SIR ARTHUR LEWIS COMMUNITY COLLEGE

ACADEMIC YEAR (2024/2025) – SEMESTER ONE

END OF SEMESTER EXAMINATION

COURSE CODE	:	**FIN201**
COURSE TITLE	:	**Introduction to Finance**
LECTURER(S)	:	**Mrs. Emaline Hunte**
DATE	:	**December 10, 2024**
TIME	:	**9:00 AM**
DURATION	:	**2 hours**
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 has **2 (TWO)** Sections.
- Answer **all** the questions in section A, and **any two questions** in section B.
- For Section A choose the letter A, B, C or D that carries the best response and SHADE it on the answer sheet provided.

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

Section A – Answer all questions in this section.

Multiple Choice: Choose the letter A, B, C or D that carries the best response and SHADE it on the answer sheet provided.

1. Liquid assets is determined by
   A. Current assets – stock - Prepaid expenses
   B. Current assets + stock + prepaid expenses
   C. Current assets + Prepaid expenses
   D. None of the above

2. Given Sales is $120,000 and Gross Profit is $30,000, the gross profit ratio is
   A. 24%
   B. 25%
   C. 40%
   D. 44%

3. Determine Working capital ratio if, Current assets is $150,000, current liabilities is $100,000 and Cost of goods sold is $300,000.
   A. 5 times
   B. 6 times
   C. 3 times
   D. 1.5 times

4. Liquidity ratios are expressed in
   A. Pure ratio form
   B. Percentage
   C. Rate or time
   D. None of the above

5. Which of the following are limitations of ratio analysis?
   A) Ratio analysis may result in false results if variations in price levels are not considered.
   B) Ratio analysis ignores qualitative factors.
   C) Ratio Analysis ignores quantitative factors.
   D) Ratio Analysis is historical analysis.

   A. A, B and D
   B. A, C and D
   C. A, B and C
   D. A, B, C, D

6. A speculative (junk) bond issue as rated under Standard & Poor's would be rated ______ or below:
   A. AA-
   B. BB+
   C. CCC
   D. CC

7. An individual or organization that represents the bondholders to ensure the indenture's provisions are respected by the bond issuer is called a(n):
   A. trust indenture
   B. trustee
   C. investment banker
   D. trust organization

8. The terms or covenants of a bond contract are set out in which of the following documents?
   A. debenture
   B. trust indenture
   C. mortgage
   D. negative pledge clause

9. Which of the following is not an advantage of owning debt securities?
   A. high claim on cash flows of a firm
   B. highest return of corporate securities
   C. high claim on assets of in liquidation
   D. may be convertible into equity

10. A sinking fund:
    A. is a special fund set up to pay of the creditors of bankrupt firms
    B. requires specific approval by the firm's the board of directors
    C. requires the issuer to retire a bond issue incrementally over time
    D. is managed by the trustee

11. Most bonds pay coupon interest
    A. monthly
    B. quarterly
    C. semi-annually
    D. annually

12. Common stock can have which of the following characteristics?
    A. cumulative
    B. non-cumulative
    C. convertible
    D. shareholder voting rights

13. Which of the following types of stocks have the lowest risk to shareholders?
    A. common stock
    B. cumulative preferred stock
    C. non-cumulative preferred stock
    D. callable preferred stock

14. Interest earned only on an investment's principal or original amount is referred to as:
    A. simple interest
    B. compound interest
    C. discount interest
    D. annuity interest

15. When solving for the future value of an amount deposited now, which one of the following factors would not be part of the calculation?
    A. present value amount
    B. 1 plus the interest rate
    C. 1 divided by the sum of 1 plus the interest rate
    D. number of periods to compound over

16. The amount earned on a deposit becomes part of the principal at the end of a period and can earn a return in future periods is called
    A. discount interest.
    B. compound interest.
    C. primary interest.
    D. future value.

17. The future value of $200 received today and deposited at 8 percent for three years is
    A. $248.
    B. $252.
    C. $158.
    D. $200.

18. A portfolio having two risky securities can be turned risk less if
    A. The securities are completely positively correlated
    B. If the correlation ranges between zero and one
    C. The securities are completely negatively correlated
    D. None of the above.

19. Risk of two securities with different expected return can be compared with:
    A. Coefficient of variation
    B. Standard deviation of securities
    C. Variance of Securities
    D. None of the above

20. Assume you are the recipient of a two-year, $100 per year, ordinary annuity that has a future value of $207. What is the interest rate on this annuity?
    A. 5 percent
    B. 7 percent
    C. 9 percent
    D. 10 percent

Section B

Answer ANY TWO of the following questions

Question 1

Island Style Financial Services
Income Statement
for the year ending 31 December, 2019

	$
Revenue	150,000
Less Net Cost of Sales	60,000
Gross Profit	90,000
Operating Expenses (*including Dep'n $10,000)*	(30,000)
Net Income	60,000

Island Style Financial Services
Comparative Statements of Financial Position
as at 31 December, ….

	2019	**2018**
	$	**$**
Buildings	*200,000*	*200,00*
Office Equipment	*220,000*	*96,000*
Office Furniture	150,000	*144*,000
Total Property & Equipment @ cost	570,000	440,000
Accumulated depreciation	(120,000)	(110,000)
Net Book Value of Property & Equipment	450,000	330,000
Inventory	30,000	42,000
Accounts Receivable	2,500	1,000
Prepaid Expenses	2,000	5,000
Cash	151,500	100,000
Total Current Assets	186,000	148,000
Accounts Payable	(20,000)	(15,000)
Accrued Expenses	(4,000)	(6,000)
Total Current Liabilities	(24,000)	(21,000)
Working Capital	162,000	127,000
Net Assets	612,000	457,000
Capital	250,000	150,000
5-Yr Bank Loan	362,000	307,000
Capital & Long-Term Liabilities	612,000	457,000

Notes:
1. There were $20,000 drawings during the year and some additional capital was introduced.
2. No non-current assets were sold during the year.

Required:

Prepare the Statement of Cash Flow (indirect method) in good form for 2017. ***Show all workings clearly in a separate space***. (15 marks)

Question 2

You are a financial analyst for Damon Electronics Company. The director of capital budgeting has asked you to analyze two proposed capital investments, Projects X and Y. Each project has a cost of $10,000, and the required rate of return for each project is 12 percent. The projects' expected net cash flows are as follows:

	Expected Net Cash Flows	
Year	**Project X**	**Project Y**
0	$(10,000)	$(10,000)
1	6,500	3,500
2	3,000	3,500
3	3,000	3,500
4	1,000	3,500

a. Calculate each project's payback period and net present value. (13 marks)
b. Which project should be accepted in each case if they are mutually exclusive? (2 marks)

Question 3 (A)

i. Briefly explain the difference between an ordinary annuity and an annuity due. (2 marks)

ii. A $9,000 loan will require interest payments of $4,000 per year for 3 years. Calculate the compound interest rate on this loan. (2 marks)

iii. What is the present value of a five-year lease arrangement with an interest rate of 9 percent that requires annual payments of $10,000 per year with the first payment being due now? (2 marks)

Question 3 (B)

Scenic Ventures is studying the acquisition of a helicopter for tours of the Caribbean islands. The helicopter will cost $5 million, is expected to have a $1.4 million residual value, and will be depreciated over a 12-year service life by the straight-line method. The following annual cash operating costs are anticipated:

Fuel	$60,000
Wages	85,000
Maintenance	45,000
Insurance	58,000
Licenses	2,000

Tours will be provided on a year-round basis, with five trips being made each day. Operations will be shut down for selected holidays (thanksgiving and Christmas), bad weather (six days), and major maintenance procedures (seven days). Scenic charges $75 per passenger and the average tour is expected to have eight passengers.

a. Compute the annual net cash inflow from the new helicopter. (4 marks)
b. If Scenic requires a payback of five years, should the helicopter be acquired? (2 marks)
c. Calculate the helicopter's accounting rate of return. (3 marks)