



Uva Wellassa University, Sri Lanka
3rd Year 1st Semester Examination – February/March 2012
Financial Management IIT 341-1/ IIT 321-1 & Repeat



Time: One (01) hour

Instructions to candidates:

No. of pages : Two (02)

No. of questions : Three (03)

Marks allocated : 100 Marks

Answer All questions.

01) I. Define the term "Financial Management". (5 Marks)

II. Briefly explain the importance of proper financial management. (20 Marks)

III. Briefly explain the agency relationship, agency problem and agency cost. (10 Marks)

IV. What is the importance of time in financial decision making? (5 Marks)

(Total Marks 40)

02) I. Assume that you deposit Rs. 2,000 in a savings account that pays 10 percent interest, compounded annually. How much will your account be worth in 15 years? (7 Marks)

II. Assume that you can earn 15 percent interest, compounded annually from an account. How much must you deposit today to withdraw Rs. 4,000 in 10 years? (7 Marks)

III. If a 5-year ordinary annuity has a present value of Rs. 1,000, and if the interest rate is 10 percent, what is the amount of each annuity payment? (7 Marks)

IV. Assume that you are the winner of Saturday Fortune lottery of Rs. 30 million. You can get your prize as either

– 30 payments of Rs. 1 million (starting in 1 year) or

– Rs. 15 million paid today.

If the interest rate is 8% per year, which option should you choose? (9 Marks)

(Total Marks 30)

03) I. Define the term working capital management.

(5 Marks)

II. Differentiate between the "Permanent working capital management" and "Temporary working capital management".

(10 Marks)

III. Differentiate "Gross working capital" from "Net working capital".

(5 Marks)

IV. Alfa Company has an inventory period of 65 days, an account payable period of 30 days and accounts receivable are collected on average in 24 days. What is the Alfa's cash conversion cycle?

(10 Marks)

(Total Marks 30)