SIR ARTHUR LEWIS COMMUNITY COLLEGE
ACADEMIC YEAR (2024/2025) – SEMESTER TWO
END OF SEMESTER EXAMINATION

COURSE CODE	:	**FIN201**
COURSE TITLE	:	**INTRODUCTION TO FINANCE**
LECTURER(S)	:	**F. M-CLOVIS**
DATE	:	
TIME	:	
DURATION	:	**1 ½ HRS**
STUDENT ID #	:	____________________

GENERAL INFORMATION AND INSTRUCTIONS

- Students must sign **IN** and **OUT** on the examination class list.
- Write your ID number on your papers.

- Read **all** questions and instructions carefully.
- This examination contains **TWO (2) sections.**

Section I

i. **Fifteen (15)** multiple choice questions.
Students are required to **answer all questions.**
15 marks

Section II

- There are **two (2)** questions in this section. Students are required to answer **any one complete** question.
Each question is worth **25 marks**.

- Borrowing or lending is **prohibited**. **All cell phones must be turned off and placed in bags at front of room.**

- **Remove all calculator covers and place in bags at front of room.**

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO

SECTION I ANSWER ALL QUESTIONS

Instruction: Choose the most appropriate answer circle it on the answer sheet provided.

1. What does a firm need to do to improve liquidity?
   A. Stock up on inventory in order to never run out of stock
   B. Extend credit terms to customers in order to gain more sales
   C. Pay all bills and payables when due
   D. Speed up collection of accounts receivable from customers

2. Investors invest in a firm because they are motivated by the potential return on their investment. In evaluating a firm's potential for delivering that rate of return, what do they most look for in a firm's projections?
   A. The firm's plans to stock up on inventory in order to never run out of stock
   B. The firm's plans to extend credit terms to customers in order to gain more sales
   C. The firm's ability to pay dividends
   D. The firm's ability to generate cash by liquidating its marketable securities portfolio

3. Business finance looks at how managers apply financial principles to maximize the value of a firm. Who benefits most when the value of the firm is maximized?
   A. Management
   B. Employees
   C. Shareholders
   D. Customers

4. Which of the following areas of finance is a more narrowly focused subfield of one of the other three areas?
   A. Business finance
   B. Financial markets and institutions
   C. Investments
   D. Working capital management

5. Company managers use financial data extensively to make ongoing business decisions within the firm. Which of the following are external users of a company's data?
   A. Strategic planning staff
   B. Department managers
   C. Suppliers
   D. Internal auditors

6. When a company's security is sold in the secondary market, which entity receives the proceeds of the sale?
   A. The company
   B. The exchange where the security was traded
   C. The securities seller
   D. The bank syndicate

7. A financial analyst holds an essential position within a corporate or financial firm. Of the many skills that are needed in this position, which of the following is typically most important?
   A. Quantitative and analytical skills
   B. Communication skills
   C. Adaptability
   D. Ability to focus on tasks

8. A company's primary objective is to maximize the value of the company and, by extension, the value of the company's shares. The most fundamental approach to maximizing company value is to ________.
   A. increase company profits
   B. reduce industry competition
   C. maximize company cash flow
   D. minimize company expenses

9. Who ultimately runs the company operations for a large corporation?
   A. shareholders
   B. board of directors
   C. external auditors
   D. stakeholders

10. Which of the following activities is part of the cash from operations section of a cash flow statement?
   A. Obtaining debt financing
   B. Selling new common shares
   C. Building a new factory facility
   D. Extending credit to customers

11. Which of the following activities is part of the cash from financing activities section of a cash flow statement?
   A. Obtaining debt financing
   B. Selling an office building
   C. Building a new factory facility
   D. Extending credit to customer

12. What is the formula for the times interest earned ratio?
   A. net income / interest expense
   B. earnings before interest and taxes / interest expense
   C. interest expense / earnings before interest and taxes
   D. earnings before interest and taxes – interest expense

13. Investors are said to be risk averse, which does this mean?
   A. They won't accept risk.
   B. They seek out risk.
   C. They have a preference for risk-free assets.
   D. They will accept risk if they are adequately compensated for it.

14. Agency problems are essentially ________.
   A. conflicts of interest
   B. problems with the IRS
   C. fraudulent business activities
   D. nepotism

15. The term ESG, when used in the context of corporate governance, refers to which of the following?
   A. earnings, shareholders, and governance
   B. earnings, social, and general profit
   C. environmental, social, and goals
   D. environmental, social, and governance

SECTION II

Instruction: Students are required to answer **<u>any complete</u>** question

QUESTION 1

i.

Use the following excerpts from OpenAir Company's financial information to prepare a statement of cash flows (indirect method) for the year ending March 31, 2025.

	$
Beginning cash	120,000
Net income	87,500
Depreciation expense	22,000
Accounts receivable change	8,900
Inventory change	(6,500)
Prepaid assets change	2,400
Investments change (no asset sales)	30,000
Accounts payable change	(800)
Note payable principal balance change (no new loans)	(21,000)
Common stock balance change (due to stock issuance)	36,000

15 marks

ii.

24-hr Sports Inc. is considering the purchase of a new rock-climbing facility. The company estimates that the construction will require an initial outlay of $350,000. Other cash flows are estimated as follows:

Year 1	($60,000)
Year 2	$140,000
Year 3	$210,000
Year 4	$130,000

Assuming the company limits its analysis to four years due to economic uncertainties, determine the net present value of the rock-climbing facility. Should the company develop the facility if the required rate of return is 6%?

Factors at 6%

1.0000
0.9434
0.8900
0.8396
0.7921

10 marks

QUESTION 2

i. BayGardenz Ltd is considering an investment in a new oven that has a cost of $60,000, with annual net cash flows of $9,950 for 8 years. The required rate of return is 6%. Compute the net present value of this investment to determine whether or not you would recommend that BayGardenz Ltd. invest in this oven.

5 marks

ii. Sandalz Inc. is considering introducing a new product which will require the purchase of a new machine. There are two machines available, Machine A and Machine B, but only one may be acquired. Both machines will be scrapped after five years with no residual value.

The following information is available for Machine A:

	$
Cost	225,000

Year	Cash flows
1	60,000
2	68,000
3	75,800
4	85,480
5	57,600

a) Calculate the accounting rate of return (ARR) for Machine A to two decimal places.

10 marks

Additional information

Sandalz Inc. has **a cost of capital of 10%. Discount factors** are as follows:

Year	
1	0.909
2	0.826
3	0.751
4	0.683
5	0.621

(b) Calculate the net present value (NPV) of Machine A. **7 marks**

The payback period for Machine A is 3 years and 3 months.

The following data are available for **Machine B.**

Payback period 2 years and 10 months
ARR 23.58%
NPV $24 858

(c) Advise Sandalz Inc. which machine should be purchased. Justify your answer. **3 marks**

[Total: 20]

END OF EXAMINATION