



**SIR ARTHUR LEWIS COMMUNITY COLLEGE
ACADEMIC YEAR (2024/2025) - SEMESTER ONE
END OF SEMESTER EXAMINATION**

Alternate

COURSE CODE : FIN301
COURSE TITLE : Principles of Finance
LECTURER(S) : Emaline Hunte
DATE :
TIME :
DURATION :
STUDENT ID # : _____

GENERAL INFORMATION AND INSTRUCTIONS

- Students must sign **IN** and **OUT** on the examination class list.
- Write your ID number on the question paper.
- This paper
- Circle the correct answer on the question paper.

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

Section 1

1. The return of a portfolio is
 - A. Total Return of all elements
 - B. Average Return of all elements
 - C. Highest Return
 - D. Lowest Return
2. Which of the following is diversifiable risk?
 - A. Inflation Risk
 - B. Interest Rate Risk
 - C. Seasonal Risk
 - D. Foreign exchange risk
3. In a diversified portfolio, a new security adds
 - A. Systematic Risk
 - B. Unsystematic Risk
 - C. Liquidity Risk
 - D. Inflation risk
4. Coefficient of variations of two distributions are 55 and 65 and their standard deviations are 22 and 39 respectively. Their arithmetic means are respectively:
 - A. 15, 20
 - B. 40, 60
 - C. 30, 50
 - D. 25, 45
5. Which of the following is unsystematic risk to a firm?
 - A. Inflation
 - B. Surcharge of Income-tax
 - C. Interest Rate
 - D. Scarcity of Raw Material
6. What is a series of equal payments (or receipts) that occur at the end of each time period called?
 - A. Annuity due
 - B. Ordinary annuity
 - C. Reverse annuity
 - D. Rule of 72 example
7. The future value of a \$100 payment per year ordinary annuity at a 5 percent interest rate for two years would be which of the following?
 - A. \$100
 - B. \$200
 - C. \$205
 - D. \$250
8. If you wish to compound or discount quarterly, for a period of five years, what would be the number of periodic payments?
 - A. Five
 - B. Ten
 - C. Four
 - D. Twenty
9. For which type of annuity do equal periodic payments (or receipts) occur at the beginning of each period?
 - A. Ordinary annuity
 - B. Annuity due
 - C. Reverse annuity
 - D. Annuity rule

10. When interest is earned on interest in addition to interest being earned on the principal amount of an investment, what is this called?
- A. Simple interest
 - B. Compound interest
 - C. Basic interest
 - D. Inflation interest
11. What is the term for an arithmetic process whereby a future value decreases at a compound interest rate over time to reach a present value?
- A. Compounding
 - B. Discounting
 - C. Investing
 - D. Speculating
12. A U.S. corporate bond has a 6 percent coupon rate and a par value of \$1,000. It will pay interest of
- A. \$60 once a year.
 - B. \$30 every six months.
 - C. \$60 every six months
 - D. \$5 each month.
13. An asset will pay \$50 at the end of each year for three years. How much should you be willing to pay for this asset if you want a 6 percent return?
- A. \$133.65
 - B. \$141.00
 - C. \$59.55
 - D. \$141.51
14. A bond has a par value of \$1000 and its current selling price is \$987. This is an example of a:
- A. bond selling at par.
 - B. discount bond.
 - C. premium bond.
 - D. improperly priced bond.
15. A stock has a current dividend of \$1 per share and it is expected to grow 4 percent annually. If you require an 8 percent return on the stock, what is the highest price you should be willing to pay for the stock?
- A. \$10.00
 - B. \$12.50
 - C. \$26.00
 - D. \$25.00
16. An asset costs \$210,000 with a \$30,000 salvage value at the end of its ten-year life. If annual cash inflows are \$30,000, the cash payback period is
- A. 8 years.
 - B. 7 years.
 - C. 6 years.
 - D. 5 years.
17. If a company's required rate of return is 10% and, in using the net present value method, a project's net present value is zero, this indicates that the
- A. Project's rate of return exceeds 10%.
 - B. Project's rate of return is less than the minimum rate required.
 - C. Project earns a rate of return of 10%.
 - D. Project earns a rate of return of 0%.
18. When a capital budgeting project generates a positive net present value, this
- A. Internal rate of return.
 - B. Annual rate of return.
 - C. Required rate of return.
 - D. Present value index

19. The formula to calculate the internal rate of return factor is
- A. Capital investment/ annual rate of return
 - B. Capital investment/ average investment.
 - C. Capital investment/ net annual cash flows.
 - D. Capital investment/ net annual income.
20. S Company recently invested in a project with a 3-year life span. The initial investment was \$15,060 and annual cash inflows were \$7,000 for year 1; \$8,000 for year 2; and \$9,000 for year 3. The company expects a 15% required rate of return, information related to that is presented below. What is the net present value for the project?

Year	Present Value	Present Value of an Annuity
1	.870	.870
2	.756	1.626
3	.658	2.283

- A. \$15,264.
- B. \$3,000.
- C. \$9,744.
- D. \$12,000.

Section 2

1.

Classic Arrangements Boutique		
Statement of Financial Position		
As at 31st March		
	2024	2023
NON CURRENT ASSETS	\$	\$
Land	40 000	40 000
Buildings	140 000	125 000
Store Equipment	100 000	90 000
Office Equipment	22 000	28 000
Vehicles	<u>1 200</u>	<u>2 400</u>
TOTAL NON CURRENT ASSETS	<u>303 200</u>	<u>285 900</u>
CURRENT ASSETS		
Inventory	55 500	54 250
Accounts Receivable	64 150	52 000
Bank	25 695	19 700
Cash	<u>5 000</u>	<u>1 000</u>
TOTAL CURRENT ASSETS	<u>150 345</u>	<u>126 950</u>
TOTAL ASSETS	<u>453 545</u>	<u>412 850</u>
CURRENT LIABILITIES		
Accounts Payable	40 000	59 000
Accrued Expenses	12 500	40 250
Accrued Dividends	7 500	6 000
Loan: X Saunders	<u>14 200</u>	<u>15 100</u>
TOTAL CURRENT LIABILITIES	74 200	120 350
NON CURENT LIABILITIES		
Mortgage	<u>100 000</u>	<u>100 000</u>
TOTAL LIABILITIES	<u>174 200</u>	<u>220 350</u>
EQUITY		
Shareholders' Equity	20 000	12 500
Common Stock, \$2 par	75 000	60 000
Retained Earnings	<u>184 345</u>	120 000
TOTAL EQUITY	<u>279 345</u>	<u>192 500</u>
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	<u>453 545</u>	<u>412 850</u>

Additional information:	2024	2023
	\$	\$
Net Sales	900 000	850 000
Cost of Sales	350 000	225 000

Required:

- a. Using the above information, calculate the following **ratios** for the two years 2023 and 2024: **(INCLUDE THE formulas)**
- i) Working Capital
 - ii) Current Ratio
 - iii) Quick Ratio
 - iv) Inventory Turnover
 - v) Gross Profit Margin
 - vi) Creditors Ratio
 - vii) Accounts receivable turnover (in days)
 - viii) Return on capital employed
- (8 marks)

- b. Comment on the company's liquidity and efficiency and profitability the two years. (3 marks)
- c. Give TWO examples of shareholder ratios. (2 marks)
- d. Give two limitations of Ratio analysis (2 marks)

2. L Company is considering two new machines that should produce considerable cost savings in its assembly operations. The cost of each machine is \$14,000 and neither is expected to have a salvage value at the end of a 4-year useful life. L Company's required rate of return is 12% and the company prefers that a project return its initial outlay within the first half of the project's life. The annual after-tax cash savings for each machine are provided in the following table:

Year	Machine A	Machine B
1	\$5,000	\$8,000
2	5,000	6,000
3	5,000	4,000
4	5,000	2,000
Total	\$20,000	\$20,00

A)

Required:

- i) Compute the payback period for each machine (4 marks)
- ii) Compute the net present value for each machine. (4 marks)
- iii) Which machine should be purchased? (2 marks)

B)

To complete your last year in SALCC, Business Innovation and Sustainable Entrepreneurship and then go through to the Bachelors in Business program, you will need \$10,000 per year for four years, starting next year (that is you will need to withdraw the first \$10,000 one year from today). Your rich uncle offers to put you through school and he will deposit a sum of money in a bank paying 7 % interest. The sum is sufficient to provide the four payments of \$10,000 each and his deposit will be made today. (show all working)

- i. How large must be the deposit (5 marks)