



UNIVERSITY OF KELANIYA – SRI LANKA
Centre for Distance and Continuing Education
Faculty of Commerce & Management Studies

Bachelor of Commerce (Special) Degree Fourth Year Examination (External) – 2021
August - 2021

BCOM E 4025- Financial Management

No. of Questions : Six (06)

Time: 03 hours

Answer five (05) questions only.

Question No 01

a. Explain why the objective of maximizing the wealth of the owners is more important than the objective of maximizing the profit of the organization.
(05 marks)

b. Finance Manager makes different types to decisions to maximize the shareholders' wealth." Explain this statement
(15 marks)
(Total 20 marks)

Question No 02

a. What is time value of money. Why it is important.
(04 marks)

b. Would you like to earn 12% interest annually or the same annual rate on a monthly basis? Explain your answer.
(04 marks)

c. If you invest Rs. 25,000 in a bank account paying 12% compound interest annually, what will it be worth at the end of 15 years?
(04 marks)

d. The government has introduced a special loan scheme for government employees through last year's budget. According to the loan scheme 4% of the loan interest is borne by the government and 8% by the employee. Mr. Prasanna is a government employee, and he has applied for a loan of Rs.1,000,000 payable in 60 equal monthly instalments. You are required to answer the following questions relating to loan payment.

- i. What is the instalment due to bank? (02 marks)
 - ii. What is the total interest charged for the first month? (02 marks)
 - iii. How much interest is charged from the employee for the first month? (01 marks)
 - iv. How much interest is borne by the government for the first month? (01 marks)
 - v. How much deducted from the capital at the end of the first month? (02 marks)
- (Total 20 marks)**

Question No 03

- a. Elaborate Tax effects of financing with debts using suitable example. (04 marks)
- b. Amaya industries have a 12% coupon rate bond and a Rs. 1000 face value. Interest is paid semiannually, and the bond has 25 years to maturity.
 - i. What is the effective annual interest rate of the bond? (02 marks)
 - ii. If the investor requires a 15% yield, what is the bond value? (04 marks)
- c. Using the following information calculate the weighted average cost of capital (WACC)

Capital Structure	Weight	Cost of Capital
Ordinary Shares	0.5	18%
Preferential Shares	0.3	15%
Debts	0.2	12%

- (04 marks)
- d. Saranya PLC has just paid a dividend of Rs 5 per share. Investors require 15% from investments such as this. If the dividend is expected to grow at a steady 10% per year, what is the current value of the stock? (06 marks)
- (Total 20 Marks)**

Question No 04

- a. You have estimated the following probability distributions of expected future returns for Stock X.

Stock X	
Probability	Returns %
0.1	-10
0.2	10
0.4	15
0.2	20
0.1	40

- i. What is the expected rate return for stock X (02 marks)
- ii. What is the risk for stock X? (03 marks)
- b. An investor holds 60% of his investment on Asthelin PLC and 40% on Beclate PLC. Asthelin PLC and Beclate PLC investment has Beta value of 0.6 positive correlation. Risk and return related to shares were given below.
- $E(R_A) = 18\%$
 $E(R_B) = 14\%$
 $\sigma_A = 22\%$
 $\sigma_B = 20\%$
- i. What is the expected rate return for portfolio (02 marks)
- ii. What is the risk for portfolio (03 marks)
- c. Differentiate independent projects from mutually exclusive projects (03 marks)
- d. The Sandaru PLC is assessing whether to purchase a brand-new machine or a used machine for their manufacturing plant to produce a new product. The projected cash flows for both options are provided below. Please assume a cost of capital of 12% for these projects.

New Machine			Used Machine		
Year	Cash inflows	Cash outflows	Year	Cash inflows	Cash outflows
0	-	(9,000,000)	0	-	(7,000,000)
1	4,000,000	(2,000,000)	1	4,000,000	(2,500,000)
2	4,500,000	(2,000,000)	2	4,500,000	(2,500,000)
3	4,500,000	(2,000,000)	3	4,500,000	(2,500,000)
4	5,000,000	(2,500,000)	4	5,500,000	(3,000,000)
5	5,000,000	(3,000,000)	5	5,500,000	(3,000,000)

You are required to calculate

- i. Payback period (02 marks)
- ii. Net Present Value (04 marks)
- iii. Which project is more suitable for the Sandaru PLC (01 mark)

(Total 20 Marks)

Question No 05

- a. Illustrate the relationship between the value of a firm and its capital structure. (04 marks)
- b. Briefly explain the Following financial statement analysis techniques.
 - i. Horizontal Analysis (02 marks)
 - ii. Vertical Analysis (02 marks)
 - iii. Ratio Analysis (02 marks)

- c. Below is the Comprehensive Income Statement and Statement of Financial Position for Pavani Limited for the years 2024 and 2023.

Comprehensive Income Statement

Rs (000)	2024	2023
Sales	196,820	165,776
Cost of Sales	-160,760	-135,568
Gross Profit	36,060	30,208
Operations Expenses	-19,044	-16,032
Operations Income	17,016	14,176
Other Income	3,608	3,100
Interest Expenses	-2,844	-2,380
Profit before tax	34,796	29,072
Tax	-5,608	-4,316
Profit after tax	29,188	24,756

Statement of Financial Position

Rs. 000'	2024	2023
Non-Current Assets		
Non-Current Assets	108,624	66,352
Investment	20,240	3,340
Current Assets		
Stock	1,836	1,308
Debtors	17,656	14,540
Receivable	8,868	6,076
Cash and cash equivalents	18,988	17,268
Total Assets	176,212	108,884
Capital	25,940	25,120
Retained earnings	32,356	6,520
Total Capital	58,296	31,640
No current liabilities		
Bank loan	3,076	2,020
Current liabilities		
Creditors	35,580	29,264
Payables	20,964	14,320
Total Capital and Liabilities	176,212	108,884

Calculate the following ratios for the year 2024 using the above information

- i. Current ratio
- ii. Quick ratio
- iii. Inventory turnover ratio
- iv. Gross Profit Ratio
- v. Net Profit Ratio

(10 marks)

(Total 20 Marks)

Question No 06

- a. Define working capital management (02 marks)
- b. Explain the difference between net and gross working capital? (04 marks)
- c. Briefly explain Operational cycle (04 marks)
- d. "Not all shareholders and companies prefer to pay current dividends" Do you agree? Briefly explain your answer. (04 marks)
- e. Dividend is that a portion of net profits which is distributed among the shareholders. The dividend decision of the firm is crucial important. There are conflicting opinions as far as the impact of dividend decision on the value of the firm. Watler and Gordon introduced two models stating that dividend decision is relevant to firm value.
 - i. What is the difference between Walters' and Gordon models (02 marks)
 - ii. Interpret outputs of Walters' and Gordon models (04 marks)

(04 marks)
(Total 20 Marks)

