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**UNIVERSITI MALAYSIA TERENGGANU**  
**FINAL EXAMINATION**  
**SEMESTER I 2020/2021 SESSION (DEGREE PROGRAMME)**

<b>COURSE</b>	<b>:</b>	<b>KEWANGAN KORPORAT</b>
<b>COURSE CODE</b>	<b>:</b>	<b>FNC3103</b>
<b>DATE</b>	<b>:</b>	<b>31/01/2021 (SUNDAY)</b>
<b>VENUE</b>	<b>:</b>	<b>EPEMBELAJARAN</b>
<b>TIME</b>	<b>:</b>	<b>9.00 AM – 12.00 NOON (3 HOURS)</b>

<b>MATRIC NO.</b>	<b>:</b>	_____
<b>PROGRAMME</b>	<b>:</b>	_____
<b>SEAT NO.</b>	<b>:</b>	_____

**INSTRUCTIONS TO CANDIDATES**

- i. Answer all questions.
- ii. All answers must be written in the answer booklet provided.

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

THIS QUESTION PAPER CONSISTS OF FIFTEEN (15) PRINTED PAGES

1. The main goal of a company should be to increase the:
  - A. future value of the firm's total equity.
  - B. book value of equity.
  - C. dividends paid per share.
  - D. current market value per share.
  - E. number of shares outstanding.
  
2. Which one of the following is most appropriate to create a situation where an agency conflict could arise?
  - A. Increasing the size of a firm's operations
  - B. Downsizing a firm
  - C. Separating management from ownership
  - D. Decreasing employee turnover
  - E. Reducing both management and nonmanagement salaries
  
3. Which one of the following is most appropriate to align management's priorities with shareholders' interests?
  - A. Increasing employee retirement benefits
  - B. Compensating managers with shares of stock that must be held for three years before the shares can be sold
  - C. Allowing a manager to decorate his or her own office once he or she has been in that office for a period of three years or more
  - D. Increasing the number of paid holidays that long-term employees are entitled to receive
  - E. Allowing employees to retire early with full retirement benefits
  
4. Marti had an unexpected surprise when she ate her Lotsa Good cereal this morning. She found a piece of metal mixed in her cereal. The potential claim that Marti has against this firm is that of a(n):
  - A. general creditor.
  - B. debtholder.
  - C. shareholder.
  - D. stakeholder.
  - E. agent.
  
5. Valerie bought 200 shares of Oren stock today. The stock has been trading for some time on the FTSE Bursa Malaysia KLCI. Valerie's purchase occurred in which market?
  - A. Dealer market
  - B. Over-the-counter market
  - C. Secondary market
  - D. Primary market
  - E. Tertiary market

6. Which one of the following is a capital structure decision?
- A. Determining the optimal inventory level
  - B. Establishing the preferred debt-equity level
  - C. Selecting new equipment to purchase
  - D. Setting the terms of sale for credit sales
  - E. Determining when suppliers should be paid
7. The annual interest divided by the face value of a bond is referred to as the:
- A. market rate.
  - B. call rate.
  - C. coupon rate.
  - D. current yield.
  - E. yield-to-maturity.
8. Which one of the following is the price that an investor pays to purchase an outstanding bond?
- A. Dirty price
  - B. Face value
  - C. Call price
  - D. Bid price
  - E. Clean price
9. Global Trade Berhad has RM1,000 face value bonds outstanding with a market price of RM1,013. The bonds pay interest annually, mature in 11 years, and have a yield to maturity of 5.34 percent. What is the current yield?
- A. 5.39 percent
  - B. 5.43 percent
  - C. 5.50 percent
  - D. 5.61 percent
  - E. 5.77 percent
10. A 5.5 percent RM1,000 bond matures in seven years, pays interest semiannually, and has a yield to maturity of 6.23 percent. What is the current market price of the bond?
- A. RM945.08
  - B. RM947.21
  - C. RM959.09
  - D. RM959.60
  - E. RM962.40

11. What is the name given to the model that computes the present value of a stock by dividing next year's annual dividend amount by the difference between the discount rate and the rate of change in the annual dividend amount?
- A. Stock pricing model
  - B. Equity pricing model
  - C. Capital gain model
  - D. Dividend growth model
  - E. Present value model
12. Horseshoe Berhad is losing significant market share and thus its managers have decided to decrease the firm's annual dividend. The last annual dividend was RM0.90 a share but all future dividends will be decreased by 10 percent annually. What is a share of this stock worth today at a required return of 15 percent?
- A. RM3.06
  - B. RM3.24
  - C. RM3.41
  - D. RM3.59
  - E. RM3.95
13. Atlas Home Berhad has paid a constant annual dividend of RM2.40 a share for the past 15 years. Yesterday, the firm announced the dividend will increase next year by 10 percent and will stay at the level through year 3, after which time the dividends will increase by 2 percent annually. The required return on this stock is 12 percent. What is the current value per share?
- A. RM25.51
  - B. RM26.08
  - C. RM24.57
  - D. RM26.02
  - E. RM26.84
14. The stock price of Russell Berhad is RM81. Investors require a 14 percent rate of return on similar stocks. If the company plans to pay a dividend of RM4.20 next year, what growth rate is expected for the company's stock price?
- A. 7.99 percent
  - B. 8.00 percent
  - C. 8.12 percent
  - D. 8.37 percent
  - E. 8.81 percent

15. The reinvestment approach to the modified internal rate of return:
- A. individually discounts each separate cash flow back to the present.
  - B. reinvests all the cash flows, including the initial cash flow, to the end of the project.
  - C. discounts all negative cash flows to the present and compounds all positive cash flows to the end of the project.
  - D. discounts all negative cash flows back to the present and combines them with the initial cost.
  - E. compounds all of the cash flows, except for the initial cash flow, to the end of the project.
16. The Creamery is analyzing a project with expected sales of 5,700 units. The expected variable cost per unit is RM168 and the expected fixed costs are RM424,000. Cost estimates are considered accurate. The depreciation expense is RM156,000. The sales price is estimated at RM339 per unit. The tax rate is 21 percent. The company is conducting a sensitivity analysis with fixed costs of RM425,000. What is the Operating Cash Flow (OCF) given this analysis?
- A. RM416,511
  - B. RM385,350
  - C. RM467,023
  - D. RM394,874
  - E. RM421,300
17. You are making a RM120,000 investment and feel that a 20 percent rate of return is reasonable given the nature of the risks involved. You feel you will receive RM48,000 in the first year, RM54,000 in the second year, and RM56,000 in the third year. You expect to pay out RM12,000 as an additional investment in the fourth year. What is the net present value of this investment given your expectations?
- A. -RM15,879.63
  - B. -RM4,305.56
  - C. RM15,879.63
  - D. RM16,233.33
  - E. RM18,534.25
18. Woodcrafters requires an average accounting return (AAR) of at least 17 percent on all fixed asset purchases. Currently, it is considering some new equipment costing RM178,000. This equipment will have a four-year life over which time it will be depreciated on a straight-line basis to a zero book value. The annual net income from this equipment is estimated at RM10,100, RM10,300, RM17,900, and RM19,600 for the four years. Should this purchase occur based on the accounting rate of return? Why or why not?
- A. Yes, because the AAR is less than 17 percent
  - B. Yes, because the AAR is equal to 17 percent
  - C. Yes, because the AAR is greater than 17 percent
  - D. No, because the AAR is less than 17 percent
  - E. No, because the AAR is greater than 17 percent

19. A firm is reviewing a project that has an initial cost of RM71,000. The project will produce annual cash inflows, starting with year 1, of RM8,000, RM13,400, RM18,600, RM33,100, and finally in year 5, RM37,900. What is the profitability index if the discount rate is 11 percent?
- A. 0.92
  - B. 0.98
  - C. 1.02
  - D. 1.07
  - E. 1.12
20. A project has an accounting break-even point of 7,264 units. The fixed costs are RM164,800 and the projected variable cost per unit is RM24.57. The project will require RM398,000 for fixed assets which will be depreciated straight-line to zero over the project's four-year life. What is the projected sales price per unit?
- A. RM56.59
  - B. RM58.18
  - C. RM64.02
  - D. RM76.67
  - E. RM60.95
21. Which one of the following methods of analysis has the greatest bias toward short-term projects?
- A. Net present value
  - B. Internal rate of return
  - C. Average accounting return
  - D. Profitability index
  - E. Payback period
22. Which one of the following is most closely related to the net present value profile?
- A. Internal rate of return
  - B. Average accounting return
  - C. Profitability index
  - D. Payback
  - E. Discounted payback
23. Jamal Zubir has shown that he can consistently make significant profits (even after considering risks and deducting costs) in the Bursa Malaysia by investing using some financial statement information. He admits, however, that he was unable to do so using technical analysis. His records seem to suggest that the Malaysian stock market is:
- A. Weak form efficient
  - B. Semi-strong form efficient
  - C. Strong form efficient
  - D. Weak form inefficient
  - E. Semi-strong form inefficient

24. Which one of the following describes systematic risk?
- A. Risk that affects a large number of assets
  - B. An individual security's total risk
  - C. Diversifiable risk
  - D. Asset specific risk
  - E. Risk unique to a firm's management
25. Which of the following terms can be used to describe unsystematic risk?
- I. Asset-specific risk
  - II. Diversifiable risk
  - III. Market risk
  - IV. Unique risk
- A. I and IV only
  - B. II and III only
  - C. I, II, and IV only
  - D. II, III, and IV only
  - E. I, II, III, and IV
26. Which one of the following terms best refers to the practice of investing in a variety of diverse assets as a means of reducing risk?
- A. Systematic
  - B. Unsystematic
  - C. Diversification
  - D. Security market line
  - E. Capital asset pricing model
27. Which one of the following statements is correct?
- A. The risk premium on a risk-free security is generally considered to be 1 percent.
  - B. The expected rate of return on any security, given multiple states of the economy, must be positive.
  - C. There is an inverse relationship between the level of risk and the risk premium given a risky security.
  - D. If a risky security is correctly priced, its expected risk premium will be positive.
  - E. If a risky security is priced correctly, it will have an expected return equal to the risk-free rate.
28. You are assigned the task of computing the expected return on a portfolio containing several individual stocks. Which one of the following statements is correct concerning this task?
- A. The expected rate of return on the portfolio must be positive.
  - B. The arithmetic average of the betas for each security held in the portfolio must equal 1.0.
  - C. The portfolio beta must be 1.0.
  - D. The summation of the return deviation from the portfolio expected return for each economic state must equal zero.
  - E. The standard deviation of the portfolio must equal 1.0.

29. Consider a portfolio comprised of four risky securities. Assume the economy has three states with varying probabilities of occurrence. Which one of the following will guarantee that the portfolio variance will equal zero?
- The portfolio beta must be 1.0.
  - The portfolio expected rate of return must be the same for each economic state.
  - The portfolio risk premium must equal zero.
  - The portfolio expected rate of return must equal the expected market rate of return.
  - There must be equal probabilities that the state of the economy will be a boom or a bust.
30. A risky security has less risk than the overall market. What must the beta of this security be?
- 0
  - $> 0$  but  $< 1$
  - 1
  - $> 1$
  - The beta cannot be determined based on the information provided.
31. You have compiled the following information on your investments. What rate of return should you expect to earn on this portfolio?

Stock	Number of Shares	Price Per Share (RM)	Expected Return (%)
A	150	23	12.80
B	400	37	3.60
C	200	42	9.80
D	350	16	24.50

- 9.54 percent
  - 9.83 percent
  - 10.01 percent
  - 10.27 percent
  - 10.58 percent
32. You want to create a RM48,000 portfolio that consists of three stocks and has an expected return of 14.5 percent. Currently, you own RM16,700 of Stock A and RM24,200 of Stock B. The expected return for Stock A is 18.7 percent, and for Stock B it is 11.2 percent. What is the expected rate of return for Stock C?
- 13.67 percent
  - 14.14 percent
  - 15.38 percent
  - 15.87 percent
  - 16.11 percent



33. A RM36,000 portfolio is invested in a risk-free security and two stocks. The beta of Stock A is 1.29 while the beta of Stock B is 0.90. One-half of the portfolio is invested in the risk-free security. How much is invested in Stock A if the beta of the portfolio is 0.58?
- A. RM6,000
  - B. RM9,000
  - C. RM12,000
  - D. RM15,000
  - E. RM18,000
34. What is the legal document called that is provided to potential investors and describes a new security offering?
- A. Security agreement
  - B. Prospectus
  - C. Public statement
  - D. Registration statement
  - E. Formal filing
35. Which one of the following statements is correct?
- A. The financial market generally reacts the same to a new issue of equity as it does to a new issue of debt as long as the issuer is the same.
  - B. Issuing new equity shares is always viewed by the market as a positive event.
  - C. Informed managers tend to issue new securities when the existing securities are underpriced.
  - D. A decline in the price of existing stock when a new issue is released is a direct cost of selling securities.
  - E. A firm's existing shareholders would prefer that new securities be issued when those securities are overpriced rather than underpriced.
36. Abbott Berhad and Costello Berhad have both announced IPOs at RM24 per share. One of these is undervalued by RM3, and the other is overvalued by RM1.30, but you have no way of knowing which is which. You plan on buying 1,000 shares of each issue. If an issue is underpriced, it will be rationed, and only half your order will be filled. What profit do you actually expect?
- A. RM175
  - B. RM200
  - C. RM225
  - D. RM350
  - E. RM425

37. Kim placed an order with her broker to purchase 400 shares of each of three IPOs that are being released this month. Each IPO has an offer price of RM23 a share. The number of shares allocated to Kim, along with the closing stock price at the end of the first day of trading for each stock, are as follows:

Stock	Shares Allocated	End of Day One Price (RM)
A	250	21.60
B	100	28.20
C	300	18.00

What is Kim's total profit or loss on these three stocks as of the end of the first day of trading for each stock?

- A. -RM1,330  
 B. -RM540  
 C. -RM230  
 D. RM1,330  
 E. RM2,370
38. What is the group of underwriters called who share both the risks and the marketing responsibilities for a securities offering?
- A. Syndicate  
 B. Underwriting cartel  
 C. Firm commitment group  
 D. Dutch auction group  
 E. Venture capitalists
39. Which one of the following statements matches M&M Proposition I?
- A. The cost of equity capital has a positive linear relationship with a firm's capital structure.  
 B. The dividends paid by a firm determine the firm's value.  
 C. The cost of equity capital varies in response to changes in a firm's capital structure.  
 D. The value of a firm is independent of the firm's capital structure.  
 E. The value of a firm is dependent on the firm's capital structure.
40. Paying interest reduces the taxes owed by a firm. Which one of the following terms applies to this relationship?
- A. Static theory of interest rates  
 B. M&M Proposition I  
 C. Financial risk  
 D. Interest tax shield  
 E. Homemade leverage

41. Which one of the following is the theory that a firm should borrow up to the point where the additional tax benefit from an extra dollar of debt equals the additional costs associated with financial distress from that additional debt?
- A. M&M Proposition I, with taxes
  - B. M&M Proposition II, with taxes
  - C. M&M Proposition I, without taxes
  - D. Homemade leverage proposition
  - E. Static theory of capital structure
42. TLC Berhad just revised its capital structure from a debt-equity ratio of 0.30 to a debt-equity ratio of 0.45. The firm's shareholders who prefer the old capital structure should:
- A. sell some shares and hold the sale proceeds in cash.
  - B. sell all of their shares and loan out the entire sale proceeds.
  - C. do nothing.
  - D. sell some shares and loan out the sale proceeds.
  - E. borrow funds and purchase more shares.
43. Which one of the following statements is the core principle of M&M Proposition I, without taxes?
- A. A firm's cost of equity is directly related to the firm's debt-equity ratio.
  - B. A firm's WACC is directly related to the firm's debt-equity ratio.
  - C. The interest tax shield increases the value of a firm.
  - D. The capital structure of a firm is totally irrelevant.
  - E. Levered firms have greater value than unlevered firms.
44. Which one of the following represents the present value of the interest tax shield?
- A.  $D \times (1 - T_c)$
  - B.  $D / (1 - T_c)$
  - C.  $D / T_c$
  - D.  $D - D(T_c)$
  - E.  $T_c \times D$
45. Stevenson's Bakery is an all-equity firm that has projected perpetual earnings before interest and taxes of RM138,000 a year. The cost of equity is 13.7 percent and the tax rate is 32 percent. The firm can borrow money at 6.75 percent. Currently, the firm is considering converting to a debt-equity ratio of 0.45. What is the firm's levered value?
- A. RM527,613
  - B. RM689,919
  - C. RM752,987
  - D. RM829,507
  - E. RM903,682

46. Piano Berhad can borrow at 7.5 percent. The firm currently has no debt, and the cost of equity is 16 percent. The current value of the firm is RM540,000. What will the value be if the firm borrows RM160,000 and uses the proceeds to repurchase shares? The corporate tax rate is 40 percent.
- A. RM528,000
  - B. RM540,000
  - C. RM552,000
  - D. RM571,000
  - E. RM604,000
47. Mercury Berhad just declared a 4-for-3 stock split. Which of the following occurred as a result of this split?
- I. Number of shares outstanding increased by one-third
  - II. Number of shares outstanding decreased by one-fourth
  - III. Price per share increased by one-third
  - IV. Price per share decreased by one-fourth
- A. I only
  - B. I and III only
  - C. I and IV only
  - D. II and III only
  - E. II and IV only
48. Blazer Sports Berhad is preparing to pay its quarterly dividend of RM2.20 a share this quarter. The stock closed at RM57.70 a share today. What will the ex-dividend stock price be if the relevant tax rate is 15 percent and all else is held constant?
- A. RM55.28
  - B. RM55.50
  - C. RM55.83
  - D. RM55.94
  - E. RM57.70
49. Dragon Berhad just paid its annual regular cash dividend of RM1.25 a share, along with a special dividend of RM0.25 a share. The company follows a policy of increasing its dividend by 3 percent annually. Which one of the following is the best estimate of the firm's next annual dividend payment?
- A. RM1.25
  - B. RM1.29
  - C. RM1.49
  - D. RM1.50
  - E. RM1.54

50. XYZ Berhad has a market value balance sheet as shown below. The firm currently has 7,500 shares of stock outstanding at a price per share of RM40. Net income is RM9,500.

Market Value Balance Sheet (RM)			
Excess Cash	20,000	Debt	0
Other Assets	368,000	Equity	388,000
Total	388,000	Total	388,000

The firm has decided to repurchase RM20,000 worth of its outstanding stock. What will the firm's PE ratio be after this repurchase, all else held constant?

- A. 23.39  
 B. 28.76  
 C. 29.47  
 D. 30.13  
 E. 32.16
51. Which one of the following increases the number of shares outstanding but does not increase the value of owners' equity?
- A. Stock repurchase  
 B. Reverse stock split  
 C. Stock split  
 D. Cash distribution  
 E. Liquidating dividend
52. You decided to speculate in the market and sold six platinum futures contracts when the futures price was RM1,391.20 per troy ounce. The price on the contract maturity date was RM1,395. The contract size is 50 troy ounces. What was your total profit or loss on the settlement day if you had to cover your position in the spot market?
- A. RM190  
 B. RM1,140  
 C. -RM190  
 D. RM50  
 E. -RM1,140
53. You need 70,000 bushels of corn for your production operations next month. The futures contracts on corn are based on 5,000 bushels and are currently quoted at 371.25 cents per bushel for delivery next month. If you want to hedge your cost, you should \_\_\_\_\_ contracts at a cost of \_\_\_\_\_ per contract.
- A. Buy 12; RM2,570  
 B. Buy 14; RM18,562.50  
 C. Buy 16; RM22,570.00  
 D. Sell 14; RM18,562.50  
 E. Sell 16; RM22,570.00

54. A forward contract:
- A. requires that payment be made in full when the contract is originated.
  - B. is a binding agreement on both the buyer and the seller and nets out as a zero sum game.
  - C. provides the buyer with an option to buy an asset on the settlement date at the forward price.
  - D. is marked to the market daily at the seller's request.
  - E. allows for immediate delivery at an agreed upon price which is to be paid on the settlement date.
55. A U.S. bank has an agreement with a German bank to exchange US\$500,000 for €397,000 on the first day of each of the next three calendar quarters. This agreement is best described as a:
- A. floating exchange.
  - B. spot trade.
  - C. currency option.
  - D. futures contract.
  - E. swap contract.
56. A call option contract:
- A. obligates both the buyer and the seller.
  - B. obligates the buyer but not the seller.
  - C. grants rights to the buyer and obligates the seller.
  - D. grants rights to the seller and obligates the buyer.
  - E. grants rights to both the buyer and the seller but does not obligate either party.
57. In a merger the:
- A. legal status of both the acquiring firm and the target firm is terminated.
  - B. acquiring firm acquires the assets, but not the liabilities, of the target firm.
  - C. acquiring firm retains its pre-merger legal status.
  - D. shareholders of the target firm have little, if any, say as to whether or not the merger occurs.
  - E. target firm continues to exist but will be a wholly owned subsidiary of the acquiring firm.
58. If a merger creates synergy, then the:
- A. merger is classified as a taxable transaction.
  - B. acquiring firm's shareholders will receive a one-time cash payment.
  - C. equity of the target firm will be increased by the amount of the synergy.
  - D. value of the merged firm exceeds the combined value of the separate firms.
  - E. price paid by the acquiring firm will be reduced by the amount of that synergy.

59. Firm A is being acquired by Firm B for RM62,000 worth of Firm B stock. The incremental value of the acquisition is RM4,300. Firm A has 2,700 shares of stock outstanding at a price of RM22 a share. Firm B has 10,400 shares of stock outstanding at a price of RM31 a share. What is the actual cost of the acquisition using company stock?
- A. RM62,000
  - B. RM62,076
  - C. RM62,274
  - D. RM63,780
  - E. RM62,620
60. Firms A and B formally agree to each put up RM25 million to create firm C. Firm C will perform environmental testing on the products produced by both Firm A and Firm B. Which one of the following terms describes Firm C?
- A. Joint venture
  - B. Going-private transaction
  - C. Conglomerate
  - D. Subsidiary
  - E. Leveraged buyout

**END OF QUESTIONS**