

**THE OPEN UNIVERSITY OF SRI LANKA**  
**MASTER OF BUSINESS ADMINISTRATION IN HUMAN RESOURCE**  
**MANAGEMENT**  
**FINAL EXAMINATION - 2022**  
**AFP9332 / MSP9332 – MANAGERIAL FINANCE**  
**DURATION – THREE (03) HOURS**



**Date: 30<sup>th</sup> April 2022**

**Time: 9.30 am – 12.30 pm**

**Answer Any Five (05) Questions.**  
**All Questions carry equal Marks.**  
**Use of non-programmable calculator is allowed.**

**Question No. 01**

1. What is Financial Management? Briefly explain the role of a Financial Manager. (08 Marks)
2. “The objective of Wealth Maximization is better than Profit Maximization”. Do you agree? Discuss. (06 Marks)
3. “The ultimate objective of a financial system is to improve the economic efficiency & welfare”. Do you agree? Explain. (06 Marks)

**Question No. 02**

1. What is time value of money? Explain why it is so important for financial managers. (06 Marks)
2. You are considering an investment plan that pays a compound interest of 12% per year. If you invest Rs. 200,000 in the above investment for 4 years, you are required to;
  - i. calculate the value of the investment at the end of the 4<sup>th</sup> year, if the interest is calculated quarterly? (03 Marks)
  - ii. calculate the effective rate of the investment. (03 Marks)
3. Suppose that you applied for a bank loan of Rs. 200,000. The annual interest rate is 12% and the loan could be paid back in five (05) equal annual installments. You are required to;
  - i. calculate the annual instalment. (03 Marks)
  - ii. prepare a loan amortizations schedule. (05 Marks)

**Question No. 03**

The financial statements of the MELCO PLC for the year ended 31<sup>st</sup> December 2021 are given below.

MELCO PLC Income Statement for the year ended 31 <sup>st</sup> December 2020	
Sales revenue	170,000
Less: Cost of goods sold	108,000
Gross profits	<b>62,000</b>
<b>Less: Operating expenses</b>	
Selling expense	15,000
General and admin. expenses	12,000
Depreciation	14,000
Total operating expense	41,000
<b>Operating profits</b>	<b>21,000</b>
Less: Interest expense	7,200
<b>Net profits before taxes</b>	<b>13,800</b>
Less: Taxes (40%)	5,520
<b>Net profits after taxes</b>	<b>8,280</b>

The firm has 5000 outstanding common stocks and the market price is Rs. 26/=.

MELCO PLC Statement of Financial Position as at 31 <sup>st</sup> December 2020	
<b>Assets</b>	
Cash	1600
Marketable securities	1,200
Accounts receivable	37,000
Inventories	67,000
Total current assets	106,800
Land	240,000
Buildings and equipment	51,750
Less: Accumulated Depreciation	38,000
Net fixed assets	253,750
<b>Total assets</b>	<b>360,550</b>
<b>Liabilities and Equity</b>	
Accounts payable	32,000
Notes payable	27,000
Long-term debt	50,000
Total liabilities	109,000
Common stock	225,000
Retained earnings	26,550
Total stockholders' equity	251,550
<b>Total liabilities and equity</b>	<b>360,550</b>

Ratio	Industry Average
Current ratio	1.8
Quick ratio	0.7
Inventory Turnover	2.5
Average collection period	37 days
Debt ratio	0.65
Times interest earned	3.8

Ratio	Industry Average
Gross profit margin	0.38
Net profit margin	0.035
ROA	0.04
ROE	0.095
EPS	2
P/E ratio	10.32

Analyze the financial condition of MELCO PLC in terms of liquidity, activity, debt, profitability and market performance. (20 Marks)

**Question No. 04**

1. "In theory, the value of a financial security is determined based on the cash flows generated by that particular financial security in the future years" Do you agree? Explain. (06 Marks)

2. Kenifer Ltd. is issuing ten-year bonds that pay an annual coupon payment of Rs.50. The par value of the bond is Rs.1000. Suppose you are going to purchase these bonds at a price of Rs. 1,200. If the required rate of return on your bond is 8%, what is the current price of your bond? Do you buy this Bond? Justify your answer. (08 Marks)
3. The longer the bond's maturity, the greater the risk of the bond" Do you agree? Justify your answer with suitable illustrations. (06 Marks)

**Question No. 05**

1. Explain the difference between Money Market and Capital Market while highlighting the different types of securities traded in each market. (06 Marks)
2. The following details are extracted from the Mbite PLC. The income tax rate of the company is 40%. Calculate the weighted average cost of capital. (08 Marks)

Source of Capital	Market Value (Rs.)	Cost (Before Tax)
Bonds	700,000	8%
Preferred Stock	280,000	14%
Common Stock	420,000	18%

3. A Company paid a dividend of Rs.4.00 in the last year and the dividends are expected to grow at 6% per year indefinitely. If the required rate of return is 12%. Calculate the current price of a share. (06 Marks)

**Question No. 06**

What is capital budgeting? Explain why the capital budgeting decisions are important.

(05 Marks)

An advertising agency is considering the purchase of new computer equipment and software to enhance its graphics capabilities. A local vendor has submitted a quote to the company of Rs.350,000 for the equipment plus Rs 50,000 for software. The useful lifetime of the computer system is 4 years. The introduction of the new computer system will enable the company to dispose of its existing equipment for a value of Rs 30,000. Management believes that the new computer system will provide a net annual cash inflow of Rs.180,000. The applicable discount rate is 10 %.

- a. Prepare a schedule showing the relevant cash flows for the project. (05 Marks)
- b. Calculate the payback period. (04 Marks)
- c. Calculate the net present value and indicate whether the project should be undertaken on or not. (06 Marks)

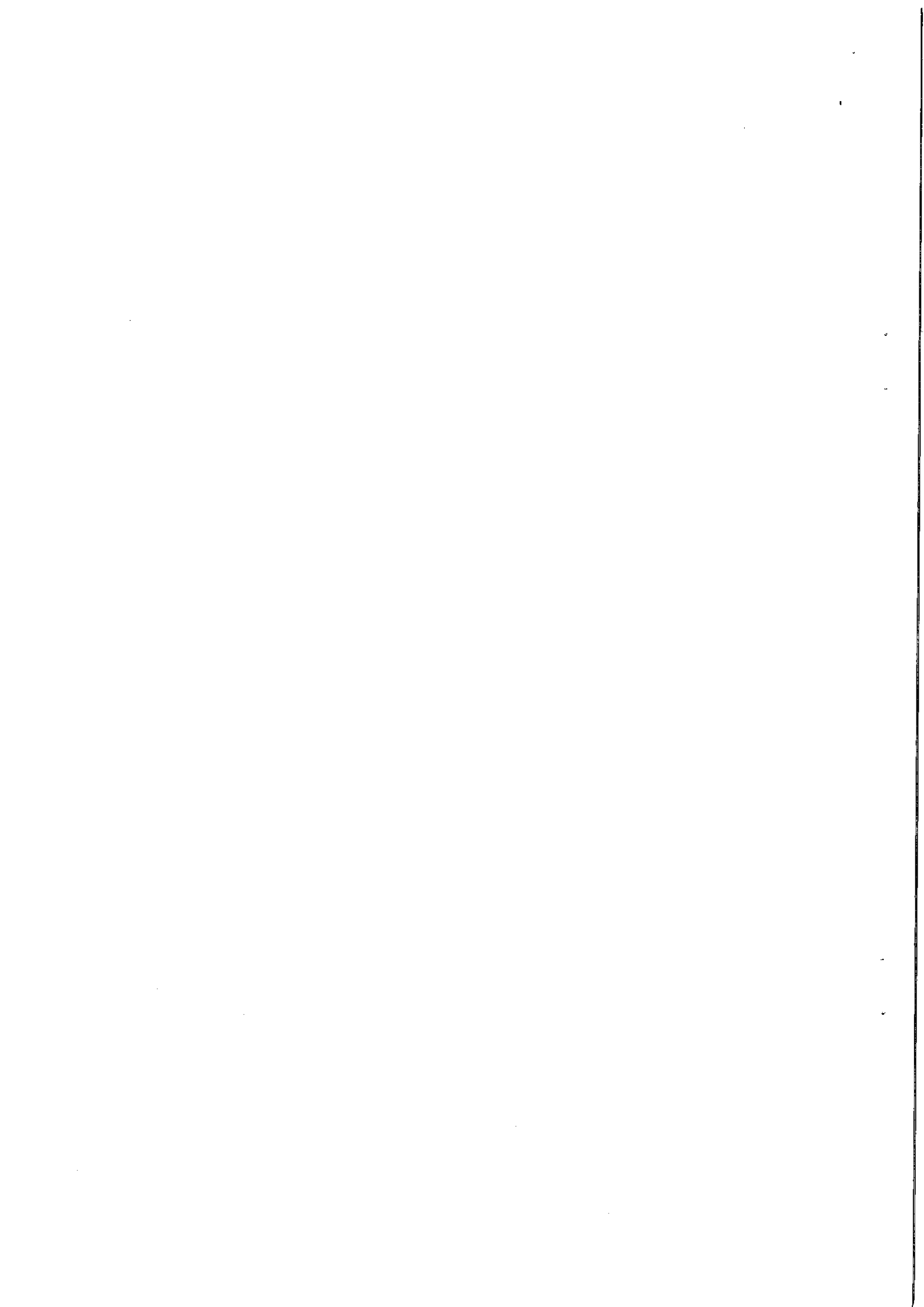


Table A-3 Present Value Interest Factors for One Dollar Discounted at  $k$  Percent for  $n$  Periods:  $PVIF_{k,n} = 1 / (1 + k)^n$

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	25%	30%
1	0.9901	0.9804	0.9709	0.9615	0.9524	0.9434	0.9346	0.9259	0.9174	0.9091	0.9009	0.8929	0.8850	0.8772	0.8696	0.8621	0.8543	0.8469	0.8393	0.8323	0.8000	0.7682
2	0.9803	0.9612	0.9426	0.9246	0.9070	0.8900	0.8734	0.8573	0.8417	0.8264	0.8116	0.7972	0.7831	0.7695	0.7561	0.7432	0.7304	0.7182	0.7064	0.6944	0.6400	0.5917
3	0.9706	0.9423	0.9151	0.8890	0.8638	0.8396	0.8163	0.7938	0.7722	0.7513	0.7312	0.7118	0.6931	0.6750	0.6575	0.6407	0.6245	0.6088	0.5932	0.5777	0.5120	0.4562
4	0.9610	0.9238	0.8985	0.8548	0.8227	0.7921	0.7629	0.7350	0.7084	0.6830	0.6587	0.6355	0.6133	0.5921	0.5718	0.5523	0.5323	0.5126	0.4932	0.4740	0.4096	0.3501
5	0.9515	0.9057	0.8826	0.8219	0.7835	0.7473	0.7130	0.6806	0.6499	0.6209	0.5935	0.5674	0.5428	0.5194	0.4972	0.4761	0.4549	0.4337	0.4127	0.3919	0.3277	0.2683
6	0.9420	0.8880	0.8375	0.7903	0.7462	0.7050	0.6663	0.6302	0.5963	0.5645	0.5346	0.5066	0.4803	0.4556	0.4323	0.4104	0.3889	0.3675	0.3463	0.3253	0.2621	0.2072
7	0.9327	0.8706	0.8131	0.7599	0.7107	0.6651	0.6227	0.5835	0.5470	0.5132	0.4817	0.4523	0.4251	0.3996	0.3759	0.3538	0.3321	0.3105	0.2891	0.2677	0.2097	0.1594
8	0.9235	0.8535	0.7894	0.7307	0.6768	0.6274	0.5820	0.5403	0.5019	0.4665	0.4339	0.4039	0.3762	0.3506	0.3269	0.3050	0.2836	0.2622	0.2409	0.2197	0.1678	0.1226
9	0.9143	0.8368	0.7664	0.7026	0.6446	0.5919	0.5439	0.5002	0.4604	0.4241	0.3909	0.3606	0.3329	0.3075	0.2843	0.2630	0.2418	0.2205	0.1993	0.1781	0.1342	0.0943
10	0.9053	0.8203	0.7441	0.6756	0.6139	0.5584	0.5083	0.4632	0.4224	0.3855	0.3522	0.3220	0.2946	0.2697	0.2472	0.2267	0.2061	0.1854	0.1648	0.1442	0.1074	0.0725
11	0.8963	0.8043	0.7224	0.6496	0.5847	0.5268	0.4751	0.4289	0.3875	0.3505	0.3173	0.2875	0.2607	0.2366	0.2149	0.1954	0.1766	0.1585	0.1402	0.1222	0.0938	0.0558
12	0.8874	0.7885	0.7014	0.6246	0.5568	0.4970	0.4440	0.3971	0.3555	0.3186	0.2858	0.2567	0.2307	0.2076	0.1869	0.1685	0.1512	0.1345	0.1182	0.1022	0.0687	0.0429
13	0.8787	0.7730	0.6810	0.6006	0.5303	0.4688	0.4150	0.3677	0.3262	0.2897	0.2575	0.2292	0.2042	0.1821	0.1625	0.1452	0.1293	0.1137	0.0985	0.0835	0.0550	0.0330
14	0.8700	0.7579	0.6611	0.5775	0.5051	0.4423	0.3878	0.3405	0.2992	0.2633	0.2320	0.2046	0.1807	0.1597	0.1413	0.1252	0.1097	0.0949	0.0805	0.0661	0.0440	0.0254
15	0.8613	0.7430	0.6419	0.5553	0.4810	0.4173	0.3624	0.3152	0.2745	0.2394	0.2090	0.1827	0.1599	0.1401	0.1229	0.1079	0.0935	0.0795	0.0659	0.0528	0.0352	0.0195
16	0.8528	0.7284	0.6222	0.5339	0.4581	0.3936	0.3387	0.2919	0.2519	0.2176	0.1883	0.1631	0.1415	0.1229	0.1069	0.0930	0.0804	0.0682	0.0564	0.0451	0.0281	0.0150
17	0.8444	0.7142	0.6050	0.5134	0.4363	0.3714	0.3166	0.2703	0.2311	0.1978	0.1696	0.1456	0.1252	0.1078	0.0929	0.0802	0.0687	0.0575	0.0468	0.0365	0.0225	0.0116
18	0.8360	0.7002	0.5874	0.4936	0.4155	0.3503	0.2959	0.2502	0.2120	0.1799	0.1528	0.1300	0.1108	0.0946	0.0808	0.0691	0.0586	0.0485	0.0388	0.0295	0.0189	0.0089
19	0.8277	0.6864	0.5703	0.4746	0.3957	0.3305	0.2765	0.2317	0.1945	0.1635	0.1377	0.1161	0.0981	0.0829	0.0703	0.0596	0.0503	0.0413	0.0326	0.0241	0.0144	0.0068
20	0.8195	0.6730	0.5537	0.4564	0.3769	0.3118	0.2584	0.2145	0.1784	0.1486	0.1240	0.1037	0.0868	0.0728	0.0611	0.0514	0.0426	0.0341	0.0261	0.0185	0.0115	0.0053
21	0.8114	0.6598	0.5375	0.4388	0.3589	0.2942	0.2415	0.1987	0.1637	0.1351	0.1117	0.0926	0.0766	0.0638	0.0531	0.0443	0.0367	0.0291	0.0217	0.0149	0.0082	0.0040
22	0.8034	0.6468	0.5219	0.4220	0.3418	0.2775	0.2257	0.1839	0.1502	0.1228	0.1007	0.0826	0.0680	0.0560	0.0462	0.0382	0.0311	0.0242	0.0178	0.0119	0.0064	0.0031
23	0.7954	0.6342	0.5067	0.4057	0.3256	0.2618	0.2109	0.1703	0.1378	0.1117	0.0907	0.0738	0.0601	0.0491	0.0402	0.0329	0.0264	0.0203	0.0145	0.0091	0.0059	0.0024
24	0.7876	0.6217	0.4919	0.3901	0.3101	0.2470	0.1971	0.1577	0.1264	0.1015	0.0817	0.0659	0.0532	0.0431	0.0349	0.0284	0.0226	0.0170	0.0117	0.0071	0.0047	0.0018
25	0.7798	0.6095	0.4776	0.3751	0.2953	0.2330	0.1842	0.1460	0.1160	0.0923	0.0736	0.0588	0.0471	0.0378	0.0304	0.0245	0.0191	0.0141	0.0093	0.0065	0.0038	0.0014
30	0.7419	0.5521	0.4120	0.3083	0.2314	0.1741	0.1314	0.0994	0.0754	0.0573	0.0437	0.0334	0.0256	0.0196	0.0151	0.0116	0.0084	0.0058	0.0039	0.0026	0.0012	-
35	0.7059	0.5000	0.3554	0.2534	0.1813	0.1301	0.0937	0.0676	0.0490	0.0366	0.0259	0.0189	0.0139	0.0102	0.0075	0.0055	0.0037	0.0026	0.0018	0.0011	-	-
40	0.6889	0.4902	0.3450	0.2437	0.1727	0.1227	0.0875	0.0626	0.0449	0.0323	0.0234	0.0169	0.0123	0.0089	0.0065	0.0048	0.0034	0.0024	0.0016	0.0009	-	-
50	0.6717	0.4529	0.3066	0.2083	0.1420	0.0972	0.0668	0.0460	0.0318	0.0221	0.0154	0.0107	0.0075	0.0053	0.0037	0.0026	0.0018	0.0011	0.0006	0.0003	-	-

