

**Uva Wellassa University**  
**B.Sc. in Export Agriculture**



**End Semester Examination Dec/ Jan 2009/10**  
**Year IV Semester I**

**Farm Financial Management EAG 324-2**

**Instructions**

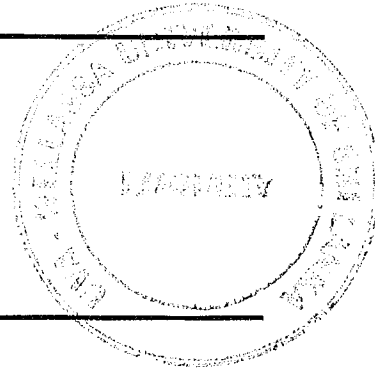
Answer **all** questions

No. of questions : Five (05)

No. of pages : Five (05)

Total marks allocated : 40/100

Time : Two hours (02 hrs)



1.
  - a. What are the three major forms of business organizations?
  - b. What is the goal of farm financial management?
  - c. What are the key differences between sole proprietorships, partnerships, and Company?
  - d. What are the three types of financial management decisions?
  - e. Very important Managerial action of a farm financial manager is to maximize shareholder wealth. Do you accept it? Explain
  - f. Inventory Conversion Period 78 days, Receivables Collection Period 50 days, Payables Deferral Period 32 days. Find out the Cash Conversion Cycle.
  - g. Differentiate between net working capital and net operating working capital
  - h. What are the sources of financing of a farm?
  - i. Agricultural production is a high risk business. What are the three major risks in a farm business?
  - j. what is cost of capital

(4X10= 40 marks)

2.

a.

- i. Assume that it is now January 1, 2009. On January 1, 2010, you will deposit 100,000 in to a savings account that pays 8 percent. If the bank compounds interest annually, how much will you have in your account on January 1, 2013?
  - ii. What would your January 1, 2013, balance be if the bank used quarterly compounding rather than annual compounding?
- b. Your client is 40 years old and wants to begin saving for retirement. You advise the client to put 5,000 a year into the stock market. The estimates market's return will be, on average, 12 percent a year. Assuming that the investment will be made at the end of the year how much money will she have by age 65 if the client follows your advice?

(15 Marks)

3. As a farm financial Director of a farming company, you are required to prepare the cash budget for the first six months of year 2010. You are given the following information.

Month	Sales	Material purchased	Wages	Production Overheads	Office and selling Expenses
January	82000	25000	10000	6100	5500
February	97000	31000	12100	6300	6700
March	46000	25500	10600	6000	7500
April	48600	30600	25000	6500	8900
May	102500	37000	22000	8000	11000
June	108700	38800	23000	8200	11500

Assume that 50% of the sales are on cash basis. Assets are to be acquired in the months of February and April. Therefore, provisions should be made for the payment of Rs.83,000 and Rs.120,000 for the same. It is anticipated that a dividend of Rs.36000 will be paid in June. 50% of the credit sales are paid in the same month, and 30% in first month and remaining amount in the second month will be settled. Creditors for material Purchased and overheads grant one month's credit period. Sales commission of 5% on cash sales will be paid to the salesman each month. Funds can be borrowed and paid at any time on a monthly basis of 18% per annum rate. The loans should be repaid with the interest as soon as possible.

(15 Marks)

4. Badulla food Manufacturing (Pvt) Ltd. is analyzing a proposal for marketing a food product. Firm can make investment in either of the following two projects. The firm anticipates its cost of capital to be 10% and net (after tax) cash flows of the projects for five years are as follows. Working capital requirement in the beginning of the year Rs.20, 000/-, Rs.30, 000/- respectively.

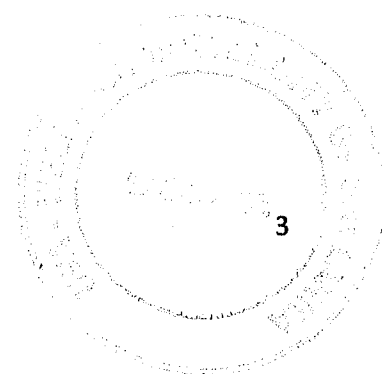
Year	0	1	2	3	4	5
Project- A	(500,000)	85,000	200,000	240,000	220,000	70,000
Project- B	(500,000)	480,000	100,000	70,000	30,000	20,000

Residual value of project A after five year 40000/-

- a. You are required to calculate
  - i. Pay Back Period
  - ii. Discounted Pay Back Period
  - iii. NPV
- b. State with reasons which project you would recommend.

Year	PVF (10%)	PVF (20%)
0	1	1
1	0.9091	0.8333
2	0.8264	0.6944
3	0.7513	0.5787
4	0.6830	0.4823
5	0.6209	0.4019

(15 Marks)



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5. Given below are the Balance Sheets and Income Statements the of "sun faming" (Pvt) Ltd

Sun faming (Pvt) Ltd  
Balance Sheets as at 31<sup>st</sup> December 2009

Liabilities	Rs. in '000'	Rs. in '000'	Assets	Rs. in '000'	Rs. in '000'
<b>Equity</b>			<b>Non current Assets</b>		
Stated Capital/Share capital(48000 Shares)	4800.00		Property, plant & Equipment	3500.00	
Reserves	2200.00	7000.00	Farm buildings	2000.00	
			Farm machinery	1500.00	
<b>Non current Liabilities</b>			Draught animals	500.00	
Long term loans		2300.00	Investment	600.00	
					8100.00
<b>Current Liabilities</b>			<b>Current Assets</b>		
Accounts payable	300.00		Crops in hand for sale	540.00	
Short term loans	100.00		Livestock/poultry for sale	550.00	
Outstanding expanses	300.00	700.00	Accounts receivable	560.00	
			Investment income receivable	100.00	
			Cash in hand	100.00	
			Cash in bank account	50.00	1900.00
		<b>10000.00</b>			<b>10000.00</b>

Opening Inventory (Crops on hand for sale, Livestock/poultry for sale) –Rs. 900,000/-

Opening Accounts receivable 500,000/-

Income Statements (Pvt) Ltd. of Sun faming for years ended 31<sup>st</sup> December 2009

	2009 Rs. '000'
Sales	12000.00
Cost of sales	(9000.00)
Gross Profit	3000.00
Overheads	(1500.00)
Operating profit	1500.00
Non operating income	100.00
Profit before tax	1600.00
Tax	(200.00)
Profit after Tax	1400.00

You are required to calculate the following ratio for the year 2009, based on the above data assuming that all purchase and sales were on credit basis

- a. Gross profit Ratio
- b. Operating profit Ratio
- c. Net profit Ratio
- d. Debtors turnover Ratio
- e. Creditors Turnover Ratio
- f. Gearing Ratio
- g. Current Ratio
- h. quick Asset Ratio

(15 Marks)

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