



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) – 2022
July - 2025

BCOM E 4025- Financial Management

No. of Questions : Seven (07)

Answer five (05) questions only.

Time: 03 hours

Question No 01

- a). i. What is the main goal of a firm from the financial management perspective (02 Marks)
- ii. Explain how a firm can measure it (03 Marks)
- b). “Finance manager’s role is to create a healthy balance sheet”. Explain the above statement based on the different decisions made by the finance manager. (15 Marks)
- (Total 20 Marks)**

Question No 02

- a) What is time value of money? Why it is important. (05 Marks)
- b) You are planning to invest your savings of Rs. 300,000 in a fixed deposit with Ceylon Bank PLC. The bank manager has offered you the following rates.
- 6% compounded in monthly
 - 6% compounded in 3 months
 - 7% compounded in 6 months
 - 7% compounded annually
- i. Under the above alternative rates which option do you select to invest your savings? (02 Marks)
- ii. Explain your answer. (04 Marks)

- c) Mr. Kanchana wishes to choose the better of two equally costly cash flow streams: annuity A and Annuity B. A is an annuity due with a cash inflow of Rs. 90,000 for each year of 5 years. B is an ordinary annuity with a cash inflow of Rs. 100,000 for each of 5 years. Assume that Mr. Kanchana can earn 15% on his investments.

i. Find the future value at the end of year 5, for both annuity A and annuity B.

(06 Marks)

ii. Which annuity is more attractive? Why?

(03 Marks)

(Total 20 Marks)

Question No. 03

- a) Why is financial statement analysis important for investors?

(04 Marks)

- b) Various tools can be used to analyse financial statements. Horizontal, Vertical and Ratio analysis are example for that. Briefly explain these techniques with appropriate examples.

(06 Marks)

- c) The following are extracts from the Income Statement and Statement of Financial Position of Nova PLC for the years ended 31st March 2025 and 31st March 2024.

Nova PLC
Income Statement
For the years ended 31st March (Rs. '000)

Particulars	2025	2024
Sales	56,800	46,950
Cost of Sales	(45,300)	(38,400)
Gross Profit	11,500	8,550
Operating Expenses	(5,420)	(4,200)
Operating Profit	6,080	4,350
Other Income	1,150	890
Interest Expense	(850)	(640)
Profit Before Tax	6,380	4,600
Taxation	(1,870)	(1,300)
Profit After Tax	4,510	3,300

Nova PLC
Statement of Financial Position (Extract)
As at 31st March (Rs. '000)

Particulars	2025	2024
Non-Current Assets	15,600	10,200
Investments	6,500	1,050
Current Assets		
Inventories	580	390
Trade Receivables	5,220	4,150
Other Current Assets	2,640	1,790
Cash & Bank	5,300	4,850
Total Assets	35,840	22,430
Equity and Liabilities		
Ordinary Shares	10,750	6,800
Retained Earnings	6,600	2,150
Long-Term Debt	920	640
Current Liabilities		
Accounts Payable	10,450	8,050
Accrued Expenses	7,120	4,790
Total Equity and Liabilities	35,840	22,430

Required:

Calculate the following ratios for the year ended 31st March 2025 using the information provided above:

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

(10 Marks)

(Total 20 Marks)

Question No. 04

a) Why is security valuation important for investors in making good investment decisions?explain.

(04 Marks)

b) Explain how taxes affect a corporation's cost of capital.

(05 Marks)

c) Jayamaga PLC finances its capital requirements through a combination of equity and debt capital, with a capital structure comprising 55% ordinary shares, 25% preference shares, and 20% debt. The following information is available about the company's capital components:

- **Ordinary Shares:**
 - The company recently paid a dividend of Rs. 25/-.
 - Dividends are expected to grow at 16% annually for the next two years, followed by a 10% stable growth rate indefinitely.
- **Preference Shares:**
 - Issued at a par value of Rs. 150/-, with an irredeemable dividend rate of 20%.
- **Debt:**
 - **Face Value:** Rs. 100/-
 - **Coupon Rate:** 10% (semi-annual payments)
 - **Maturity Period:** 10 years.

Assume the cost of ordinary shares, preference shares, and debt for Jayamaga PCC are 18%, 15%, and 12% , respectively. Based on this information, calculate the following:

- i. Intrinsic Value of Ordinary Shares (03 Marks)
 - ii. Intrinsic Value of Preference Shares (02 Marks)
 - iii. Intrinsic Value of Bonds (03 Marks)
 - iv. Weighted Average Cost of Capital (WACC) for the company (03 Marks)
- (Total 20 Marks)**

Question No. 05

- a) Illustrate the relationship between the value of a firm and its capital structure. (07 Marks)
- b) Varex PLC has projected the following returns under different business conditions:

Business Condition	Probability	Return
Weak	0.25	-8%
Normal	0.6	6%
Strong	0.15	18%

i. Using the above data, calculate the followings for Varex PLC

(i) Expected return

(03 Marks)

(ii) Standard deviation (risk)

(03 Marks)

ii. An investor allocates 65% of their portfolio to Zentec PLC and 35% to Orvax PLC. The beta value is 0.7, and both shares are positively correlated. The following details are provided

- Expected Return of Zentec PLC (ER_z) = 16%
- Expected Return of Orvax PLC (ER_o) = 12%
- Standard Deviation of Zentec PLC (σ_z) = 20%
- Standard Deviation of Orvax PLC (σ_o) = 18%

Using the above data, calculate the following:

(i) Portfolio return

(03 marks)

(ii) Portfolio standard deviation (risk).

(04 marks)

(Total 20 Marks)

Question No. 06

a) Discuss the importance of capital budgeting decisions in financial management.

(03 marks)

b) Differentiate independent projects from mutually exclusive projects

(04 marks)

c) Aurika Pvt. Ltd. is evaluating two investment options to promote their new product: a Social Media Campaign and a TV Advertising Campaign. The net cash flows associated with each option are given below. The cost of capital is 11%. (All values are in Rs. 000)

Promotional Campaign		Advertising campaign	
Years	Cash flows	Years	Cash flows
0	(140,000)	0	(120,000)
1	40,000	1	40,000
2	55,000	2	45,000
3	75,000	3	50,000
4	90,000	4	80,000
5	110,000	5	100,000

Using the above data answer the below questions.

- i. Calculate the Payback period for both options (04 marks)
 - ii. Calculate the Net Present Value for both options (06 marks)
 - iii. Based on your analysis, which investment option should the company choose? Explain the reason. (03 marks)
- (Total 20 Marks)**

Question No. 07

- a) Define working capital management (03 marks)
 - b) Briefly explain Operational cycle with an example (07 marks)
 - c) "Not all shareholders have the same preference regarding current dividends, and not all companies prioritize paying current dividends." Do you agree with this statement? Justify your response. (05 marks)
 - d) "A dividend is a portion of net profits distributed among shareholders. The dividend decision of a firm is crucially important, and there are conflicting views on how dividend decisions affect the value of the firm." Explain this statement with dividend theories. (05 Marks)
- (Total 20 Marks)**