

# Uva Wellassa University

Faculty of Management

Degree of Bachelor of Business Management in Entrepreneurship and Management

**THIRD YEAR FIRST SEMESTER EXAMINATION –MAY/JULY 2017**

**ENM 334-2 Entrepreneurial Financial Management**



### Instructions to candidates:

No. of pages : Four (04)  
No. of questions : Four (04) Essay  
Time : Two (02) Hours  
Marks allocated : 100 Marks  
Answer **all** questions.

Index No:

01. Good financial management is critical to the success of any business, but it is particularly important in small to medium enterprises (SMEs) where the risk of insolvency is often little more than an unpaid invoice away.

- i) Differentiate Entrepreneurial Finance from Corporate Finance. (05 Marks)
- ii) Briefly explain the stages of successful venture's life cycle. (05 Marks)
- iii) Discuss appropriate sources of finance available for small to medium enterprises (SMEs) to finance their expansions. (07 Marks)
- iv) Discuss **five (05)** factors that a business organization should consider when deciding the mix of debt and equity finance. (08 Marks)

(Total Marks - 25)

02.

- i) Briefly explain the benefits of Budgeting. (07 Marks)
- ii) On the basis of following information prepare a cash budget for a manufacturing company for the first 6 months of 2018.
  - Price and costs are assumed to be unchanged.
  - Credit sales are 75% of total sales.



- 60% of the credit sales are collected in month after the sales, 30% in 2<sup>nd</sup> month and 10% in the 3<sup>rd</sup> month. No bad debts are expected.
- Actual and forecasted sales are as follows.

<u>2017</u>	<u>Actual sales (Rs)</u>	<u>2018</u>	<u>Forecasted sales (Rs)</u>
October	120,000	January	60,000
November	140,000	February	80,000
December	160,000	March	80,000
		April	120,000
		May	100,000
		June	80,000
		July	120,000

- The company has a gross profit margin of 20%.
- Anticipated sales of each month are purchased and paid in the preceding month.
- The anticipated wages and salaries of the first 06 months of 2018 are as follows.

<u>Month</u>	<u>Rs.</u>
January	12,000
February	16,000
March	20,000
April	20,000
May	16,000
June	14,000

- Interest on 12% debentures of Rs.100,000 is to be paid in each quarter.
- Income tax in April is due and the amount is Rs.20,000.
- Rs.12,000 is to be paid in June for a purchased equipment.
- The company has a cash balance of Rs.40,000 at 31<sup>st</sup> December 2017.
- Rent is Rs.800 per month.

(18 Marks)

(Total Marks - 25)

03.

i) Briefly explain the process of performing an effective financial statement analysis.

(05 Marks)

ii) Discuss the limitations of financial statement analysis.

(05 Marks)

iii) Briefly discuss the role of financial planning.

(05 Marks)

iv) The most recent financial statements for ABC Company are as follows.

Income Statement

Sales	Rs. 6,475
Costs	Rs. 3,981
Taxable Income	<b>Rs. 2,494</b>
Taxes (34%)	Rs. 848
Net Income	<b>Rs. 1,646</b>

Balance sheet

Fixed Assets	Rs. 9,000	Equity	Rs. 22,000
Current Assets	Rs. 25,000	Debt	Rs. 12,000
<b>Total</b>	<b>Rs. 34,000</b>	<b>Total</b>	<b>Rs. 34,000</b>

Assets and costs are proportional to sales. Debt and Equity are not. ABC Company maintains a constant 20 percent dividend payout ratio. No external equity financing is possible.

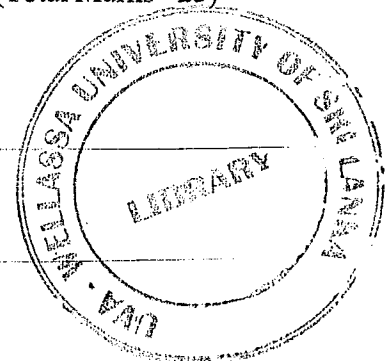
a) What is the internal growth rate?

(05 Marks)

b) What is the sustainable growth rate?

(05 Marks)

(Total Marks - 25)



04.

- i) Briefly explain the importance of effective working capital management for a business organization. (05 Marks)
- ii) Discuss why business organizations hold cash balances in checking accounts? (08 Marks)
- iii) The cost structure of Zahara Company is as follows.

	<u>Rs.</u>
Raw Materials	20.00
Direct labour	5.00
Overhead	15.00
Total Cost	<b>40.00</b>
Profit	10.00
Selling Price	<b>50.00</b>

Raw materials will be held in stock for **2 months**. Working process is approximated at a **half month** level of production and it comprises 75% total costs. Finished goods will remain in the warehouse for a period of **one month**. Suppliers for credit wait for a **one month**. Credit allowed to debtors is **two months**. The maximum cash is expected to be maintain Rs.25,000 and all sales are on credit basis.

Calculate the Working capital requirement.

(12 Marks)

(Total Marks -25)