

**End Semester Examination June/ July 2010  
Year III Semester II**

**Farm Financial Management EAG 324-2**

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**Instructions**

Answer **all** questions

No. of questions : Five (05)

No. of pages : Five (05)

Total marks allocated : 40/100

Time : Two hours (02 hrs)

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1.
  - a. Define the terms of “farm financial management”
  - b. Briefly explain the goal of farm financial management
  - c. Mention three major forms of business organization with its characteristics
  - d. What are the four basic areas of finance?
  - e. Discuss the significant of working capital
  - f. List out the sources of financing available of a farm?
  - g. What is cost of capital?
  - h. What are the uses of financial statements in making financial decisions?
  - i. Define the terms of is “risk” ,what are the three major risks in a farm business
  - j. Mention three major Techniques for Financial Analysis

(10x4= 40 marks)

2.
  - a.
    - i. Define the terms of ‘Present value’ and ‘future value’ ( 2 marks)
    - ii. Explain what is meant by the following statement: “A dollar in hand today is worth more than a dollar to be received next year.”  
(3 marks)
    - iii. Set up a time line that shows the following situation: (1) Your initial deposit is 10000/- (2) The account pays 12 percent interest annually. (3)You want to know how much money you will have at the end of three years. (3 marks)

- b. A small scale industrial and farming company planning to produce a new product from the following particulars

Fixed Expenses	Rs.150000
Variable cost per unit	Rs. 10
Selling Price per unit	Rs. 15

Calculate

- i. Contribution (1 marks)
  - ii. Profit volume ratio (P/V Ratio) (2 marks)
  - iii. Break even point in unit and rupees. (4 marks)
3. Prepare a cash Budget for the three months ending 30<sup>th</sup> November,2010 from the information given below.
- a.

Month	Sales	Material	Wages	Overheads
July	140000	96000	30000	17000
August	150000	90000	30000	19000
September	160000	92000	32000	20000
October	170000	100000	36000	22000
November	180000	104000	40000	23000

- b. Credit terms are:

Sales/Debtors -10% sales are on cash, 50% of the credit sales are collected next month and the balance in the following month:

Creditors	Materials	2 months
	Wages	¼
	Overheads	½ months

- c. Cash and bank balance on 1<sup>st</sup> September 2010 is expected to be Rs. 60,000.
- d. Other relevant information are:
- i. Plant and machinery will be installed in July, 2010 at a cost 960,000.the monthly installment of Rs.20000 is payable from September onward.
  - ii. Dividend @ 5% on preference share capital of Rs.2,000,000 will be paid on 1<sup>st</sup> November
  - iii. Advance to be received for sales of vehicles Rs.90000 in November

- iv. Dividends from investments amounting to Rs. 10000 are expected to be received in November
  - v. Income tax(advance) to be paid in November 20000
4. A farming company has investment opportunity costing Rs 400,000 with the following expected net cash flow (i.e., after taxes and before depreciation)

Years	Net cash flow
1	70000
2	70000
3	70000
4	70000
5	70000
6	80000
7	100000
8	150000
9	100000

Cost of capital 10%

Residual value of project after nine year 40000/-

- a. You are required to calculate ;
  - i. Pay Back Period (2 marks)
  - ii. Discounted Pay Back Period (3 marks)
  - iii. Net present value at 10% Discounting (3 marks)
  - iv. Profitability index at 10% Discounting (1 marks)
  - v. Internal rate of return with the help of 10% Discounting factor and 15% Discounting factor (4 marks)
- b. State with reasons which project you would recommend (2 marks)

Year	(10%)Discounting	(20%)Discounting
0	1	1
1	0.909	0.870
2	0.826	0.756
3	0.751	0.658
4	0.683	0.572
5	0.621	0.497
6	0.564	0.432
7	0.513	0.376
8	0.467	0.327
9	0.424	0.284

5. You are given below the income statements and the Balance sheets of “sun faming”

Balance sheets

as on 31<sup>st</sup> march 2010

<b>Liabilities</b>	<b>Rs</b>	<b>Assets</b>	<b>Rs</b>
Equity		Non current Assets	
Stated Capital/Share of Rs 10 each (50000 Shares)	500,000		
Reserves	300,000	Farm land buildings	300,000
Profit and loss A/c	150,000	Plant & Equipment	200,000
		Farm machinery	100,000
<b>Non current Liabilities</b>			
Long term loans	100,000	Draught animals	50,000
		Investment	50,000
		Current Assets	
<b>Current Liabilities</b>		Crops on hand for sale(stocks )	100,000
Creditors	200,000	Livestock/poultry for sale(stocks )	50,000
		Debtors	250,000
		Investment income receivable	10,000
		Cash on bank account	110,000
		Cash on hand	30,000
	<u>1,250,000</u>		<u>1,250,000</u>

Profit and loss Account

For the year ended 31<sup>st</sup> march 2010

Opening stocks	250,000	Sales	1,800,000
Purchase	<u>1,050,000</u>		
	1,300,000		
Less -Closing stock	(150,000)		
Gross Profit c/d	650,000		
	<b><u>1,800,000</u></b>		<b><u>1,800,000</u></b>
Administration expenses	230,000	Gross Profit b/d	650,000
Selling and Dis.bu. expenses	100,000	Other income	50,000
Expenses of financing(interest)	20,000		
Net profit	350,000		
	<b>700,000</b>		<b>700,000</b>

Opening Debtors 100,000/-

Market price per shares 15

a. You are required to calculate the following ratios

i. **Liquidity Ratios**

- A. Current Ratios (1 marks)
- B. Acid Test ratios (1 marks)
- C. Debt collection period (1 marks)

ii. **Solvency Ratios**

- A. Debt equity ratio (1 marks)
- B. Interest cover Ratios (1 marks)

iii. **Profitability Ratios**

- A. Gross profit ratios (1 marks)
- B. Return On Capital Employed (ROCE) (1 marks)
- C. Net profit ratios (1 marks)

iv. **Activity Ratios**

- A. Stock Turnover Ratios (1 marks)
- B. Total Assets Turnover Ratios (1 marks)

v. **Shareholder Ratios**

- A. Earning per share (1 marks)
- B. Price to earning ratio (1 marks)

b. Based on the ratio analysis, as financial manager, prepare a report for consideration of your board of directors and give them your suggestions.

(3 marks)