



BSc in Export Agriculture

Third Year Second Semester Examination –December 2016/January 2017

Farm Financial Management (EAG 324 – 3)

Section III – Essay Questions

Instructions:

Answer all questions in the given booklet.

No. of questions : Four (04)

No. of pages : Three (03)

Time : Two (02) hours

Index No.

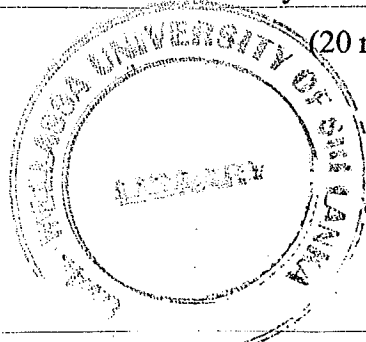
Total marks allocated : 60%

01)

- (I) Generally individual show a time preference for money. It is called the “Time Value of Money”. Give main reasons for time value of money. (20 marks)
- (II) Assume that you deposit Rs. 125,000 in a saving account earning 10% interest per annum compounded annually, how much would you have in the account after 5 years? (25 marks)
- (III) Suppose that Ruwan has planned to start an agro tourism venture after 04 years, which he will need about \$100,000 as startup cost. If he can earn 8% per year on investments, how much does he need to invest today to achieve his goal? (25 marks)
- (IV) You have deposited Rs.20, 000 in a savings account that pays 15% interest per annum compounded quarterly. How long will it take for your account to grow to Rs.87207.58? (30 marks)

02)

- (I) What are the major financial statements used by farm businesses? (15 marks)
- (II) What are the uses of financial statements in making financial decisions? (15 marks)
- (III) Briefly explain the term “working capital”. Use relevant formula if necessary. (20 marks)



- (IV) Suppose you are the newly appointed finance manager in the company ABC. Prepare a brief report which has to be presented to the top management of your company on “suggestions to overcome deficit of working capital”

____(50 marks)

03)

- (I) What is capital budgeting? Why it is significant for a firm? (40 marks)

- (II) A company is considering an investment proposal to install new machine at a cost of Rs. 400,000. The facility has a life expectancy of 10 years and Rs. 40,000 scrap value. Assume the firm uses straight-line depreciation method and additional investment in net working capital is Rs 30,000

Year	Net cash flow (Rs)
1	60,000
2	60,000
3	60,000
4	70,000
5	70,000
6	80,000
7	100,000
8	150,000
9	100,000
10	125,000

Compute the followings

- Accounting rate of return
- Net present value at 10% discount rate
- Profitability index at 10% discount rate

(60 marks)

(04) Ratio is an arithmetic relationship between interrelated and mutually interdependent two figures of groups of figures

(I) List Advantages and disadvantages of ratio analysis. (30 marks)

(II) What is measured by Leverage Ratios? (20 marks)

(III) The extracts from balance sheet and income statement of Vicco Traders for the year ended 31.03.2015 is given below

	2015 Rs. '000
Fixed Assets	
Land and building	2,565
Fixture and fittings	1,030
Current Assets	
Inventory	800
Debtors	500
Bank	160
	1,460
Current Liabilities	
Creditors	400
Bank Overdraft	270

Sales	3800
Gross Profit	1250
Net Profit	400

You are required to calculate and interpreted the following ratios for Vico Traders

- Gross profit margin and net profit margin ratios
- Current ratio and quick ratio

(50 marks)

[End of section III]

