

	<b>UNIVERSITY OF RUHUNA</b> <b>FACULTY OF MANAGEMENT AND FINANCE</b>	No. of Pages : 04 No. of Questions: 05 Total Marks : 70
	BACHELOR OF BUSINESS ADMINISTRATION HONOURS DEGREE 4000 LEVEL FIRST SEMESTER END EXAMINATION – AUG/SEP 2025	<i>Three Hours</i>
<b>FIN 41333: Strategic Finance</b>		Academic Year 2024/2025
<b>Instructions:</b> <ul style="list-style-type: none"> <li>➔ The question paper contains five (05) questions.</li> <li>➔ Answer all questions.</li> <li>➔ Scientific calculators are allowed.</li> </ul>		

(01)

- (A) Briefly explain the features of strategic finance. (02 Marks)
- (B) “A company will apply strategic finance throughout its organizational operations, which involves designing elements that will maximize the firm’s financial resources and use them efficiently”.
- Briefly explain the above statement using elements of strategic finance. (02 Marks)
- (C) Differentiate strategic finance and tactical financial management using examples. (04 Marks)
- (D) “Strategic finance is where a chief executive officer (CEO) becomes both a visionary and a value creator”.
- Discuss the above statement using real world examples of great CEOs. (06 Marks)
- (Total 14 Marks)**

(02)

- (A) Briefly explain the importance of capital budgeting process. (02 Marks)
- (B) Briefly explain the costs which are not included as related cash flows when evaluating projects under capital budgeting process. (02 Marks)
- (C) Differentiate the two techniques of capital budgeting; accounting rate of return (ARR) and internal rate of return (IRR) by providing definitions, decisions rule, advantages and disadvantages. (04 Marks)

(D) A company is considering replacing its old machine which they purchased 5 years ago at a cost of Rs. 600,000. The machine has 5 years of useful life remaining, with no salvage value at the end. The machine had been depreciated on straight-line basis and its current book value is Rs. 340,000. It can be sold today for Rs. 100,000. A new machine with latest technology and an expected life of 5 years is available in the market for Rs. 400,000 with installation cost of Rs. 300,000. It is expected this new machine would worth Rs. 80,000 at the end of 5 years. If the new machine is acquired, the working capital requirement will be increased by Rs. 50,000, and can be recovered at the end of the 5 years. The old machine produces 15,000 units annually while the new machine can produce 25,000 units annually. The company can sell all additional units at the current selling price of Rs. 100 each. The selling price and variable cost per unit remain constant during the lifetime of the project. Variable costs per unit of old machine and new machine are as follows:

Variable cost per unit	Old Machine	New Machine
Direct Material (Rs.)	15	10
Direct Labour (Rs.)	40	20
Variable Overheads (Rs.)	15	20

The total fixed costs per year will be Rs. 1 million and Rs. 500,000 for old and new machine respectively including depreciation. The company's finance director has provided the following additional information.

1. The government provides 20% capital allowance per annum to this type of project.
2. Tax rate is 30% of taxable profits and 75% of the tax is payable in the year in which it arises, the balance is paid in the following year.
3. The cost of capital of 10% per annum is used to evaluate projects of this type.

Required;

Advise the company whether replacing their existing machine with a new machine is beneficial using NPV technique. (06 Marks)

(Total 14 Marks)

(03)

- (A) Briefly explain the implications of traditional approach theory of capital structure. (02 Marks)
- (B) Briefly explain Modigliani-Miller approach (MM approach) with corporate taxes. (02 Marks)

(C) Evaluate the impact of information asymmetry and pecking order theory using examples.

(04 Marks)

(D) XYZ company which is a listed company in Colombo Stock Exchange provides the following information relating to ordinary share capital, retained earnings, preference share capital, and debenture capital:

1. The share capital of Company XYZ comprises Rs. 150 million ordinary voting shares, presently quoted at Rs. 35 per share, with a dividend payment of Rs. 2.50 per share.
2. The company has retained earnings amounting to Rs. 500 million.
3. The company has preference share capital of Rs. 50 million, comprising shares with a face value of Rs. 100 each, carrying a dividend rate of 15%, and currently trading at Rs. 75 per share.
4. The company has 10 million debentures, each with a par value of Rs. 80. These debentures, bearing an annual interest rate of 12%, and are currently trading at Rs. 100 per debenture.
5. The tax rate is 28% per annum on its profits.

Required;

Calculate the following ratios using the market value (Round up each ratio to two decimal places).

- (i) Cost of ordinary share capital
- (ii) Cost of preference share capital
- (iii) Cost of debenture capital
- (iv) Weighted average cost of capital (WACC)

(06 Marks)

(Total 14 Marks)

(04)

(A) Briefly explain the terms hedging and price volatility. (02 Marks)

(B) "Future contracts are identical to forward contract with few exceptions".

Briefly explain the few exceptions of future contracts. (02 Marks)

(C) A farmer and a factory owner enter into a futures contract on 15<sup>th</sup> August 2025. Agreement of this future contract is required the delivery of 10,000 kg of mango to the factory in the month of September 2025 at a price of Rs. 50 per kg. Today's market price of mango is Rs. 50 per kg.

Required;

Briefly explain the margining process relating to future contract if market price of mango per kg change for Rs. 48, Rs. 49, and Rs. 47 on 16<sup>th</sup>, 17<sup>th</sup>, and 18<sup>th</sup> of August 2025 respectively with suitable graphical illustrations. (04 Marks)

(D) XYZ company shares are currently trading at Rs. 200 per share and you expect that the price will decrease beyond Rs. 190 per share in a month's time. You can sell a one month put option with a strike price of Rs. 210 per share on XYZ company shares by paying an option premium of Rs. 10 per share.

Assume that the XYZ company share price actually fell and increased to Rs. 180 per share and Rs. 220 per share respectively as you expected in a month's time.

Required;

(i) Calculate your profit or loss per share if you have sold the put option.

(ii) Based on the above two scenarios, draw pay-off diagrams for you and seller of the put option.

(06 Marks)

(Total 14 Marks)

(05)

(A) Differentiate spot rate from forward rate.

(02 Marks)

(B) Briefly explain a currency appreciation and depreciation using a hypothetical example.

(02 Marks)

(C) "Corporate restructuring is an action taken by the corporate entity to modify its capital structure or its operations significantly".

Explain the forms of corporate restructuring; going private, leverage buyout (LBO), friendly takeover, and reverse mergers. (04 Marks)

(D) Suppose you have USD 2 million and you are provided with the following exchange rates; USD/JPY = 146.85, GBP/JPY = 199.60, and GBP/USD = 1.36.

Required;

(i) Calculate triangular arbitrage profit in currency trading.

(ii) Explain your strategy step by step with proper justifications and clearly indicate the profit.

(06 Marks)

(Total 14 Marks)

\*\*\*\*\*