UNIVERSITY OF KELANIYA - SRI LANKA

Centre for Distance and Continuing Education

Faculty of Commerce & Management Studies

Bachelor of Business Management (General) Degree Third Examination (External) – 2023

November - 2025

BMGT E 3065 – Business Finance

Time : 03 hours

Instructions:

I. This question paper consists of 2 Parts (Part A and B)

II. No of Questions:

Part A – 10 (Multiple Choice Questions)

Part B – 04

III. All questions are compulsory.

IV. Attach the answers to Part A to the Answer booklet.

V. Taking Part A of the question paper outside the examination hall is strictly prohibited.

Part A

Underline the Correct answer.

1) Financial Management is concerned with,

a) The acquisition, financing, and management of assets with some overall goal in mind

b) Maximizing profits with a goal of utilizing available resources.

c) Utilizing the available resources in the economy in an optimal manner.

d) The identification of fund requirements of corporates and shareholders.

2) Investment can be defined as,

a) Net additions made to the nation's capital stocks.

b) Person's commitment to buy flat or house.

c) Employment of funds on assets to earn returns.

d) Employment of funds on goods and services that are used in production process.

3) What does the standard deviation measure?

a) The gain on the investment

b) The holding periods.

c) The amount of dividend

d) Risk

4) The time value of money supports the comparison of cash flows recorded at different time periods by,

a) Discounting all cash flows to a common point in time

b) Using either Compounding or Discounting to get all cash flows to a common point in time.

c) Compounding all cash flows to a common point in time

d) None of the above.

5) If you deposit Rs. 10,000 into an account paying 12% interest compounded semiannually, how long until there is Rs. 16,000 in the account?

a) 4 years

b) 1 year and 2 months

c) 2 years

d) 1 year and 4 months

6) Which leverage is directly affected by the firm's fixed costs of production?

a) Operating leverage

b) Financial leverage

c) Combined leverage

d) None

7) Calculate the Degree of Financial Leverage (DFL) for the year 2025.

Year	Sales (Rs.)	EBIT (Rs.)	EPS (Rs.)
2024	2,000	800	12
2025	1,200	400	6

a) 1.25

b) 1.0

c) 1.5

d) 2.0

8) In a constant payout ratio policy, the firm

a) Pays a fixed amount of dividend every year

b) Pays a fixed proportion of earnings as dividends

c) Adjusts dividend to maintain stock price

d) Pays dividends only if EPS increases

9) Stock dividends involve

a) Paying cash instead of shares

b) Issuing new shares instead of cash dividends

c) Paying bonus in bonds

d) Buying back shares

10) The optimal level of current assets is found where

a) Carrying cost equals to zero

b) Shortage cost equals to zero

c) Total cost (carrying + shortage) is minimized

d) Cash balance equals accounts payable

Part B

Question No. 01

a) Difference between Financial Accounting and Financial Management.

(05 Marks)

b) After completing the course unit of Business Finance, you plan to start a stationary shop near the University. How do you proceed with this idea with the knowledge of financial decision-making? (05 Marks)

c) XYZ Company is evaluating two new machines, namely A and B, to purchase the best machine for production purposes. Each machine cost Rs. 250,000 and both machines have 5 years lifetime and depreciate using on a straight-line basis. The scrap values of the two machines are as follows.

Machine	A	B
Scrap Value	Rs. 7,500	Rs. 5,000

Although the first maintenance payment for Machine A is Rs. 25,000, it is expected to rise 7.5% annually. The annual maintenance cost of machine B will be higher at a rate of Rs. 40,000 in year 1 and it is expected to increase annually by 10.5%.

As the new machines will likely reduce the variable cost, the contribution will differ depending on the machine used. Moreover, the contribution from each machine (excluding maintenance cost) is tabulated as follows, with the inflow of funds assumed to be at the end of each year.

Year (s)	1	2	3	4	5
Contribution - machine A (Rs. '000)	85	110	190	210	50
Contribution –machine B (Rs. '000)	50	145	75	160	210
Discount Rate 12%	0.893	0.797	0.712	0.636	0.567

The Finance Manager expects the Cost of Capital to be around 12%. Tax can be ignored.

You are required to calculate,

I. Accounting Rate of Return (ARR) of machine A and B

(04 Marks)

II. Net Present Value (NPV) of machine A and B

(04 Marks)

III. Which machine will be selected according to the each calculations above? Give the reasons.

(02 Marks)

(Total 20 Marks)

Question No. 02

a) Answer the following questions related to the Time Value of Money.

i. On 15th August 2024, Nadun borrowed Rs. 16,000 from his sister. If Nadun agrees to pay a 8% annual rate of interest, calculate the total amount he must repay if the loan is for 18 months.

ii. If you deposit Rs. 9000 into an account that pays 15%, how much money will be in the account after 12 years? (annual interest compounded semiannually)

iii. How much money would you deposit today at 23% to have Rs. 25,000 in the account after 17 months?(annual interest compounded biannually)

iv. If you invest in Rs. 4,000 at an annual interest rate of 13% compounded continuously, calculate the final amount you will have in the account after 15 years.

(02 Marks x 4 = 08 Marks)

b) Suppose Security R and Security S have experienced the following returns and probabilities in the last four years.

Year	Security R		Security S	
	Probability	Return (%)	Probability	Return (%)
2024	0.10	-18	0.05	-15
2023	0.40	25	0.15	24
2022	0.15	13	0.35	30
2021	0.35	20	0.45	20

You are required to calculate.

i. The Expected Return of Security R and S

(04 Marks)

ii. The Standard Deviation of Security R and S.

(06 Marks)

iii. Which investment is risky? Explain the reason.

(02 Marks)

(Total 20 Marks)

Question No. 03

a) Ceylon Exports Ltd. has provided the following financial information for the year ended 31st December, 2024

	Amount (Rs. Millions)
Net Income	95,000
Net Sales	800,000
Cost of Goods Sold	560,000
Total Assets (Beginning of the year)	500,000
Total Assets (End of the year)	600,000
Current Assets	240,000
Current Liabilities	120,000
Inventory (Beginning)	70,000

Inventory (End)	90,000
Total Liabilities	280,000
Ordinary Shares Outstanding	40,000
Market Price per Share	Rs. 25
Annual Dividend per Share	Rs. 3.00

Required:

Using the above information, calculate the following accounting ratios for Ceylon Exports Ltd.

i. Gross Profit Margin

ii. Current Ratio

iii. Inventory Turnover Ratio (Merchandise Turnover)

iv. Debt Ratio

v. Dividend Yield Ratio

(02 Marks x 5 = 10 Marks)

b) Delta Holdings PLC follows a Residual Dividend Policy and has provided the following financial details for the upcoming year.

Item	Amount (Rs.)
Capital Budget	Rs. 1,200,000
Target Capital Structure	50% Debt, 50% Equity
Forecasted Net Income	Rs. 900,000

You are required to,

i. Calculate the dividend payout amount using the Residual Dividend Model.

(04 Marks)

ii. If the capital budget increases to Rs. 1,500,000, explain how this change would affect the dividend payment.

(02 Marks)

c) "Beta reflects a company's sensitivity to overall market movements."

Briefly explain why a firm's Beta may change over time and identify two main factors that influence it.

(04 Marks)

(Total 20 Marks)

Question No. 04

a) XYZ PLC has the following capital structure and market information.

Risk-free Rate (Rf)	5%
Market Return (Rm)	12%
Beta (β)	1.2
Cost of Debt (Before Tax)	9%
Corporate Tax Rate	30%
Equity Proportion	60%
Debt Proportion	40%

You are required to,

i. Compute the Cost of Equity using the Capital Asset Pricing Model (CAPM)

ii. Compute the After-Tax Cost of Debt

iii. Compute the Weighted Average Cost of Capital (WACC)

iv. If the company changes its capital structure to 50% Debt and 50% Equity, recalculate the WACC and briefly comment whether the company benefits from this change.

(02 Marks x 4 = 08 Marks)

b) Riverton Traders PLC reported the following for 2025

Item	Amount (Rs.)
Cost of Goods Sold (COGS)	1,095,000
Average Inventory	150,000
Net Sales	1,460,000
Average Accounts Receivable	146,000
Average Accounts Payable	112,000

(assume 365 days)

You are required to Calculate, (show workings)

i. Inventory Turnover and Inventory Period days

ii. Receivables Turnover and Receivables Period days

iii. Payables Turnover and Payables Period days

iv. Operating Cycle and the Cash Cycle

(02 Marks x 4 = 08 Marks)

c) Select and briefly explain one dividend theory (01), describing its key assumptions and how it relates dividend policy to firm value.

(04 Marks)

(Total 20 Marks)