

THE OPEN UNIVERSITY OF SRI LANKA
FACULTY OF MANAGEMENT STUDIES
BACHELOR OF MANAGEMENT STUDIES HONOURS
LEVEL 05
MSU5508/ AFU5508: FINANCIAL MANAGEMENT AND MANAGERIAL
ACCOUNTING
FINAL EXAMINATION – 2024/2025
DURATION – THREE (03) HOURS



Date: 26th November 2025

Time: 9.30 am – 12.30 pm

Instructions:

- *Answer any five (05) questions.*
- *All questions carry equal marks.*
- *Use of non-programmable calculators is allowed.*
- *All the workings should be shown clearly.*
- *Start each answer from a new page*
- *Number of questions 06 and number of pages 04*

Question No. 01

- (i) Discuss how management accounting supports managerial decision-making in an organization. **(05 Marks)**
- (ii) Explain three (03) areas where the information produced by management accounting varies from that of financial accounting. **(06 Marks)**
- (iii) Discuss cost behaviour patterns associated with variable, fixed, and mixed costs, providing one example for each type. **(09 Marks)**
- (Total: 20 Marks)**

Question No. 2

- (i) Discuss how Cost-Volume-Profit (CVP) analysis supports managerial decision-making with appropriate examples. **(08 Marks)**
- (ii) PQ PLC is considering to introduce a new product to the market. The following are the costs estimates for manufacturing and selling this new product during the next financial year.

	Rs
Raw material cost per unit	40
Direct labour cost per unit	50
Annual fixed manufacturing cost	625,000
Annual fixed selling and distribution expenses	180,000
Estimated selling price	140

Using the information given above, you are required to;

- (a) Calculate the profit of the company if it produces and sells 20,000 units in the next financial year.
- (b) Calculate the breakeven point in units and sales value for the next year.
- (c) Calculate the margin of safety if the company plans to sell 25,000 units during the next year.
- (d) Determine the quantity of this product required to be sold to earn a profit of Rs 95,000 in the next financial year.

(12 Marks)

(Total: 20 Marks)

Question No. 3

- (i) Discuss the importance of identifying limiting factors in managerial decision-making.

(06 Marks)

- (ii) Gama (Pvt) Ltd is a well-known manufacturer of high-quality cosmetic products, specializing in three main items: facial cream, body lotion, and shampoo. These three products are made using a range of ingredients, but the key ingredient is the aloe vera. The following table summarizes the materials and labor requirements per unit of each product, along with the selling prices, cost and expected demand of these three products.

Product	Raw material - aloe vera usage (grams)	Labour Time (minutes)	Selling price (Rs)	Unit variable cost (Rs)	Demand (units)
Facial cream	2	25	220	170	250
Body lotion	5	20	205	155	200
Shampoo	4	40	325	275	200

The company has assessed that its resources for the upcoming week's operations are limited to 2,000 grams of aloe vera and 450 labor hours.

Based on the above information, you are required to;

- (a) Identify the limiting factor in this scenario with appropriate justifications.
- (b) Calculate the contribution per unit of the three products.
- (c) Determine the optimum quantities of each product to be produced in this scenario.

(14 Marks)

(Total: 20 Marks)

Question No. 4

“Business concerns need finance to meet their requirements in the economic world. Any kind of business activity depends on the finance. Hence, it is called as lifeblood of business organizations”

- (i) Explain briefly the term “Finance”. (04 Marks)
 - (ii) State major decisions involved in finance as a business function and explain them briefly. (08 Marks)
 - (iii) “The profit maximization is not operationally feasible criterion in financial decision making”. Justify this statement by discussing three (03) issues associated with the profit maximization criterion. (08 Marks)
- (Total: 20 Marks)**

Question No. 05

- (i) State four (04) characteristics of Corporate Bond. (04 Marks)
- (ii) Explain why some bonds sell at a premium over par value while other bonds sell at a discount. (04 Marks)
- (iii) XY PLC is currently considering an issue of debentures with a nominal value of Rs 100/- each at an issue price of Rs 92/- per debenture. The debentures are entitled to an annual coupon payment at the rate of 13%, will mature in 5 years. The current yield to maturity on these debentures is estimated to be 17% per annum.

Based on the above information, you are required to;

- (a) Calculate the intrinsic value of a debenture.
- (b) If you were an investor evaluating XY PLC’s debentures, would you decide to invest in them at the time of issuance? Justify your decision.
- (c) Discuss how an increase in market interest rates would impact the valuation of these debentures. (12 Marks)

(Total: 20 Marks)

Question No. 06

Write short notes on the following:

- (i) Agency problem
- (ii) Working capital management
- (iii) Risk and return of securities
- (iv) Portfolio diversification
- (v) Dividend based valuation of equity shares (04 Marks x 5 = 20 Marks)

-----End of the question paper-----

PRESENT VALUE TABLE

Present value of \$1, that is $(1+r)^{-n}$ where r = interest rate; n = number of periods until payment or receipt.

Periods (n)	Interest rates (r)									
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218
17	0.844	0.714	0.605	0.513	0.436	0.371	0.317	0.270	0.231	0.198
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180
19	0.828	0.686	0.570	0.475	0.396	0.331	0.277	0.232	0.194	0.164
20	0.820	0.673	0.554	0.456	0.377	0.312	0.258	0.215	0.178	0.149

Periods (n)	Interest rates (r)									
	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	0.812	0.797	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694
3	0.731	0.712	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579
4	0.659	0.636	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482
5	0.593	0.567	0.543	0.519	0.497	0.476	0.456	0.437	0.419	0.402
6	0.535	0.507	0.480	0.456	0.432	0.410	0.390	0.370	0.352	0.335
7	0.482	0.452	0.425	0.400	0.376	0.354	0.333	0.314	0.296	0.279
8	0.434	0.404	0.376	0.351	0.327	0.305	0.285	0.266	0.249	0.233
9	0.391	0.361	0.333	0.308	0.284	0.263	0.243	0.225	0.209	0.194
10	0.352	0.322	0.295	0.270	0.247	0.227	0.208	0.191	0.176	0.162
11	0.317	0.287	0.261	0.237	0.215	0.195	0.178	0.162	0.148	0.135
12	0.286	0.257	0.231	0.208	0.187	0.168	0.152	0.137	0.124	0.112
13	0.258	0.229	0.204	0.182	0.163	0.145	0.130	0.116	0.104	0.093
14	0.232	0.205	0.181	0.160	0.141	0.125	0.111	0.099	0.088	0.078
15	0.209	0.183	0.160	0.140	0.123	0.108	0.095	0.084	0.079	0.065
16	0.188	0.163	0.141	0.123	0.107	0.093	0.081	0.071	0.062	0.054
17	0.170	0.146	0.125	0.108	0.093	0.080	0.069	0.060	0.052	0.045
18	0.153	0.130	0.111	0.095	0.081	0.069	0.059	0.051	0.044	0.038
19	0.138	0.116	0.098	0.083	0.070	0.060	0.051	0.043	0.037	0.031
20	0.124	0.104	0.087	0.073	0.061	0.051	0.043	0.037	0.031	0.026