

Uva Wellassa University

Faculty of Management

Degree of Bachelor of Business Management in Entrepreneurship and Management

3rd YEAR 1st SEMESTER EXAMINATION – February/March 2012

EMG 351-3 Entrepreneurial Financial Management



Part C- Essay Questions

Answer only three (03) questions including question No.1

Marks allocation: 50 Marks

01. i. What is a financing planning? How does it differ from financial forecasting? (3 Marks)
- ii. Explain the ingredients of financial planning model. (3 Marks)
- iii. Answer the questions given bellow on the basis of following information for the Amazon Company. Sales are predicted to grow by 10 percent. Use the percentage of sales approach and assume the company is operating at full capacity. The payout ratio is constant.

Amazon Company
Income statement

Sales	Rs. 4250.00
Costs	3875.00
Taxable Income	Rs. 375.00
Taxes (34%)	127.50
Net Income	247.50
Dividends	82.60
Addition to Retained Earnings	164.90

Amazon Company
Balance Sheet

Liabilities and Equity		Assets	
Current liabilities	Rs. 500.00	Current Assets	Rs. 900.00
Long-term debt	1800.00	Net Fixed Assets	2200.00
Owner's equity	800.00		
Total	Rs. 3100.00	Total	Rs. 3100.00

Based on the above information;

- a) What is External Financing Need (EFN), assuming 60 percent capacity usage for net fixed assets?
- b) What will be the External Financing Need (EFN), if we assume 95 percent capacity usage for net fixed assets?
- c) What is the growth rate that Amazon can maintain if no external financing is used?
- d) Calculate the sustainable growth rate.

(14 Marks)

(Total Marks 20)

02. i. Differentiate the operating budgets and financial budgets.

(5 Marks)

ii. On the basis of following information prepare a cash budget for a manufacturing company for 6 months of 2012.

- 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 2nd month and 10% in the 3rd month. No bad debts are expected.
- Actual and forecasted sales are as follows.

<u>2011</u>	<u>Actual sales(Rs)</u>	<u>2012</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 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% debenture 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 31st December 2011.
- Rent is Rs.800 per month.

(10 Marks)

(Total Marks 15)

03. i. Briefly explain factors those determine the working capital need of a firm. (2 Marks)

ii Explain the risk – return trade-off of current assets financing. (3 Marks)

iii. A manufacturing company has an expected usage of 50,000 units of certain product during the next year. The cost of processing an order is Rs.20 and carrying cost per unit is Rs.0.50 for one year. Lead time on an order is five days and the company will keep a reserve supply of two days usage. You are required to calculate;

a) The Economic order quantity (EOQ)

b) The Re-order point

(5Marks)

iv. A company has a weekly sales of Rs.1,000,000 (one million). Out of this 27.5% is received on Monday and another 27.5% received on Tuesday. The remaining amount equally spread

over Wednesday, Thursday and Friday. Presently cheques are deposited in the bank on Fridays. The company is now considering banking cheques on Monday, Wednesday and Friday. This will increase the administrative cost by Rs. 500 weekly. Company has a bank over draft (OD) which is having interest rate of 15% per annum and charged simple daily basis. Assume that cheques deposited are immediately credited to the account.

Should the company apply new strategy? Explain.

(5 Marks)

(Total Marks 15)

04. i. Explain the need for the financial analysis. How does the use of ratio help in financial analysis? (3 Marks)

ii. You have been hired as an analyst for Royal Bank and your team is working on an independent assessment of Lanka Farm Corporation (LFC). LFC is a firm that specializes in the production of freshly imported farm products from New Zealand. Your assistant has provided you with the following data for Lanka Farm Corporation and their industry.

Ratio	2011			
	2011	2010	2009	Industry Average
Long-term debt	0.45	0.40	0.35	0.35
Inventory Turnover	62.65	42.42	32.25	53.25
Depreciation/Total Assets	0.25	0.014	0.018	0.015
Days' sales in receivables	113	98	94	130.25
Debt to Equity	0.75	0.85	0.90	0.88
Profit Margin	0.082	0.07	0.06	0.075
Total Asset Turnover	0.54	0.65	0.70	0.40
Quick Ratio	1.028	1.03	1.029	1.031
Current Ratio	1.33	1.21	1.15	1.25
Times Interest Earned	0.9	4.375	4.45	4.65
Equity Multiplier	1.75	1.85	1.90	1.88

- a) In the annual report to the shareholders, the CEO of Lanka Farm Corporation wrote, "2009 was a good year for the firm with respect to our ability to meet our short-term obligations. We had higher liquidity largely due to an increase in highly liquid current assets (cash, account receivables and short-term marketable securities)."

Is the CEO correct? Explain by using relevant information.

- b) What can you say about the firm's assets management?
- c) You are asked to provide the shareholders with an assessment of the firm's solvency and leverage.

(Marks 12)

(Total Marks 15)

