



STAMFORD COLLEGE

SCHOOL OF HUMAN RESOURCE MANAGEMENT

DIPLOMA IN HUMAN RESOURCE MANAGEMENT

SEMESTER 5

DHRM 504: INTRODUCTION TO FINANCE

Date : 03 May 2007 (Thursday)

Time : 9.30 am –12.30 pm

Duration: 3 hours

Instructions to Candidates

Answer FOUR out of SIX questions.

Please ensure that this examination paper contains SIX questions on TWO printed pages before you start the examination.

Books, papers and other written materials are not allowed to be brought into the examination hall. A candidate who violates the examination rules of Stamford College or commits a malpractice will be disqualified from the examination.

Candidates may use calculators provided the calculators give no printout, have no work display facilities, are silent and cordless.

Write your Examination Index Number on each page of your answer booklet.

Answer any FOUR out of SIX questions.

Question 1

- (a) "Financing decision refers to the determination of the best mix of debt and equity to employ in a firm". Do you agree with this statement? (3 marks)
- (b) What is the difference between investing and financing decisions that made by finance manager? Support your answer with the two examples for each decision. (22 marks)
(Total = 25 marks)

Question 2

- (a) Discuss principal-agent problem if you are major shareholder in one of Public Listed Companies? (10 marks)
- (b) How do you overcome the problem? (15 marks)
(Total = 25 marks)

Question 3

- (a) "Ordinary shareholders are the owners of the firm. Thus, the return of the holders is called dividend." Do you agree with this statement? Discuss. (12 marks)
- (b) Discuss advantages and drawbacks of the payback period which is commonly used in evaluation of different investments. (13 marks)
(Total = 25 marks)

Question 4

- (a) Discuss the difference between overtrading and over capitalisation. (10 marks)
- (b) What are the main causes of overtrading? (10 marks)
- (c) What are the possible solutions if overtrading exist in the firm? (5 marks)
(Total = 25 marks)

Question 5

- (a) Discuss the difference between factoring and invoice discounting. (5 marks)
- (b) Discuss the services offered by factoring. (10 marks)
- (c) What is venture capital fund? Discuss the main features of the fund. (10 marks)
(Total = 25 marks)

Question 6

Honda Inc. is considering a new product line to supplement its existing line. It is anticipated that the new product line will involve cash investments of \$700,000 at year 0 and \$1,000,000 in year 1. Cash inflows of \$250,000 are expected in year 2, \$300,000 in year 3, \$350,000 in year 4, and \$400,000 each year thereafter through year 10. Although the product line might be viable after year 10, the management prefers to be conservative and end all calculation at that time.

Required:

- (a) If the required rate of return is 15%, what is the net present value of the project? Is it acceptable? (10 marks)
 - (b) What is its internal rate of return? (10 marks)
 - (c) Would you accept the project if the required rate of return were 10%? (2 marks)
 - (d) What is the project's payback period? (3 marks)
- (Total = 25 marks)

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