds of similar risk are currently selling to yield a 12 percent rate of return. The current value of each Hewitt bond is _____.

- A) \$791.00
- B) \$1,000
- C) \$1,052.24
- D) \$1,113.00

20) A bond will sell _____ when the stated rate of interest exceeds the required rate of return, _____ when the stated rate of interest is less than the required return, and _____ when the stated rate of interest is equal to the required return.

- A) at a premium; at a discount; equal to the par value
- B) at a premium; equal to the par value; at a discount
- C) at a discount; at a premium; equal to the par value
- D) equal to the par value; at a premium; at a discount

21) If a corporate bond is issued with a coupon rate that varies directly with the required return, the price of the bond will _____.

- A) equal the face value
- B) be less than the face value
- C) be greater than the face value
- D) be greater than or less than the face value depending on how interest rates vary

22) Which of the following is an advantage for a firm to issue common stock over long-term debt?

- A) the cost of equity financing being less than the cost of debt financing
- B) the primary claim of equity holders on income and assets in the event of liquidation
- C) no maturity date on which the par value of the issue must be repaid
- D) the tax deductibility of dividends which lowers the cost of equity financing

23) Which of the following is a difference between common stock and bonds?

- A) Bondholders have a voice in management; common stockholders 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.

24) Holders of equity capital _____.

- A) own the firm
- B) receive interest payments
- C) receive guaranteed income
- D) have loaned money to the firm

25) 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.

26) Shares of stock currently owned by a firm's shareholders are called _____.

- A) authorized shares
- B) issued shares
- C) outstanding shares
- D) treasury shares

27) _____ allows stockholders to purchase additional shares at a price below the market price, in direct proportion to their number of owned shares.

- A) A rights offering
- B) Treasury stock
- C) Preemptive rights
- D) Proxy statements

28) Which of the following is true of a common stock?

- A) It gives voting rights which permit determination of the amount of dividend receivable.
- B) It gives claims on income and assets which are superior to the claims of creditors of the firm.
- C) Dividends on common stock are fully tax-deductible.
- D) There is no fixed dividend payment obligation for the company.

29) Which of the following is true of common stocks?

- A) The common stock of a corporation can be either privately or publicly owned.
- B) Firms often issue common stock with no par value.
- C) Preemptive rights often result in a dilution of ownership.
- D) A firm's corporate charter indicates the rate at which dividends are paid.

30) Which of the following is a disadvantage of issuing preferred stock from the common stockholders' perspective?

- A) There is a seniority of preferred stockholder's claim over common stockholders.
- B) The preferred stockholders have superior voting rights in the selection of board of directors.
- C) The preferred stockholders are always paid a higher proportion of dividend payments.
- D) Issuance of preferred stocks will result in a higher risk, to the disadvantage of common stockholders.

31) The risk cost of preferred stock is _____.

- A) lower than the cost of long-term debt
- B) higher than the cost of common stock
- C) higher than the cost of long-term debt and lower than the cost of common stock
- D) lower than the cost of convertible long-term debt and higher than the cost of common stock

32) Which of the following is true of risk?

- A) Risk and return are inversely proportionate to each other.
- B) Higher the risk associated with a security the lower is its return.
- C) Risk is a measure of the uncertainty surrounding the return that an investment will earn.
- D) Riskier investments tend to have lower returns as compared to T-bills which are risk free.

33) Nico lives in the US. He bought 100 shares of Cisco Systems stock for \$30.00 per share on January 1, 2018. He received a dividend of \$2.00 per share at the end of 2018 and \$3.00 per share at the end of 2019. At the end of 2020, Nico collected a dividend of \$4.00 per share and sold his stock for \$33.00 per share. What was Nico's realized holding period return?

- A) -40%
- B) +40%
- C) -36.36%
- D) +36.36%

34) If an investor requires greater return when risk increases, then he is said to be _____.

- A) risk-seeking
- B) risk-indifferent
- C) risk-averse
- D) risk-aware

35) A _____ is a measure of relative dispersion used in comparing the risk of assets with differing expected returns.

- A) coefficient of variation
- B) chi square
- C) mean
- D) standard deviation

36) Below is a result from a survey done in the US. Which asset would the risk-averse financial manager prefer?

Asset	A	B	C	D
Initial investment	\$15,000	\$15,000	\$15,000	\$15,000
Annual rate of return				
Pessimistic	8%	5%	3%	11%
Most likely	12%	12%	12%	12%
Optimistic	14%	13%	15%	14%

- A) Asset A
- B) Asset B
- C) Asset C
- D) Asset D

37) The expected value and the standard deviation of returns for asset A is _____. (See below.)

Asset A		
Possible Outcomes	Probability	Returns (%)
Pessimistic	0.25	10
Most likely	0.45	12
Optimistic	0.30	16

- A) 12 percent and 4 percent
- B) 12.7 percent and 2.3 percent

- C) 12.7 percent and 4 percent
- D) 12 percent and 2.3 percent

38) Given the following expected returns and standard deviations of assets B, M, Q, and D, which asset has the most favorable coefficient of variation?

Asset	Expected Return	Standard Deviation
B	10%	5%
M	16%	10%
Q	14%	9%
D	12%	8%

- A) Asset B
- B) Asset M
- C) Asset Q
- D) Asset D

39) An efficient portfolio is one that _____.

- A) guarantees a predetermined rate of return
- B) maximizes return for a given level of risk
- C) consists of a single asset, which gives maximum return
- D) maximizes return at all risk levels

40) An investment advisor has recommended a RM50,000 portfolio containing assets R, J, and K; RM25,000 will be invested in asset R, with an expected annual return of 12 percent; RM10,000 will be invested in asset J, with an expected annual return of 18 percent; and RM15,000 will be invested in asset K, with an expected annual return of 8 percent. The expected annual return of this portfolio is _____.

- A) 12.67%
- B) 12.00%
- C) 10.00%
- D) 11.78%

41) Given the returns of two stocks J and K in the table below over the next 4 years. Find the expected return and standard deviation of holding a portfolio of 40% of stock J and 60% in stock K over the next 4 years:

	Stock J	Stock K
2020	10%	9%
2021	12%	8%
2022	13%	10%
2023	15%	11%

- A) 10.7% and 1.34%
- B) 10.6% and 1.79%
- C) 10.6% and 1.16%
- D) 14.3% and 2.02%

- 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 risk-free rate of return that is relevant for evaluating the firm's future investment opportunities
 - C) the marginal cost of capital 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) Debt is generally the least expensive source of capital. This is primarily due to _____.
- A) the fixed interest payments
 - B) the tax deductibility of interest payments
 - C) the priority of claims on assets and earnings in the event of liquidation
 - D) the secured nature of a debt obligation
- 44) Don Co has determined it can issue preferred stock at RM121 per share par value. The stock will pay a RM11 annual dividend. The cost of issuing and selling the stock is RM3 per share. The cost of the preferred stock is _____.
- A) 6.4 percent.
 - B) 9.10 percent.
 - C) 11.6 percent.
 - D) 9.32 percent.
- 45) Using the capital asset pricing model, the cost of common stock equity is the return required by investors as compensation for _____.
- A) a firm's unsystematic risk
 - B) price volatility of the stock
 - C) a firm's nondiversifiable risk
 - D) the specific risk of a firm
- 46) In calculating the cost of common stock equity, _____.
- A) the use of the capital asset pricing model (CAPM) is often preferred, because the data required are more readily available
 - B) the use of the CAPM is preferred, because it directly considers risk and the effect of inflation on the stock prices
 - C) the use of the constant-growth valuation model is often preferred, because the data required are more readily available
 - D) the use of the constant-growth valuation model is often preferred, because it has a stronger theoretical foundation
- 47) The _____ from the sale of a security are the funds actually received from the sale after _____.
- A) net proceeds; reducing the flotation costs
 - B) net proceeds; adding the after-tax costs
 - C) gross proceeds; adding the after-tax costs

D) gross proceeds; reducing the flotation costs

48) Seroja Company has a beta of 1.8. The market return equals 15 percent and the risk-free rate of return equals 5.5 percent. The estimated cost of common stock equity is _____.

- A) 21.5 percent
- B) 11.3 percent
- C) 20.5 percent
- D) 22.6 percent

49) The before-tax cost of debt for a firm, which has a marginal tax rate of 29 percent, is 12.6 percent. The after-tax cost of debt is _____.

- A) 3.65 percent
- B) 10.71 percent
- C) 8.95 percent
- D) 12 percent

50) Since retained earnings are viewed as a fully subscribed issue of additional common stock, the cost of retained earnings is _____.

- A) equal to the cost of new common stock equity
- B) lower than the cost of new common stock equity
- C) greater than the cost of new common stock equity
- D) not related to the cost of new common stock equity

51) Trio Pharma has gathered the financial data shown in the following table.

Sources of Capital	Target Market Proportion	After taxCost
Long-term debt	30%	5.0%
Preferred stock	10%	14.0
Common stock equity	60%	20.0

Calculate the firm's weighted average cost of capital assuming the firm has exhausted all retained earnings.

- A) 14.9 percent
- B) 28.3 percent
- C) 28.4 percent
- D) 15.8 percent

52) Which of the following is true of a capital expenditure?

- A) It is an outlay made to replace current assets.
- B) It is an outlay expected to produce benefits within one year.
- C) It is commonly used to expand the level of operations.
- D) It is commonly used for current asset expansion.

53) Sitera Company is evaluating a proposal which has an initial investment of RM35,000 and has cash flows of RM5,000 in year 1, RM25,000 in year 2, and RM10,000 in year 3. The payback period of the project is _____.

- A) 1 year
- B) 2 years

- C) 2.5 years
- D) 3 years

54) Which of the following is a disadvantage of payback period approach?

- A) It does not examine the size of the initial outlay.
- B) It does not use net profits as a measure of return.
- C) It does not take into account an unconventional cash flow pattern.
- D) It does not explicitly consider the time value of money.

55) Arora Company must choose from six capital budgeting proposals outlined in Table 1 below. The firm is subject to capital rationing and has a capital budget of RM1,000,000; the firm's cost of capital is 15 percent.

Project	Initial Investment	IRR	NPV
1	RM400,000	17%	RM20,000
2	RM200,000	18%	RM100,000
3	RM250,000	16%	RM60,000
4	RM200,000	10	- RM5,000
5	RM150,000	20	RM45,000
6	RM400,000	14	RM130,000

Using the internal rate of return approach to ranking projects, which project(s) should the firm accept? (See Table 1)

- A) 1, 2, 3, and 5
- B) 2, 3, 4, and 6
- C) 1, 3, 4, and 6
- D) 1, 2, 3, 4, and 5

56) Which of the following is true of NPV profile?

- A) It is used for evaluating and comparing independent projects when conflicting ranking exists.
- B) It is a graph that illustrates a project's IRR against various values of NPV.
- C) It charts the net present value of a project as a function of the cost of capital.
- D) It shows an inverse relationship between a project's IRR and NPV.

57) What is the profitability index of a project that has an initial cash outflow of RM550, an inflow of RM250 for the next 3 years and a cost of capital of 10 percent?

- A) 0.667
- B) 2.036
- C) 1.036
- D) 1.13

58) The underlying cause of conflicts in ranking for projects by internal rate of return and net present value methods is _____.

- A) the reinvestment rate assumption regarding intermediate cash flows
- B) that neither method explicitly considers the time value of money
- C) the assumption made by the IRR method that cash inflows are spread equally throughout the timeline
- D) that NPV approach favors small projects with high returns

59) Which of the following is an example of a nonconventional pattern of cash flows?

A)

Year	0	1	2	3	4
cash flow	-200	150	310	265	200

B)

Year	0	1	2	3	4
cash flow	200	100	-100	200	-300

C)

Year	0	1	2	3	4
cash flow	-200	100	100	200	300

D)

Year	0	1	2	3	4
cash flow	-200	150	150	150	150

60) Should Jasa Teguh company accept a new project if its maximum payback is 3.25 years and its initial after-tax cost is RM5,000,000 and it is expected to provide after-tax operating cash inflows of RM1,800,000 in year 1, RM1,900,000 in year 2, RM700,000 in year 3, and RM1,800,000 in year 4?

- A) Yes, since the risk exposure of the project is less than the maximum acceptable risk exposure.
- B) No, since the risk exposure of the project is more than the maximum acceptable risk
- C) Yes, since the payback period of the project is less than the maximum acceptable payback period.
- D) No, since the payback period of the project is more than the maximum acceptable payback period.

61) A firm can accept a project with a net present value of zero because _____.

- A) the project would maintain the earnings of the firm
- B) the project would enhance the earnings of the firm
- C) the project would maintain the wealth of the firm's owners
- D) the project would enhance the wealth of the firm's owners

62) The goal of working capital management is to _____.

- A) Achieve a balance between short-term and long-term liabilities so that they add to the achievement of a firm's overall goals
- B) Is to manage firm's current assets and liabilities to achieve a balance between profitability and risk that contributes positively to a firm's value
- C) Achieve a balance between a firm's non-current assets and non-current liabilities
- D) Achieve a balance between short-term and long-term assets so that they add to the achievement of a firm's overall goals

63) Net working capital is defined as _____.

- A) Total assets minus total liabilities
- B) Total liabilities minus total assets
- C) Current liabilities minus current assets
- D) Current assets minus current liabilities

- 64) Working capital consist of _____.
- A) The firm's assets and liabilities used in daily operations
 - B) The firm's assets used in day-to-day transactions
 - C) The firm's assets used by management
 - D) The firm's cash used in daily operation
- 65) Firm's tradeoff exists between _____
- A) Assets and liabilities
 - B) Current assets and Fixed Assets
 - C) Profitability and risk
 - D) Increasing revenue and decreasing cost
- 66) What are the effect on profit and risk when the current assets to total assets ratio are increased?
- A) Profit – decrease, risk – increase
 - B) Profit – increase, risk – decrease
 - C) Profit – decrease, risk – decrease
 - D) Profit – increase, risk – increase
- 67) What are the effect on profit and risk when the current liabilities to total assets ratio are decreased?
- A) Profit – decrease, risk – decrease
 - B) Profit – increase, risk – decrease
 - C) Profit – decrease, risk – increase
 - D) Profit – increase, risk – increase
- 68) Which of the following is true of current assets?
- A) The time of conversion of current assets to more liquid form is relatively unpredictable.
 - B) They are used to fund long-term operations and pay long-term expenses.
 - C) They are more profitable because they add more value to the product than that provided by fixed assets.
 - D) They are sources of short-term financing for a firm.
- 69) In general, the greater the margin of firm's current assets covers its current liabilities _____.
- A) The greater its risk
 - B) The greater the firm's ability to pay its bill
 - C) The less likely are creditors to lend to the firm
 - D) The lower its level of long-term funds
- 70) A(n) _____ in current assets decrease net working capital, thereby _____ the risk of insolvency.
- A) decrease; increasing
 - B) increase; increasing
 - C) increase; reducing

D) decrease; reducing

71) Kuala Nerus Metal is concerned about its cash management. On average, the day sales in inventory is 90 days. Accounts receivable are collected in 90 days, while accounts payable are paid in 60 days. Annual sales of RM14 million; cost of goods sold is RM9.5 million, and purchases are RM5 million. Calculate the total amount of resources needed (use a 365- day year).

- A) RM5,235,000
- B) RM4,972,603
- C) RM3,920,501
- D) RM5, 230,401

72) As sales increase, a company needs more inventory and more employees resulting in _____.

- A) Less accounts payable and accruals, and therefore decreasing its spontaneous liabilities
- B) More accounts payable and accruals, and therefore decreasing its spontaneous liabilities
- C) More accounts payable and accruals, and therefore increasing its spontaneous liabilities
- D) Less accounts payable and accruals, and therefore increasing its spontaneous liabilities

73) The two major spontaneous liabilities that provide sources of short-term financing are _____.

- A) A line of credit and notes payable
- B) A line of credit and term loans
- C) Accounts payable and notes payable
- D) Accounts payable and accruals

74) One of the most common understanding for the beginning of the credit period is _____.

- A) 2/10, net 30
- B) The date of invoice
- C) The end of a quarter
- D) The transaction date

75) 1/15 net 30 date of invoice translates as _____.

- A) A 1 percent cash discount may be taken if paid in 15 days; if no cash discount is taken, the balance is due in 30 days after the middle of the month
- B) A 1 percent cash discount may be taken if paid in 15 days; if no cash discount is taken, the balance is due 30 days after the end of the month
- C) A 1 percent cash discount may be taken if paid in 15 days; if no cash discount is taken, the balance is due 30 days after the invoice date
- D) A 1 percent discount may be taken on 15 percent of the purchase if the account is paid within 30 days after the end of the month

76) If a firm decides to take the cash discount that is offered on goods purchased on credit, the firm should _____.

- A) Pay on or before the last day of the discount period
- B) Pay before the last day of the discount period
- C) Pay on the last day of the credit period
- D) Not take the discount no matter when the firm actually pays

77) _____ are the major source of unsecured short-term financing for business firms.

- A) Accounts receivable
- B) Term loans
- C) Notes payable
- D) Accounts payable

78) Credit terms 1/10, net 30 means _____.

- A) A discount of 1% is granted if payments are done within 30 days
- B) A discount of 10% is granted if payments are done within 2 days, net 30 days available
- C) A discount of 1% is granted if payments are done within 10 days, net 30 days available
- D) A discount of 2% is granted if payments are done within 30 days, beyond which a 10% interest is charged

79) A firm purchased goods with a purchase price of RM2,000 and credit terms of 5/10 net 30.

The firm paid for these goods on the 5th day after the date of sale. The firm must pay _____ for the goods.

- A) RM990
- B) RM1,900
- C) RM1,000
- D) RM1,100

80) A firm purchased goods on February 27 with a purchase price of RM1,000 and credit terms

of 2/10 net 30 EOM. The firm paid for these goods on February 15. The firm must pay _____ for the goods.

- A) RM1,000
- B) RM980
- C) RM800
- D) RM900

81) A firm is offered credit terms of 2/10 net 45 by most of its suppliers but frequently does not have the cash available to take the discount. The firm has a credit line available at a local bank at an interest rate of 15 percent. How much the cost of giving up discount and what step should the firm take _____.

- A) 16%, and give up the cash discount, financing the purchase with the line of credit
- B) 13%, and take the cash discount and pay on the 45th day after the date of sale
- C) 20%, and take the cash discount and pay on the first day of the cash discount period
- D) 20.9%, and take the cash discount, financing the purchase with the line of credit, the cheaper source of funds

PART B (50% marks, 90 minutes total).

Answer all questions. Show your calculations and final answers.

QUESTION 1 (15 MARKS)

Because of the Covid-19 pandemic, Zamani had to quit his job and he is now looking for a new one. He found a new job in which he has been given a choice between two retirement policies as described below.

Policy A: Will receive equal annual payments of RM10,000 beginning 35 years from now for 10 years.

Policy B: Will receive one lump-sum of RM100,000 in 40 years from now.

Zamani wants to choose a policy that would earn him a higher amount of money. At the same time, Zamani wants to borrow RM5000 from a financial firm to buy a laptop for his sons' learning process during the Covid-19 pandemic. He was told that the interest would be 8% compounded annually and to be repaid in five annual (end-of-year) installments.

Required:

a) Determine the best retirement policy for Zamani by assuming the rate of interest is 6 percent.

(5 marks)

b) Calculate the loan's principal payment in the third year.

(10 marks)

QUESTION 2 (18 MARKS)

Syarikat Pakaian Ni Kepak is considering a cash purchase of the Syarikat Kain Jarang's share. At the end of last year, Syarikat Kain Jarang earned RM4.00 per share and paid cash dividends of RM2.00 per share. Syarikat Kain Jarang's earnings and dividends are expected to grow at 25% per year for the next 3 years. After that, they are expected to grow at 10% per year to infinity.

At the same time, Syarikat Pakaian Ni Kepak is considering a bond investment if the purchase of Syarikat Kain Jarang failed to materialise. The bond pays 10% annual coupon rate, with a RM1000 par value and matures in 15 years. The required rate of return for the bond is 12%.

Required:

a) Calculate the maximum price per share that Syarikat Pakaian Ni Kepak should pay for Syarikat Kain Jarang if it has a required return of 15% on investments with risk characteristics similar to those of Syarikat Kain Jarang.

(12 marks)

b) Calculate the present value of the bond.

(2 marks)

c) Assume that the bond matures in five years instead of 15 years. Recalculate your answers in part (b).

(2 marks)

d) Explain the implications of your answers in part (c) as it relates term, required return, coupon rate and bond price.

(2 marks)

QUESTION 3 (17 MARKS)

A. Syarikat Medine is considering the following two mutually exclusive projects, A and B. The cash flows for each project are as follows:

Year	Cash Flow from A	Cash Flow from B
0	-RM364,000	-RM52,000
1	RM46,000	RM25,000
2	RM68,000	RM22,000
3	RM68,000	RM21,500
4	RM458,000	RM17,500

The required rate of return is 11 percent for each project.

Required:

- a) Based on NPV, determine which project should be chosen. (5 marks)
- b) Based on IRR, determine which project should be chosen. (5 marks)
- c) Based on NPV and IRR, determine which project should be chosen. (2 marks)

- B. Based on the 2020 annual report, Mamat Corporation reported that it had revenues of RM30 million, cost of goods sold of RM25 million, and accounts payable of RM3 million. The average age of inventories is 50 days, accounts receivable are collected in 50 days, while accounts payable are paid in 30 days. (Note: use a 365-day year)

Required:

- a) Calculate the firm's operating cycle (1 mark)
- b) Calculate Mamat Corporation cash conversion cycle? (1 mark)
- c) How much amount resources needed to support Mamat Corporation's cash conversion cycle? (3 marks)

End of Question Paper