PENINSULA COLLEGE GEORGETOWN

FINAL SEMESTER EXAMINATION

Programme	:	**CERTIFICATE IN BUSINESS STUDIES**
Course	:	**INTRODUCTION TO FINANCE**
Course Code	:	**CBS1134**
Duration	:	**3 Hours**

INSTRUCTIONS TO CANDIDATES:

1. Please read the instructions given in the question paper **CAREFULLY.**
2. This question paper consists of **FOUR (4)** questions
3. Answer **ALL** questions in the question paper.
4. Answers to the questions are to be written into the examination booklet.
5. Electronic dictionaries, lecture notes, files or any unauthorised materials except writing equipment are strictly prohibited.

This question paper must be submitted along with all used and/or unused rough papers and/ or graph papers (if any). Candidates are **NOT ALLOWED** to take any examination paper(s) used or unused out of the examination hall.

WARNING:
The Examination Board of Peninsula College Georgetown regards cheating as a very serious offence and will not hesitate to mete out the appropriate punitive actions according to the severity of the offence committed, and in the accordance with the clauses stipulated in the Students' Handbook, up to and including expulsion from Peninsula College Georgetown.

(*This booklet contains 5 printed pages including this page*)

DO NOT OPEN THIS BOOKLET UNTIL YOU ARE ALLOWED TO DO SO

For examiner's use only

QUESTION NO.	MARKS
1	/ 25
2	/ 25
3	/ 25
4	/ 25
Total	**/ 100**

Answer **ALL** questions on the separate sheet provided. **[100 marks]**

1. a) Explain the difference between investment decisions and financial decisions in financial management with an example. (4 marks)

   b) Describe the primary function of each type of financial institution and **ONE (1)** example to be provided for each type of financial intermediary.

      i) Commercial bank (3 marks)

      ii) Credit union (3 marks)

      iii) Pension funds (3 marks)

      iv) Life insurance companies (3 marks)

      v) Mutual funds (3 marks)

   c) State **THREE (3)** roles of the central bank of Malaysia. (6 marks)

   Total: [25 marks]

2. a) The table shows a list of possible outcomes with probability for U.K. Energy.

Economy	Probability	Rate of return
Strong	0.30	80%
Normal	0.40	10%
Weak	0.30	-60%

      i) Calculate the expected rate of return for U.K. Energy. (3 marks)

      ii) Calculate the standard deviation for U.K. Energy. (4 marks)

   b) Using example, differentiate between market risk and specific risk. (6 marks)

   c) Peninsula Bhd is considering several investments. The rate on Treasury bills is currently 6.75%, and the expected return for the market is 12%. What should be the required rates of return for each investment?

Security	Beta
A	1.50
B	0.82
C	0.60
D	1.15

   (12 marks)

   Total: [25 marks]

3. a) Define “simple interest” and “compound interest”. (4 marks)

b) Calculate the future value of RM5,000, given that it will be held in the bank for 6 years and earn an annual interest rate of 8% compounded. (3 marks)

c) Ben has deposited RM3,500 in a bank account that pays 4% per year, and compounded annually. How much will he have at the end of 4 years? (3 marks)

d) Ben has deposited RM3,500 in a bank account that pays 4% per year, and compounded quarterly. How much will he have at the end of 4 years? (4 marks)

e) Ben has deposited RM3,500 in a bank account that pays 4% per year, and compounded monthly. How much will he have at the end of 4 years? (4 marks)

f) You receive RM25,000 a year for 40 years from your family inheritance. At a 10 percent required return, what is the present value of this payoff? (Ordinary annuity) (3 marks)

g) Halim has invested RM200,000 in an account earning 6% interest. He wants to know how much he can withdraw in equal amounts each year if the balance in the account will be zero at the end of the year fifteen year. (Ordinary annuity) (4 marks)

Total: [25 marks]

4. a) The financial statements of Great Manufacturing Sdn Bhd in respect of the year 2015 and 2016 are given below. The corporate tax rate is assumed to be 40%.

Income Statement for the year ended 31 December

	2016	**2015**
	RM million	RM million
Sales (Revenue)	2,522	3,278
Cost of goods sold	1,378	1,791
Depreciation	276	359
Earnings before interest & taxes	868	1,128
Interest paid	151	183
Taxable income	717	945
Taxes (40%)	287	378
Net Income	430	567

Balance Sheets as at 31 December

	2016 RM million	**2015** RM million
ASSETS		
Current Assets		
Cash	74	88
Accounts receivable	156	179
Inventory	383	420
Total	613	687
Fixed Assets		
Net plant and equipment	2,852	3,071
Total Assets	3,465	3,758
LIABILITIES AND OWNERS' EQUITY		
Current Liabilities		
Accounts payable	312	343
Notes payable	231	256
Total	543	599
Long term debt	523	468
Owners' equity		
Ordinary share	500	550
Retained earning	1,899	2,141
Total	2,399	2,691
Total Liabilities and Owners' Equity	3,465	3,758

*Assume 365-day a year.

a) Compute the following financial ratios for the years ended 31 December 2015 and 2016.

i) Quick ratio (4 marks)

ii) Inventory turnover days (4 marks)

iii) Days payable outstanding (4 marks)

iv) Gross profit margin (4 marks)

v) Return on total assets (4 marks)

b) State **FIVE (5)** limitations of ratio analysis. (5 marks)

Total: [25 marks]

- END OF QUESTIONS -

List of Formula

$$FV = PV(1+i)^n$$

$$PV = \frac{FV}{(1+i)^n}$$

$$FV = PMT\left[\frac{(1+i)^n - 1}{i}\right]$$

$$PV = PMT\left[\frac{1 - \frac{1}{(1+i)^n}}{i}\right]$$

Current ratio = $\frac{Current\ assets}{Current\ liabilities}$

Quick ratio = $\frac{Current\ assets - Inventories}{Current\ liabilities}$

Inventory turnover ratio = $\frac{Cost\ of\ goods\ sold}{Ending\ inventory}$

Inventory turnover days = $\frac{Ending\ inventory}{Cost\ of\ goods\ sold} \times 365\ days$

Days sales outstanding = $\frac{Receivables}{Annual\ sales} \times 365\ days$

Days payable outstanding = $\frac{Trade\ Payables}{Cost\ of\ goods\ sold} \times 365\ days$

Debt ratio = $\frac{Total\ liabilities}{Total\ assets}$

Gross profit margin = $\frac{Gross\ Profit}{Revenue} \times 100\%$

Net profit margin = $\frac{Profit\ after\ tax}{Revenue} \times 100\%$

Return on equity = $\frac{Profit\ after\ tax}{Total\ shareholders'equity}$

Return on assets = $\frac{Profit\ after\ tax}{Total\ assets}$

Earnings per share = $\frac{Profit\ after\ tax}{Number\ of\ ordinary\ shares\ outstanding}$

Price / earnings ratio = $\frac{Price\ per\ share}{Earnings\ per\ share}$