



Eastern University, Sri Lanka
 Faculty of Commerce and Management
 Third Year First Semester Examination in Bachelor of Business Administration
 (Specialization in Human Resources Management/Marketing Management) 2009/2010
 (July, 2011) (Proper/Repeat)
 OSM 305 –Banking and Finance

Answer all Questions

Time: Three Hours

Q1. Case Study

A. The Balance Sheet of the JEYAM Banking Corporation
JEYAM BANKING CORPORATION
Balance Sheet
20×2 and 20×1
(in LKR millions)

Assets	20×2	20×1	Liabilities (Debt) and Stockholders' Equity	20×2	20×1
Current assets:			Current Liabilities:		
Cash and equivalents	140	107	Accounts payable	213	197
Accounts receivable	294	270	Notes payable	50	53
Inventories	269	289	Accrued expenses	223	205
Other	<u>58</u>	50	Total current Liabilities	486	455
Total current assets	761	707			
Fixed assets:			Long-term liabilities:		
Property, plant, and equipment	1,423	1,274	Deferred taxes	117	104
Less accumulated Depreciation	<u>(550)</u>	<u>(460)</u>	Long-term debt	<u>471</u>	<u>458</u>
Net property, plant, and equipment	873	814	Total long-term liabilities	588	562
Intangible assets and others	245	221	Stockholders' equity:		
Total fixed assets	1,118	1,035	Preferred stock	39	39
			Common stock (LKR par value)	55	32
			Capital surplus	347	327
			Accumulated retained earnings	390	347
			Less treasury stock	<u>(26)</u>	<u>(20)</u>
			Total equity	<u>805</u>	<u>725</u>
			Total liabilities and stockholders' equity	<u>1,879</u>	<u>1,742</u>
Total assets	<u>1,879</u>	<u>1,742</u>			

B. The Income Statement of the JEYAM Banking Corporation

C. JEYAM BANKING CORPORATION

Income Statement

20×2

(in LKR millions)

Total operating revenues	2,262
Cost of goods sold	(1,655)
Selling, general, and administrative expenses	(327)
Depreciation	(90)
Operating income	190
Other income	29
Earnings before interest and taxes (EBIT)	219
Interest expense	(49)
Pretax income	170
Taxes	(84)
Current: 71	
Deferred: 13	
Net income	<u>86</u>
Retained earnings:	43
Dividends:	43

Find the followings:

1. Earnings per share
2. Dividends per share
3. Current ratio for 20×2
4. Total asset turnover ratio for 20×2
5. Debt ratio for 20×2
6. Equity multiplier for 20×2
7. Net profit margin
8. Gross profit margin
9. Return on Assets
10. Return on Equity

(10 × 3 Marks = Total 30 Marks)

Q4.

a. What is financial statement?

(04 Marks)

b. Kumar is trying to sell a piece of land in Chenkalady. Yesterday, he was offered LKR 10,000 for the land. He was about ready to accept the offer when another individual offered him LKR 11, 424. However, the second offer was to be paid a year from now. Kumar has satisfied himself that both buyers are honest and financially solvent. As a financial advisor, recommend which offer should he choose at arate of interest of 12 percent?

(08 Marks)

c. Siva is thinking of buying a machine for LKR 400,000 with the intention of selling it at the end of one year. He expects that the machine will be worth LKR 480,000 in one year. Suppose the guaranteed interest rate granted by banks is 10 percent. Should he purchase the machine?

(08 Marks)

(Total 20 Marks)

Q5. Write short notes on the following.

- i. Internet Banking,
- ii. Types of Transaction Services,
- iii. Finance Companies,
- iv. Non-Performing Assets,
- v. Role of Central Bank

(5 × 2 Marks = Total 10 Marks)

Q2.

a. Define commercial bank. Discuss the primary functions of commercial bank.

(05 Marks)

b. Why are commercial banks considered as a special type of financial intermediaries? Explain.

(08 Marks)

c. One of your junior students has got a cheque of LKR 10,000 as a Scholarship Award. The cheque is "crossed with the words" "payee's account only". The student does not understand the procedures to get the cheque cashed and seeks your advice. You are required to guide your junior student in this case, in detail.

(07 Marks)

(Total 20 Marks)

Q3.

a. What is liquidity risk of bank? Give three techniques that are used for effective liquidity.

(04 Marks)

b. "Survival of the organization is the basic objective of risk management". Comment.

(06 Marks)

c. Shares of EXZ Company are available in the market:

Face value: 100

Current market price: 900

You expect market price to go up to 1,500 by end of 3 years from today. Expected

dividend: end of first year 15%

end of second year 20%

end of third year 25%

Dividend is paid, immediately, at the end of the year. Required rate of return for shares of similar risk is 18%. Should you buy or sell these shares?

(10 Marks)

(Total 20 Marks)