PENINSULA COLLEGE GEORGETOWN

FINAL SEMESTER EXAMINATION

Programme	:	**FOUNDATION IN ARTS**
Course	:	**INTRODUCTION TO FINANCE**
Course Code	:	**FA1354**
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 6 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 term time value of money. (3 marks)

b) Differentiate “simple interest” and “compound interest”. (4 marks)

c) Assuming that you deposit RM5,000 in a savings account today, compute the value by the end of 6th year if the account pays a nominal interest rate of 8% compounded annually.

(3 marks)

d) Calculate the present value of a security that will pay RM5,000 in 3 years if securities of equal risk pay 7% annually. (3 marks)

e) You decide to begin saving toward the purchase of a new car in five years. If you put RM1,000 at the end of each of the next 5 years in a savings account paying 6 percent compounded annually, how much will you accumulate after 5 years?

(4 marks)

f) If you would like to accumulate RM7,500 over the next 5 years, how much must you deposit every six months, starting six months from now, given a 6 percent interest rate and semiannual compounding?

(4 marks)

g) State **FOUR (4)** real life applications that involved the concept of the time value of money. (4 marks)

Total: [25 marks]

2. The Balance Sheet and Income Statement for Great Industries Sdn. Bhd. Are reproduced below. The corporate tax rate is 40%.

Great Industries Sdn. Bhd
Balance Sheets as at 31 December

	Year 2016 RM '000	**Year 2015** RM '000
Assets		
Current assets:		
Cash	683	325
Account receivable	1,490	3,599
Inventories	1,430	2,436
Total current assets	3,603	6,360
Property, plant and equipment (net)	1,066	1,541
Others	123	157
Total assets	4,792	8,058
Liabilities		
Current liabilities:		
Bank borrowing	622	2,250
Account Payables	485	993
Other payables	38	116
Accrued expenses	576	586
Total current liabilities	1,721	3,945
Long term debt	122	179
Other liabilities	81	131
Total liabilities	1,924	4,255
Shareholders' Equity		
Common stock (1,500,000 shares)	1,500	1,500
Retained earnings	1,368	2,303
Total shareholders' equity	2,868	3,803
Total liabilities and shareholders' equity	4,792	8,058

Income Statement for the Year Ended 31st December

	2016 RM '000	**2015** RM '000
Sales	7,570	12,065
Other income	261	345
Total revenue	7,831	12,410
Cost of goods sold	4,850	8,048
General, administrative & marketing expenses	1,531	2,025
Interest expenses	22	78
Total costs and expenses	6,403	10,151
Net profit before tax	1,428	2,259
Tax	628	994
Net profit after tax	800	1,265

a) Assume share price of Great Industries Sdn Bhd in 2015 and 2016 is RM2 and RM2.50, respectively. You are required to compute the following for year 2015 and 2016:

i) Acid test ratio (4 marks)

ii) Return on assets (4 marks)

iii) Return on equity (4 marks)

iv) Earnings per share (4 marks)

iv) Price/earnings ratio (3 marks)

b) Ratio analysis provides useful information concerning a company's operations and financial condition. However, ratio analysis has several potential problems that require care and judgement. Discuss **THREE (3)** limitations of ratio analysis.
(6 marks)
Total: [25 marks]

3. The summarized current assets and current liabilities of Newton Bhd as as follows:

Current assets	**RM**
Cash and marketable securities	50,000
Accounts receivable	75,000
Inventory	67,000
Total current assets	**192,000**
Current liabilities	
Accounts payable	48,000
Bank loan	66,000
Accruals	15,000
Total current liabilities	**121,000**

Sales for the firm amount to RM800,000 and cost of goods sold is 45% of sales.

a) Calculate the following:

i) Inventory conversion period (3 marks)

ii) Debt collection period (3 marks)

iii) Payable credit period (3 marks)

iv) Cash conversion period (3 marks)

b) Credit terms is a condition as agreed in the contractual agreement between the supplier and the customer pertaining to the credit granted by the former to the latter. Explain this '3/10, net 30' credit terms. (3 marks)

c) The 5C's system has been popularly used in the credit analysis. Explain the 5C's system.
(10 marks)
Total: [25 marks]

4. You are a financial analyst for M & M Electronic Company. The director of capital budgeting has asked you to analyze two proposed capital investments. Project A and Project B. Each project has a cost of RM100,000 and the required rate of return for each project is 16 percent. The projects' expected net cash flows are as follows:

	Expected Net Cash Flows	
Year	**Project A**	**Project B**
	RM	RM
1	65,000	35,000
2	30,000	35,000
3	30,000	35,000
4	10,000	35,000

a) Calculate the following for each project.
i) Payback period (6 marks)

ii) NPV (6 marks)

iii) IRR (10 marks)

b) Based on the results in Question 4 (a), which project would you recommend if they are:
i) Independent project (1.5 marks)

ii) mutually exclusive project (1.5 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 = $\frac{Price\ per\ share}{Earnings\ per\ share}$