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	:	**May 7, 2025**
TIME	:	**9 a.m.**
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. Corporate budgets are important because they provide what to companies?
   A. Established objectives for the upcoming period
   B. Financial statements to submit to regulators
   C. A tax-planning tool
   D. Share price targets

2. Which type of financial data do companies generally not provide to the public?
   A. Balance sheets
   B. Income statements
   C. Staff salaries
   D. Statements of cash flows

3. It is said that an effective and efficient secondary market is essential to having a functioning primary market. Why might this be true?
   A. The secondary market allows investors to liquidate their assets.
   B. The primary market can be inefficient.
   C. Individual investors cannot access the primary market.
   D. The secondary market provides an accurate pricing mechanism.

4. Effective corporate governance includes all of the following EXCEPT ________.
   A. fairness
   B. accountability
   C. objectivity
   D. higher share price

5. A stakeholder is someone who ________.
   A. is required to read a company's annual report
   B. answers to a board of directors
   C. has a vested interest in a company's success
   D. is hired to do a specific job

6. An important component of a strong board of directors (BOD) is having members who are ________.
   A. former employees of the company
   B. able to write a strong corporate press release
   C. culturally diverse and experienced in the industry
   D. new to the industry and without preconceptions

7. Which of the following are used to ensure fiduciary responsibility?
   A. audits
   B. press releases
   C. end-of-year financial ledgers
   D. a letter from the board of directors

8. Which of the following is the best method to ensure that shareholders are well informed of corporate policies and financial results?
   A. self-evaluation and training for members of the board of directors
   B. hiring a prestigious independent public accounting firm
   C. ensuring cultural diversity and public speaking eloquence of the senior management team
   D. conducting well-organized shareholder meetings and conference calls with the investment community

9. Partnerships offer some important advantages over sole proprietorships. What is one of the advantages of a partnership?
   A. Partners may bring different or higher levels of business expertise than a sole proprietor.
   B. Partnerships are simpler and more inexpensive to form than sole proprietorships.
   C. Partnerships are subject to fewer government regulations than sole proprietorships.
   D. Partners have more limited personal liability than a sole proprietor.

10. A corporation is a separate and distinct legal entity from its owners and managers. This benefits the stockholders in which of the following ways?
   A. Their losses are limited to the amount of their original investment.
   B. Their profits are greater than they would be with a partnership.
   C. They remain personally liable for liabilities of the company.
   D. The dividends they receive are not subject to federal taxes.

11. One advantage of holding preferred shares over common shares is that preferred shareholders ________.
   A. have voting rights
   B. are involved with management decisions
   C. receive a defined amount of dividends
   D. get a better tax rate on dividends

12. A board of directors is a group of people elected to represent a company's ________.
   A. shareholders
   B. management
   C. employees
   D. customers

13. There are many advantages to the sole proprietorship organizational structure. Which of the following is not an advantage of sole proprietorships?
   A. Simple and inexpensive to form
   B. Basic organizational structure
   C. Easy access to growth capital
   D. Subject to fewer government regulations

14. Why is debt less risky than equity?
   A. It is easier to obtain.
   B. Bankers are only concerned with cash flow, and they are typically eager to lend money.
   C. It has preference in liquidation.
   D. Finding buyers for common stock is a risky proposition.

15. The concepts of risk and return are fundamental to finance and are seen in many applications. The relationship between risk and return is ________.
   A. Direct and positive
   B. Inverse
   C. Neutral
   D. Uncorrelated

SECTION II

Instruction: Students are required to answer **any complete** question

QUESTION 1

i. The following information is from Mamba Company's financial information for the year ending March 2025.

	March 31. 2025	March 31, 2024
	$	$
Cash	100,000	93,000
Account Receivable	19,000	18,000
Merchandise Inventory	29,000	31,500
Investments	132,000	120,000
Plant Assets	90,000	90,000
Accumulated Depreciation	-37,000	-23,000
Total Assets	333,000	329,500
Accounts Payable	12,100	13,400
Accrued Liabilities	2,400	1,900
Common Stock	81,000	63,000
Retained Earnings	237,500	251,000
Total Liabilities and Equity	333,000	329,500
Additional information: Net income (loss) for 2025	-5,700	
Depreciation expense for 2025	14,000	
Investments purchased. for cash	12,000	
Common stock issued for cash, at par value	18,000	
Dividends declared and paid	8,000	

You are required to:

i. Prepare a statement of cash flows (indirect method) for Mamba Company for the year ended March 2025. **16 marks**

ii. Mason, Inc., is considering the purchase of an asset that has a cost of $85,000 and an estimated revenue producing life of 4 years. Mason has a required rate of return that is 12% and a cost of capital of 11%. The patent is expected to generate the following amounts of annual income and cash flows:

	Year 1	**Year 2**	**Year 3**	**Total**
	$	**$**	**$**	**$**
Net income	6,900	9,600	3,000	6,300
Operating cash flows	19,500	18,700	20,205	15,900

The following are the discount factors at 12%:

1.0000
0.893
0.797
0.712
0.636

A. Calculate the NPV of the investment? **8 marks**

B. What happens if the required rate of return increases? **1 mark**

QUESTION 2

i. You have been given the following financial statements for year ending March 2025 for Sugar city Ltd a manufacturer of headphones. The figures are shown in $000s.

	Sugar city Ltd	
	$ 000	$ 000
Statement of Profit or loss		
Sales		2,500
Less Cost of goods sold Opening inventory	190	
Add Purchases	2,100	
	2,290	
Less Closing inventory	220	
		2,070
Gross profit		430
Less Expenses		
Wages and salaries	180	
Directors' remuneration	70	
Other expenses	14	
Total expenses		264
Net profit		166
Statement of financial position		
Non-current assets		
Equipment at cost	200	
Less Depreciation to date	80	
		120
Vans	64	
Less Depreciation to date	26	
		38
		158
Current assets		
Inventory	220	
Accounts receivable	104	
Bank	75	
		399
Total assets Less Current liabilities		557
Accounts payable		189
Net assets		368
Equity Issued share capital		200
Reserves General reserve	68	
Retained profits	100	
		168
Total equity		368

Notes: Sugar City Ltd paid a dividend of $140,000 during the year and transferred $30,000 to a general reserve at the end.

Calculate **any 5** of the following ratios for Sugar city Ltd:

- **i.** gross profit percentage
- **ii.** net profit percentage
- **iii.** expenses as a percentage of sales;
- **iv.** inventory turnover;
- **v.** Accounts receivable turnover (days)
- **vi.** Accounts payable turnover Ratio (days)

10 MARKS

ii. The directors of Italiano city clothing company are proposing to manufacture raincoats. They anticipate that the raincoats will stay in fashion for the next 4 years. This would require the purchase of additional equipment at a cost of $250 000 with a useful life of 4 years, has no residual value and will be depreciation using the straight line method.
Sales are expected to be 4000 raincoats in year 1. In years 2 and 3 the expected number of raincoats sold will increase by 10% on the previous year but will fall to 3500 in year 4.
The selling price of the raincoats will be $80 in year 1, $90 in years 2 and 3 and $75 in the final year.
The variable costs will be $65 per rain coat for years 1 and 2, rising to $70 for years 3 and 4.
The company's cost of capital is 10%.

The discount factors are:
Year 1 0.909
Year 2 0.826
Year 3 0.751
Year 4 0.683

REQUIRED

(a) Calculate the net cash flows for each year. **7 marks**

(b) Calculate the net present value of the proposal. **7 marks**

(c) Advise the directors whether they should proceed with the proposal. **1 marks**

15 MARKS