

Degree of Bachelor of Business Management in Entrepreneurship and Management*Year 3 Semester I End Examination- December/January 2009/2010***EMG 351-3 Entrepreneurial Financial Management**

Submit your all workings very clearly.

1. Anura, Binura and Chanura, upon completing their undergraduate university degrees, decided to become entrepreneurs. They were able to acquire exclusive distribution rights in their city for a new type of interior wall paint product. Anura, Binura and Chanura decided to call their new venture ABC & Company

ABC inventories, it would like to sell shortly after having received it. It is currently December, 2009, and the sales force has provided the following projected sales:

Month	January	February	March	April
Sales (Rs.)	1,150,000	1,840,000	1,380,000	1,150,000

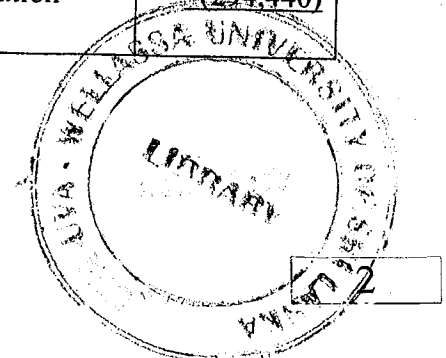
Estimated purchases values for 01st quarter in year 2010 are:

Month	January	February	March
Purchases (Rs.)	1,119,140	1,030,040	837,200

ABC's initial balance sheet can be stated as follows:

ABC Company Initial Balance Sheet as at 31st December 2009

Equity and Liability (Rs.)		Assets (Rs.)	
Equity:	1,815,850	Property, Plant and Equipment:	
		Gross property, plant and equipment	851,000
Current Liabilities:		Accumulated depreciation	(294,440)



Accounts Payable	386,400	Net property, plant and equipment	556,600
Accrued wages	<u>97,750</u>		
Total Current Liabilities	484,150	Current Assets	
		Paint Inventory	1,104,000
		Accounts Receivable	368,000
		Prepaid insurance	41,400
		Cash	230,000
Total Equity and Liabilities	<u><u>2,300,000</u></u>	Total Assets	<u><u>2,300,000</u></u>

ABC is buying a used delivery truck on January 01, 2010 for Rs.69,000 cash. It expects to pay miscellaneous cash expenses equal to 5 percent of the current sales, rent of Rs. 46,000 per month, and records insurance expense at Rs.4,600 per month, although it writes a check to the insurance company for year at a time. ABC plans to draw the prepaid insurance account balance down to zero before cutting the next check to the insurance company.

Depreciation expense is Rs.11,500 per month including the truck, and ABC anticipates a zero tax rate. Wages are paid twice a month with Rs.57,500 per month fixed and 15percent of sales (assumed to be uniform throughout a month) as a variable commission. Wages are paid same month they are earned.

The cost of goods sold amount to 70 percent of sales. The venture takes all deliveries (supplies) on account and pays half in the current month and half in the following month. ABC sales are to 60 percent cash and 40 percent on accounts receivable collected in the following month. It has no currently overdue accounts and anticipates none in the near future. ABC desired minimum cash balance is Rs. 230,000 for each month. If cash deficit will occur in any month, ABC & Company

wish to obtain overdraft facility as a borrowing requirement from "RPQ" Bank. Borrowings should be repaid on end of the relevant quarter. Bank will charge 1.5% per month as an interest on overdraft facility.

You are required to:

- a) Calculate the borrowing requirement of ABC & Company in January, 2010
- b) Prepare projected Income Statements for ABC & Company by covering period January, 2010 to March, 2010.
- c) Prepare projected Balance Sheet for end of first quarter as at 31st March 2010

(State your assumptions very clearly)

(20 Marks)

2. Managing Director of Janahitha Ltd, a small business, is considering one-off contract. Because of the business does not have adequate funds to finance the special order, a bank overdraft amounting Rs. 200,000 would be required for the project duration of three months. The overdraft would be repaid at the end of the period.

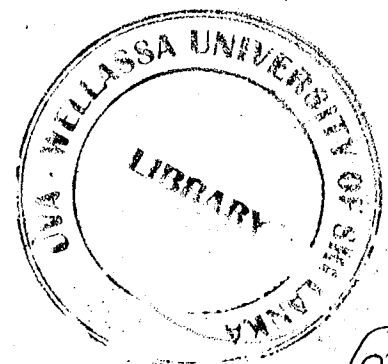
You are required to:

Explain why Small and Medium-Sized Enterprises (SMEs), such as Janahitha Ltd, might face problems in obtaining appropriate sources of finance.

In your answer pay particular attention to problems and issues associated with:

- a) uncertainty concerning the business
- b) assets available to offer as collateral or security, and
- c) potential sources of finance for very new SMEs excluding sources from capital markets.

(10 Marks)



3. Silva and Company is planning to commence a small manufacturing operation in January 2010 with Rs. 50,000 cash as investment. The company has made the following estimates for the three months.

Month	January	February	March
Sales(in units)	15	40	70
Production(in units)	30	60	60

Opening Stock at the beginning of January 2010- Nil

The company has planning to have raw material stock of Rs.10,000 at the end of January, and to maintain stocks at the level thereafter.

Other related information as follows.

	Per Unit (Rs.)
Selling Price	1,000
Material Cost	350
Labour Cost	150
Variable Overheads	50

Fixed overheads are expected to be Rs. 10,000 per month, including Rs. 2,000 depreciation.

Rs.90, 000 of fixed assets are to be purchased immediately on credit and payable in three monthly payments commencing in February 2010.

10% of the Sales are made on cash and the balance is collected in the month following the sale.

Labour and all other expenditures are made in the same month.

You are required to:

Prepare Cash Budgets for the months of January, February and March 2010

(10 Marks)

4. A business seminar is being organised by the Regional Chamber of Entrepreneurs (RCE) of your regional area for their members. Members of the Chamber, wholesalers, retailers, medium scale industrialists and entrepreneurs are being invited for this session. The theme of the session is "Success through high financial discipline and becoming an excellent entrepreneur".

You as an Entrepreneurship and Management graduate have been invited to make a presentation and time allocated for you will one hour.

You are required to:

Prepare your presentation in note form.

(10 Marks)

5. "An Initial Public Offering (IPO) is a frequent goal of an entrepreneur."

Discuss the advantages and disadvantages of an IPO.

(10 Marks)

6. A company is interested in purchasing a company from an entrepreneur whose financial statements are report that this year's EBIT was Rs.2,000,000.

Other information gathered revealed that the owner paid himself salary and benefits of Rs.1,000,000 when a more reasonable compensation given the local job market was Rs.500,000. There was Rs.200,000 in depreciation in this year. The owner has Rs.100,000 in personnel expenses such as on a Toyota as a "company car".

In addition, the firm will need a net investment of Rs. 2,000,000 next year to replace worn-out equipment. Buying this new equipment will cause depreciation expense to increase Rs. 500,000 each year of four years. It is believed that sales will increase by 7 percent per year for next five years given the productive capacity of the firm and the nature of the product market. The buyer will probably need to invest Rs.150,000 in inventory just to bring the firm's inventory back up to a safe level.

You are required to:

Calculate "Free Cash Flow" in as today (Year 0), Year 1 and Year 2.

