UvaWellassa University of Sri Lanka
Faculty of Animal Science & Export Agriculture
BSc in Export Agriculture

Year III Semester II
End Semester Examination - August/ September 2014

Farm Financial Management EAG324-3

Uva Wellassa University

Instructions

Answer **all questions** in booklets provided.
No. of questions : Six (06)
No. of pages : Four (04)
Time : Three hours (3hrs)
Total marks allocated : 100

01) In recent years, the changing organizational environment and macroeconomic environments have increased the complexity as well as the importance of the financial managers' duties. As a result, the financial management function has become more demanding and complex.

i. Describe the duties of the financial manager in a business firm.

(5 Marks)

ii. Briefly explain the importance of proper financial management decisions.

(5 Marks)

iii. Discuss the challenges created by organizational and macro-economic environments for financial management (within Agri businesses) in Sri Lanka. (10 Marks)

02) Time value of money is one of the most important concepts in the field of business financing. It is integral in making the best use of limited funds.

i. Discuss the importance of 'Time Value of Money' in financial decision making.

(4 Marks)

ii. Mr.Perera makes a deposit of Rs.12,000 in a bank account. The deposit is to earn an interest annually at the rate of 9 percent for seven years. How much will Mr.Perera have on deposit at the end of seven years? (4 Marks)

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iii. Assume you are to receive a 20-year annuity with annual payments of Rs.500. The first payment will be received at the end of Year 1, and the last payment will be received at the end of Year 20. You will invest each payment in an account that pays 10 percent. What will be the value in your account at the end of Year 20?

(4 Marks)

iv. Suppose you invested Rs.1,000 in a bank account 10 years ago. If your account is now worth Rs.2,839.42, what rate of return did your account earn?

(4 Marks)

03) Lanka Agro Farm Corporation is considering investing in either of two competing projects that will allow the firm to eliminate a production bottleneck and meet the growing demand for its products. The firm's engineering department narrowed the alternatives down to two projects called Low Tech (LT) and High Tech (HT). Working with the accounting and finance personnel, the firm's Chief Financial Officer developed the following estimates of the cash flows for LT and HT over the relevant 6-year time horizon. The firm has an 11 percent required return and views these projects as equally risky.

	Project LT	Project HT
Initial Outflow	Rs. 670,000	Rs.940,000
Year (t)	**Cash Inflow**	
1	250,000	170,000
2	200,000	180,000
3	170,000	200,000
4	150,000	250,000
5	130,000	300,000
6	130,000	550,000

i. Calculate the net present value (NPV) of each project, assess its acceptability, and indicate which project is best using NPV.

(4 Marks)

ii. Calculate the internal rate of return (IRR) of each project, assess its acceptability, and indicate which project is best using IRR.

(4 Marks)

iii. Calculate the profitability index (PI) of each project, assess its acceptability, and indicate which project is best using PI.

(4 Marks)

iv. Which of the two mutually exclusive projects would you recommend for Lanka Agro Farm Corporation to undertake? Why?

(4 Marks)

04) Working capital is a common measure of a company's liquidity, efficiency, and overall health. It entails the process of balancing the needs of short-term assets and short-term liabilities.

i. Briefly explain the strategies that you can use to manage cash conversion cycle effectively.

(4 Marks)

ii. Briefly explain the tradeoff between profitability and risk in the context of working capital management.

(4 Marks)

iii. Southern Farm Corporation (SFC) has an average age of inventory (AAI) of 55 days, an average collection period (ACP) of 30 days, and an average payment period (APP) of 25 days. What is SFC's cash conversion cycle?

(4 Marks)

iv. Lanka Farm Corporation uses 1,600 units of raw materials annually. Its order cost is Rs.500 per order, and the carrying cost is Rs.10 per unit per year. Calculate the Economic Order Quantity (EOQ).

(4 Marks)

05) You are given the budgeted data of Agstar Corporation. Using them prepare a cash budget for three months period starting from January.

- 50% sales are on cash basis
- Credit sales are paid two months after the month of sales
- There is a depreciation charge of Rs.1000 included in overhead expenses

- Suppliers given one month credit period for credit purchases
- Overheads are paid in the month after they are incurred
- Dividends are paid three months after they are declared
- The opening cash balance is Rs. 20,000

	November	December	January	February	March
	Rs.	Rs.	Rs.	Rs.	Rs.
Sales	80,000	90,000	110,000	120,000	150,000
Purchases	60,000	55,000	70,000	90,000	100,000
Wages	10,000	12,000	16,000	20,000	24,000
Overheads	10,000	10,000	12,000	12,000	13,000
Dividends		20,000			

(Marks 16)

06) Financial planning is a process of setting objectives, assessing assets and resources, estimating future financial needs, and making plans to achieve monetary goals. Many elements may involve in this process, including investing, asset allocation, and risk management.

i. Briefly explain the advantages and disadvantages of financial planning.

(5 Marks)

ii. Describe five (05) factors to be considered in developing a financial plan.

(5 Marks)

iii. Briefly explain the role of financial planning in a practical business scenario.

(6 Marks)