

EASTERN UNIVERSITY, SRI LANKA.

Examination (Insert official title of the Examination, as it appears At the head of the Question paper } Final Year First Semester Examination in BBA- 2016/2017 (January 2019) (Proper/Repeat)

Title of Paper **MGT 4033 Financial Management**

Index Number (Write very clearly)

<u>Directions to Candidates</u>	For Examiner's Use only		
<p>(1) Write on both sides of the paper. (2) write the Number of each question at the top of each page in the space provided (3) Cross out all rough work and blank pages. (4) Fasten any supplementary paper, books, outline maps etc. at the end of this book so that it may provide continuous reading matter to the examiner. (5) Do not tear off any part of this answer book. (6) In no circumstances must this book, used or unused be removed from the Examination hall by a Candidate (7) Any candidate who is found to be in possession of any written, printed or pictorial matter not authorized by the Registrar will be required to give an explanation in writing, may be excluded from the examination hall and will be reported to the Vice-Chancellor.</p> <p style="text-align: center;"><u>For use of Candidates</u></p> <p>Write here the NUMBERS OF THE ANSWER in the order in which they have been written.</p>	Question No	Marks	
		Q ₁	
		Q ₂	
		Q ₃	
		Q ₄	
<p>Number of books enclosed and any other annexure such as maps, graph paper etc.</p> <p>This book should be handed over personally to the Invigilator. It should not be left behind on the desk.</p>	Q ₅		
	TOTAL		

Index Number:

MGT 4033 Financial Management

Eastern University, Sri Lanka
Faculty of Commerce & Management
Final Year First Semester Examination in Bachelor of Business Administration
2016/2017 (January 2019)
(Proper/Repeat)
MGT 4033 Financial Management

Answer all five (05) Questions.

Non-Programmable Calculator is permitted.

Answer have to be given in this question paper.

Time: Three Hours

No. of Pages: 16

Q1.

a) Underline the appropriate answer for the following multiple-choice questions.

- I. In calculation of net cash flow, depreciation and amortization are treated as
 - a) current liabilities.
 - b) income expenses.
 - c) non-cash revenues.
 - d) non-cash charges.

- II. Time value of money indicates that
 - a) A unit of money obtained today is worth more than a unit of money obtained in future.
 - b) A unit of money obtained today is worth less than a unit of money obtained in future.
 - c) There is no difference in the value of money obtained today and tomorrow.
 - d) None of the above.

- III. If you wish to accumulate Rs. 140,000 in 13 years, how much must you deposit today in an account that pays an annual interest rate of 14%?
 - a) Rs. 18540.36
 - b) Rs. 25489.71
 - c) Rs. 12785.49
 - d) Rs. 20429.21

- W. What will Rs. 247,000 grow to be in 9 years if it is invested today in an account with an annual interest rate of 14%?
- a) Rs. 235,487.32
 - b) Rs. 546,581.56
 - c) Rs. 631,835.12
 - d) Rs. 854,114.97
- Y. How many years will it take for Rs. 197,000 to grow to be Rs. 554,000 if it is invested in an account with a quoted annual interest rate of 8% with monthly compounding of interest?
- a) 10.65 Years
 - b) 09 Years
 - c) 12.97 Years
 - d) 20.14 Years
- VI. Rajan plans to accumulate Rs. 450,000 over a period of 12 years by making equal annual deposits in an account that pays an annual interest rate of 9% (assume all payments will occur at the beginning of each year). What amount must he deposit each year to reach his goal?
- a) Rs. 20497.98
 - b) Rs. 14598.32
 - c) Rs. 19214.65
 - d) Rs. 25369.54

(06 x 02 = 12 Marks)

(08 Marks)

(Total 25 Marks)

a) Bond C has a face value of Rs.1000 and five years remaining to maturity. Bond D has a face value of Rs.1000 and ten years remaining to maturity. Both bonds have the same coupon rate of 10 %. Which bond has the greater interest rate risk?

(02 Marks)

b) The covariance of the returns on the two securities, A and B, is -0.0005 . The standard deviation of A's return is 4 % and the standard deviation of B's return is 6 %. What is the correlation between the returns of A and B?

(04 Marks)

ABC Company considered the following investment in 2018.

Investment	Expected return	Standard deviation
A	5%	10%
B	7%	11%
C	6%	12%
D	6%	10%

Which investment would company prefer between the following pairs?

- a) A and B?
- b) B and C?
- c) C and D?

(06 Marks)

(Total 18 Marks)

Define the following terms:

I. Cost of Capital

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II. Cost of Debt

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III. Cost of Preferred Stock

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(03 Mar

b) Ram Motors has a target capital structure of 40 % debt and 60% equity. The yield maturity on the company's outstanding bonds is 9 % and the company's tax rate is percent. Ram's CFO has calculated the company's WACC as 9.96%. What is company's cost of equity capital?

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(04 Mar

c) A company has on its books the following amounts and specific costs of each type capital.

Type of capital	Book value (Rs)	Market value (Rs)	Specific costs (%)
Debt	600,000	580,000	15
Preference	100,000	110,000	18
Equity	400,000	800,000	24
Retained Earnings	200,000		20

(09 Marks)

A company may issue a pure discount bond of Rs.1000 face value for Rs.520 today for a period of 5 years. What is the rate of interest of the bond?

(02 Marks)

d) John is considering investing in a bond currently selling for Rs. 8785. The bond has 5 years to maturity, a Rs. 10,000 face value, and 8% coupon rate. The next annual interest payment is due one year from today. The approximate discount factor for investment with similar risk is 10%. Calculate the intrinsic value of the bond.

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(03 Marks)

(Total 18 Marks)

Q5.

a) Differentiate between Business Risk and Financial Risk.

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(03 Marks)

The following data related to RT Ltd:

	Rs.
Earnings Before Interest and Tax(EBIT)	100,000
Fixed Cost	200,000
Earning Before Tax (EBT)	800,000

1. Calculate the Operating Leverage (OL) of the RT Ltd.

(02 Marks)

1. Calculate the Financial Leverage (FL) of the RT Ltd.

(02 Marks)

d) Use the following information to answer the following questions

You have been given this probability distribution for the period of returns for the stock:

State of Economy	Probability	Return (%)
A	0.3	18
B	0.5	12
C	0.2	-5

I. What is the expected return for KMP stock?

- a) 10.4%
- b) 9.32%
- c) 11.63%
- d) 11.54%

II. What is the expected standard deviation for KMP stock?

- a) 6.91%
- b) 8.13%
- c) 7.79%
- d) 7.25%