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) – 2019

July – 2025

BCOM E 4025 - Financial Management

No. of questions: Four (04)
Answer All Questions. **Time: 03 hours**

Question No. 01

a). Ultimate objective of Finance Department is to maximize wealth of shareholders. However, Finance Department alone cannot achieve it and it should be a collective effort of all the functional areas of the company. Do you agree? Explain.

(08 marks)

b). Explain briefly on the relevance to the work of the financial manager.

(08 marks)

c). What are the major types of financial decisions that a business firm makes?

(09 marks)

(Total 25 marks)

Question No. 02

a). Briefly explain the importance of the concept "time value of money" in making financial management decisions?

(03 marks)

b). What is the difference between an ordinary annuity and an annuity due?

(04 marks)

c). What is the value of a 10-year, 12% annual coupon bond, if r = 15% and face value of this bond is Rs. 1,000.

(04 marks)

d). Share price of Techno PLC has an expected growth rate of 15%. The appropriate discount rate is 12%. stock just received an annual Rs.5.50 dividend per share. What is the value of the share of the Techno PLC?

(04 marks)

e). Government has introduced a special loan scheme for the government employees through the last year budget. According to the loan scheme 4% of the loan interest is borne by the government and 8% by the employee. Mr. Moris is a government employee, and he has applied for a loan of Rs. 1,500,000 payables in 60 equal monthly installments. You are required to answer for the following questions..

i. What is the total installment due to bank?
ii. What is the total interest charged for the first month?
iii. How much interest is charged from the employee for the first month?
iv. How much interest is borne by the government for the first month?
v. What is the installment deducted from the capital at the end of the first month?

(10 marks)
(Total 25 marks)

Question No. 03

a) Using following information calculate the weighted average cost of capital (WACC)

Capital Structure	**Weight**	**Cost of Capital**
Ordinary Shares	0.6	12%
Preferential Shares	0.3	10%
Debts	0.1	8%

(06 marks)

b) An investor holds equal amounts of equity shares of company X and company Y which has 0.7 positive correlation.

Risk and return related to shares were given below.
$E(R_x) = 12\%$
$E(R_y) = 10\%$
$\sigma_x = 15\%$
$\sigma_y = 13\%$

You required to calculate the portfolio return and risk using above information.

(09 marks)

c) The company should decide whether to buy a new machine or buy a used old machine to increase the capacity of its factory. The initial investment and the cash flows related to these machines are as follows. Required rate of return is 10%.

Getting a new machine for Rs. 1,800,000.00.
Getting an old machine costs Rs. 840,000.00.

Useful life of both machines is 5 years.

Year	Getting a new machine	Getting an old machine
0	-1,800,000	-840,000
1	400,000	400,000
2	500,000	360,000
3	450,000	300,000
4	300,000	240,000
5	200,000	180,000

You are required to answer the below questions.

1. Payback period
2. Net Present Value
3. Which decision is more appropriate for the company?

(10 marks)
(Total 25 marks)

Question No. 04

a) Not all shareholders and companies prefer to pay current dividends. Do you agree explain your answer.

(06 marks)

b) What is Work Capital Management. Why it is important for the company.

(07 marks)

c) Write short notes.

i. Accounting Rate of Return (ARR)
ii. Liquidity ratios
iii. Compound Interest
iv. Default Risk

(04x03 marks)
(Total 25 marks)