

This question paper consists of TWO (2) sections. Answer ALL questions in the booklet provided. [100 Marks]

**SECTION A** (50 Marks)

There are TWENTY-FIVE (25) MCQ questions in this part. Answer ALL questions in the answer booklet.

1. Cash budget is a part of \_\_\_\_\_.
  - A. functional budget.
  - B. financial budget.
  - C. management budget.
  - D. master budget.
  
2. While preparing a cash budget which of the following items would not be included?
  - A. Depreciation
  - B. Credit sales
  - C. Loss on sale of assets
  - D. All the above
  
3. Which of the following is / are true about the cash budget?
  - A. It indicates cash excess or cash shortages.
  - B. Cash budget is closely related to other functional budgets.
  - C. It establishes a sound basis for obtaining credit.
  - D. All the above.
  
4. Cash budget is \_\_\_\_\_ in nature.
  - A. short-term
  - B. long-term
  - C. mid-term
  - D. none of the above
  
5. Cash budget is based on \_\_\_\_\_.
  - A. sales forecasts.
  - B. expenses budgets.
  - C. capital expenditure budget.
  - D. All the above.

6. The cost of equity shares or debt is known as \_\_\_\_\_.
- A. the specific cost of capital.
  - B. the related cost of capital.
  - C. the burden on the shareholder.
  - D. none of the above.
7. Which of the following methods involves computing the cost of capital by dividing the dividend by market price?
- A. Adjusted price method
  - B. Price earning method
  - C. Dividend yield method
  - D. Adjusted cost method
8. In weighted average cost of capital, an organization can affect its cost of capital through \_\_\_\_\_.
- A. the policy of investment.
  - B. the policy of capital structure.
  - C. the policy of dividends.
  - D. All the above.
9. \_\_\_\_\_ is the rate of return for the most viable investment opportunity for a company that will forgo by selecting any other project.
- A. Implicit cost
  - B. Specific cost
  - C. Explicit cost
  - D. None of the above
10. Which of the following statements are true?
- A. When the dividends, earnings and the price of an equity share are growing at the same rate the dividend growth method can compute the cost of equity capital.
  - B. The risk premium for a stock is arrived at by adding the risk-free rate to the market rate of return.
  - C. Both A and B are false
  - D. Both A and B are true
11. Break-even point is the point where \_\_\_\_\_.
- A. fixed and variable cost lines intersect.
  - B. fixed and total cost lines intersect.
  - C. variable and total cost lines intersect.
  - D. sales revenue and total cost lines intersect.

12. Break-even point is not affected with the changes in which of the following?
- A. Sale price per unit
  - B. Variable cost per unit
  - C. Number of units sold
  - D. Total fixed costs
13. Break-even analysis chart is drawn between \_\_\_\_\_.
- A. overhead cost and fixed cost.
  - B. volume of production and income.
  - C. material cost and labour cost.
  - D. none of these.
14. The difference between actual sales and breakeven point is known as \_\_\_\_\_.
- A. margin of safety.
  - B. price-cost margin.
  - C. contribution.
  - D. profit.
15. Stock that has priority of claim on assets.
- A. Common stock
  - B. Preferred stock
  - C. Bonds
  - D. None of the above
16. The dividend growth rate is referred to as the \_\_\_\_\_.
- A. dividend yield.
  - B. discount rate.
  - C. market rate.
  - D. capital gains yield.
17. Who determines the market price of a share of common stock?
- A. The board of directors of the firm
  - B. The stock exchange on which the stock is listed
  - C. The president of the company
  - D. Market forces buying and selling of the stock

18. What's the value to you of a \$1,000 face value bond with an 8% coupon rate when your required rate of return is 15 percent?
- A. More than its face value
  - B. Less than its face value
  - C. Same as its face value
  - D. \$0
19. When the market's required rate of return for a particular bond is much less than its coupon rate, the bond is selling at \_\_\_\_\_.
- A. a premium.
  - B. a discount.
  - C. face value.
  - D. zero.
20. If an investor may have to sell a bond prior to maturity and interest rates have risen since the bond was purchased, the investor is exposed to \_\_\_\_\_.
- A. the coupon effect.
  - B. interest rate risk.
  - C. a perpetuity.
  - D. an indefinite maturity.
21. Interest rates and bond prices \_\_\_\_\_.
- A. move in the same direction.
  - B. move in opposite directions.
  - C. sometimes move in the same direction, sometimes in opposite directions.
  - D. have no relationship with each other as they are independent.
22. The expected rate of return on a bond if bought at its current market price and held to maturity is known as \_\_\_\_\_.
- A. current yield.
  - B. coupon yield.
  - C. yield to maturity.
  - D. capital gains yield.
23. In the United States, most bonds pay interest \_\_\_\_\_ a year, while many European bonds pay interest \_\_\_\_\_ a year.
- A. once, once
  - B. once, twice
  - C. twice, once
  - D. twice, twice

24. In the formula  $k_e = (D_1/P_0) + g$ , what does  $g$  represent?
- A. The expected price appreciation yield from a common stock.
  - B. The expected dividend yield from a common stock.
  - C. The dividend yield from a preferred stock.
  - D. The coupon payment from a bond.
25. If a bond sells at a high premium, then which of the following relationship is true if  $P_0$  represents the price of a bond and YTM is the bond's yield to maturity.
- A.  $P_0 < \text{Par}$ ,  $\text{YTM} > \text{Coupon rate}$ .
  - B.  $P_0 > \text{Par}$ ,  $\text{YTM} > \text{Coupon rate}$ .
  - C.  $P_0 > \text{Par}$ ,  $\text{YTM} < \text{Coupon rate}$ .
  - D.  $P_0 < \text{Par}$ ,  $\text{YTM} < \text{Coupon rate}$ .

  
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**SECTION B**

**(50 Marks)**

There are **TWO (2)** questions in this part. Answer ALL questions in the EXCEL SHEET.

**Question 1**

Years	2015	2016	2017	2018	2019
Stock X	18%	16%	14%	12%	10%
Stock Y	10%	12%	14%	16%	18%
Stock Z	18%	16%	14%	12%	10%

Melia Investment Group is considering three stocks which are Stock X, Stock Y, and Stock Z. The returns on these three stocks are given above. Melia Investment Group is considering only one portfolio which will be Stock X and Stock Y (Portfolio XY), Stock X and Stock Z (Portfolio XZ), or Stock Y and Stock Z (Portfolio YZ). Consider 50% portion in any stocks chosen.

**Required:**

Develop a model to calculate the *expected return*, *standard deviation*, and *correlation* for Portfolio XY, Portfolio XZ, and Portfolio YZ.

(25 marks)

**Question 2**

Source	Price (\$)	Units
Bond	1,150.00	400
Preferred Stock	80.00	1,000
Common Stock	34.00	10,000

Bumi Armada is an interior design consultant company. Currently, Bumi Armada has three sources of capital which are bond, preferred stock, and common stock. Above is the data provided the current selling price and units. Currently, the coupon payment of the bond is 10%, the floatation cost is 1%, tax rate is 30% and maturity period is 15 years. The preferred stock pays a dividend of \$7, and the floatation cost is 2%. The common stock's last dividend was \$2.50, the dividend is expected to grow at 6% and the floatation cost is 5%.

**Required:**

Develop a model to calculate the cost for each capital component and Weighted Average Cost of Capital (WACC) for Bumi Armada.

(25 marks)

\*\*\* END OF QUESTION PAPER \*\*\*