



**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) – 2023

March - 2026

**BCOM E 4025- Financial Management**

**No. of Questions : Seven (07)**

**Answer five (05) questions only.**

**Time: 03 hours**

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**Question No 01**

- a) i. Critically discuss the primary financial objective of a firm in financial management.  
(04 Marks)
- ii. Explain how a firm can evaluate whether this objective has been achieved  
(06 Marks)
- b) Explain how financial management decisions influence the long-term success and value of a business  
(10 Marks)  
**(Total 20 Marks)**

**Question No 02**

- a) What is time value of money? Why it is important.  
(02 Marks)
- b) Explain the concept of the Time Value of Money from the perspective of single cash flows and annuities illustrating how they are used in financial decision-making.  
(04 Marks)
- c) A bank offers two investment options. The first option provides 12% interest per annum compound annually, while the second option provides 12% interest per annum compound monthly.
- i. Which option would you prefer?  
(02 Marks)
- ii. Using appropriate calculations, compare the effective annual return of both options and justify your answer.  
(04 Marks)

d) Mr. Chamara is 30 years old and plans to retire at age 55. He wants to save Rs. 20,000,000 by the time he retires. He plans to deposit equal amounts in a bank account that pays 12% annual interest.

i. Calculate the annual saving required if deposits are made at the end of each year. (02 Marks)

ii. Calculate the annual saving required if deposits are made at the beginning of each year. (02 Marks)

iii. Calculate the monthly saving required if deposits are made at the end of each month. (02 Marks)

iv. Calculate the monthly saving required if deposits are made at the beginning of each month. (02 Marks)

(Total 20 Marks)

### Question No 03

a) Briefly explain the following concept and state why it is important in financial decision-making.

i. Security Valuation (02 Marks)

ii. Cost of Capital (02 Marks)

b) Shein PLC is a listed company that has issued 200,000 ordinary shares. In addition, the company has issued 100,000 irredeemable preference shares with a par value of Rs. 100 per share, carrying a fixed dividend rate of 20% per annum. The required cost of capital for preference shares is 12%.

The company's capital structure consists of 60% ordinary shares, 20% preference shares, and 20% debt. Shein PLC has just paid a dividend of Rs. 10 per ordinary share, and dividends are expected to grow at 20% per annum for the next two years, followed by a stable growth rate of 10% indefinitely and Cost of equity is 15%

Shein PLC has also issued 10-year bonds with a face value of Rs. 200, carrying a 15% annual coupon. The cost of debt (bond yield) is 10%. The applicable corporate tax rate is 30%.

i. Calculate the intrinsic value of an ordinary share of Shein PLC. using an appropriate dividend valuation model. (04 Marks)

ii. Calculate the intrinsic value of an irredeemable preference share using the given 12% cost of capital (03 Marks)

- iii. Calculate the intrinsic value of the bond issued by Shein PLC. (03 Marks)
- iv. Calculate the after-tax cost of debt for Shein PLC (03 Marks)
- v. Calculate the Weighted average cost of capital for Shein PLC (03 Marks)
- (Total Marks 20)**

**Question No. 04**

- a) Explain why analyzing financial statements is important for investors when making investment decisions. (04 Marks)
- b) Financial statements can be analyzed using different techniques. Briefly explain the following methods:
- i. Horizontal analysis
  - ii. Vertical analysis
  - iii. Ratio analysis
- (03x02 Marks)
- c) The following are extracts from the Income Statement and Statement of Financial Position of Siyata PLC for the years ended 31st March 2025 and 2024.

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

| Particulars        | 2025      | 2024      |
|--------------------|-----------|-----------|
| Sales              | 198,800   | 164,325   |
| Cost of Sales      | (158,550) | (134,400) |
| Gross Profit       | 40,250    | 29,925    |
| Operating Expenses | (18,970)  | (14,700)  |
| Operating Profit   | 21,280    | 15,225    |
| Other Income       | 4,025     | 3115      |
| Interest Expense   | (2975)    | (2240)    |
| Profit Before Tax  | 22,330    | 16,100    |
| Taxation           | (6,545)   | (4,550)   |
| Profit After Tax   | 28,875    | 20,650    |

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

| Particulars                         | 2025    | 2024   |
|-------------------------------------|---------|--------|
| Non-Current Assets                  | 54,600  | 35,700 |
| Investments                         | 22,750  | 3,675  |
| <b>Current Assets</b>               |         |        |
| Inventories                         | 2030    | 1365   |
| Trade Receivables                   | 18,270  | 14,525 |
| Other Current Assets                | 9,240   | 6,265  |
| Cash & Bank                         | 18,550  | 16,975 |
| Total Assets                        | 125,440 | 78,505 |
|                                     |         |        |
| <b>Equity and Liabilities</b>       |         |        |
| Ordinary Shares                     | 37,625  | 23,800 |
| Retained Earnings                   | 23,100  | 7,525  |
| Long-Term Debt                      | 3220    | 2240   |
| <b>Current Liabilities</b>          |         |        |
| Accounts Payable                    | 36,575  | 28,175 |
| Accrued Expenses                    | 24,920  | 16,765 |
| <b>Total Equity and Liabilities</b> | 125,440 | 78,505 |

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

(5 x 2 Marks)  
(Total 20 Marks)

**Question No. 05**

a) Explain the concept of capital structure

(03 Marks)

b) Explain the factors that a company should consider when deciding the mix of debt and equity in its capital structure.

(03 Marks)

- c) Two stocks, Stock A and Stock B, have the following probability distributions of expected future returns.

| Probability | Return of Stock A | Return of Stock B |
|-------------|-------------------|-------------------|
| 0.1         | 8%                | 30%               |
| 0.25        | 5%                | 10%               |
| 0.3         | 15%               | 22%               |
| 0.2         | 25%               | 28%               |
| 0.15        | 40%               | 50%               |

Using the above data, calculate the followings for both Stocks

- i. Calculate the expected rate of return and standard deviation. (05 Marks)
  - ii. Based on the calculated results, identify which stock is riskier and briefly justify your answer. (02 Marks)
- a) An investor invests 60% of their portfolio in Alpha Holdings PLC and the remaining 40% in Nova Industries PLC. The beta value of the portfolio is 0.8, and the two shares are positively correlated. The following information is provided:
- Expected Return of Alpha Holdings PLC ( $ER_a$ ) = 14%
  - Expected Return of Nova Industries PLC ( $ER_n$ ) = 10%
  - Standard Deviation of Alpha Holdings PLC ( $\sigma_a$ ) = 22%
  - Standard Deviation of Nova Industries PLC ( $\sigma_n$ ) = 16%

Using the above data, calculate the

- i. Portfolio return (03 Marks)
  - ii. Portfolio standard deviation (risk). (04 Marks)
- (Total 20 Marks)**

**Question No. 06**

a) Explain why capital budgeting decisions are important for the long-term success of a business.

(03 Marks)

b) Briefly explain the following capital budgeting techniques and their importance in investment decision making:

- i. Net Present Value (NPV)
- ii. Internal Rate of Return (IRR)
- iii. Payback Period

(03x02 Marks)

c) GreenTech Manufacturing (Pvt) Ltd. is planning to purchase new machinery to improve its production efficiency. The company is evaluating two alternatives: Machine A and Machine B. The expected net cash flows from each machine are given below. The company's cost of capital is 10%.

| Machine A Cash Flows |            | Machine B Cash Flows |            |
|----------------------|------------|----------------------|------------|
| Years                | Cash flows | Years                | Cash flows |
| 0                    | (160,000)  | 0                    | (140,000)  |
| 1                    | 50,000     | 1                    | 40,000     |
| 2                    | 60,000     | 2                    | 50,000     |
| 3                    | 75,000     | 3                    | 60,000     |
| 4                    | 85,000     | 4                    | 70,000     |
| 5                    | 95,000     | 5                    | 100,000    |

Using the above data answer the below questions.

i. Calculate the Payback Period for both machines.

(03 Marks)

ii. Calculate the Net Present Value (NPV) for both machines.

(06 Marks)

iii. Based on your calculations, which machine should the company select? Briefly justify your answer

(02 Marks)

**(Total 20 Marks)**

**Question No. 07**

a) "Working Capital decisions are of tremendous importance for any firm" Do you agree with this statement? Briefly explain.

(04 Marks)

b) The cash conversion cycle of "Gamma PLC" is 110 days. Before selling, the company stores their inventory for 52 days and they take 33 days to pay for their creditors. You are required to calculate the average collection period of Gamma PLC.

(04 Marks)

c) "Some investors prefer to receive current dividends, while others do not. Similarly, some companies choose to declare dividends, whereas others refrain from doing so due to various reasons." Explain the above statement

(06 Marks)

d) "A dividend represents a portion of a firm's net profits distributed to its shareholders. Dividend decisions are considered crucial in financial management, as there are conflicting views on how dividend policy affects the value of a firm." Explain this statement with reference to relevant dividend theories.

(06 Marks)

**(Total 20 Marks)**

