



UNIVERSITY OF RUHUNA

017

FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration Degree Programme 1000 Level Semester II

End Examination February/March 2021

Academic Year 2019/2020

BBA 1203 – Financial Management

Duration: Three hours

The Question Paper contains five (05) questions.

Answer all questions.

Calculators are allowed.

Question No. 01

A. What is the meaning of financial management? Briefly explain.

(03 Marks)

B. What is the main objective of financial management? Briefly explain.

(03 Marks)

C. Calculate the present value of Rs.500, 000 at 10% interest rate.

- i. Received one year from now.
- ii. Received at the end of five years.

(02 Marks)

D. Determine the present value of Rs.100, 000 each will be paid at the end of each of the next five years. Assume a 10% of interest rate per annum.

(02 Marks)

E. Ajith invests Rs. 500,000 in the share market at 10% rate of interest for five years. Calculate the future value of this investment.

(02 Marks)

F. Amal deposits Rs. 100,000 in a bank at end of each year for five years at 10% rate of interest. Calculate the future value of the annuity.

(02 Marks)

(Total Marks 14)

Question No. 02

A. "The overall cost of capital depends on the cost of each source and the proportion that source represents of all capital used by the firm". Briefly explain this statement.

(03 Marks)

B. The following information is an extract from the statement of financial position of a Company.

<i>Source of finance</i>	<i>Amount (Rs.)</i>	<i>Market price (Rs.)</i>
Ordinary share capital at Rs.10.00 each	250,000	12.00 per share
Retained earnings	350,000	-
12% Preference share capital at Rs.10.00 each	375,000	8.00 per share
15% Debentures at Rs.100.00 each	200,000	75.00 per debenture

Required:

If the dividend per ordinary share is Rs. 03 and tax rate of the company is 30%. Calculate the weighted average cost of capital.

(07 Marks)

C. A Company has issued 12%, 5,000 debentures at Rs.100 per debenture. The required rate of return on debenture is 10% and maturity period is 5 years.

Required:

Calculate the present value of the debenture.

(02 Marks)

D. A Company has issued 10,000 preference shares at Rs.30 per share. The preference share carried a dividend of Rs. 04.per share. The preference shares are payable at the premium of 10% after maturity period and the required rate of return on preference share is 10% and maturity period is 5 years.

Required:

Calculate the present value of the preference share capital.

(02 Marks)

(Total Marks 14)

Question No. 03

A. What is the unsystematic risk? Briefly explain with examples.

(04 Marks)

B. The following are the returns and probabilities of the two assets.

Returns of asset "A" %	Returns of asset "B" %	Probabilities %
20	40	30
30	0	40
20	40	30

Required:

Calculate followings for both assets.

- i. Expected Rate of Return
- ii. Variance and Standard Deviation
- iii. Coefficient of variation
- iv. Covariance
- v. Correlation Coefficient

(10 Marks)

(Total Marks 14)

Question No. 04

A. Define the working capital and distinguish between permanent and temporary working capital.

(04 Marks)

B. Cost card of a manufacturing company provides the following information per unit.

	Rs.
Raw material cost	120
Direct labour cost	60
Overheads cost	30
Total cost per unit	210
Profit	90
Selling price per unit	300

The following additional information also available.

Average raw materials in stock	One month
Average work in process in stock	Half a months
Average finished goods in stock	One month
Credit allowed by suppliers	Two months
Credit allowed to debtors	One month
Time lag of payment of salaries	Half a months
Overheads payable period	One month
Cash balance is expected to be:	Rs. 200,000

Required:

Prepare the statement showing the working capital required to an activity level of 50,000 units of output. (Assume that all sales and all raw material purchase are on credit basis)

(10 Marks)

(Total Marks 14)

Question No. 05

A. What is the meaning of net present value (NPV)? Briefly explain with advantages and disadvantages of NPV.

(03 Marks)

B. A manufacturing company is considering produce new product. The cost of machine for this purpose is Rs. 05 million and useful lifetime of machine is 05 years. The scrap value of the machine is estimated as Rs. 500,000. The beginning of the period working capital requirement of the project is Rs. 500,000 and this can be recovered at the end of the project. Finance manager of the company has provided the following additional information also.

Year	01	02	03	04	05
Total cost Including depreciation	2,900	3,100	3,400	2,400	1,900
Sales (Rs. '000)	4,000	4,500	5,000	4,000	3,500

The cost of capital of 10% per annum is used to evaluate projects of this type.

Required:

Calculate the net present value (NPV) and payback period (PBP) of the project and evaluate whether the Company should go ahead with the new project.

(11 Marks)

(Total Marks 14)

Present Value and Future Value Factors

Year	PVF:10%	PVAF:10%	FVF:10%	FVAF:10%
1	0.909	0.909	1.100	1.100
2	0.826	1.735	1.210	2.100
3	0.751	2.486	1.331	3.310
4	0.683	3.169	1.464	4.641
5	0.620	3.790	1.610	6.105

PVF: Present Value Factors

PVAF: Present Value Annuity Factors

FVF: Future Value Factors

FVAF: Future Value Annuity Factors