



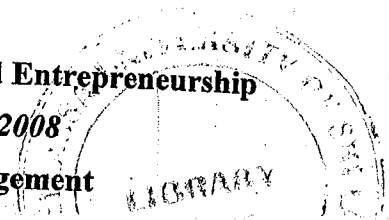
Uva Wellassa University

Faculty of Management

Degree of Bachelor of Business Management and Entrepreneurship

Year 3 Semester I Examination -December 2008

EMG 351-3 Entrepreneurial Financial Management



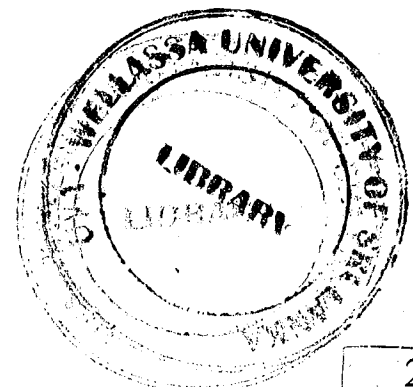
- I. Identify the importance of working capital management for an entrepreneurial venture.
- II. Differentiate the concepts of permanent working capital and temporary working capital.
- III. Differentiate the concepts of cost of liquidity and cost of illiquidity.
- IV. Suppose that a venture has an investment of Rs. 5,000,000 in assets, Rs. 3,500,000 in fixed assets and Rs. 1,500,000 in current assets. It is expected that assets will yield a return of 22% before interest and taxes. Tax rate is assumed to be 45%. The firm maintains a debt ratio of 75%. The firm has the accessibility to the loans as follows
 Short term debt at an interest rate of 8%
 Long term debt at an interest rate of 10%

You are required to

- a) Prepare three financial plans under Conservative, Moderate and Aggressive approaches of financial planning by making the relevant assumptions.
- b) Do a comparative analysis on risk and the return of each financial plan.

(20 Mark)

2.
 - I. Differentiate the concepts of favorable financial leverage and unfavorable financial leverage
 - II. A company may need Rs. 500,000 for construction of new plant. The following three financial plans are feasible.



- i. Issuing of 50,000 ordinary shares at Rs. 10 per share.
- ii. Issuing of 25,000 ordinary shares at Rs. 10 per share and 2,500 debentures of Rs. 100 bearing 8% rate of interest.
- iii. Issuing of 25,000 ordinary shares at Rs. 10 per share, and 2500 preference shares at Rs. 100 per share bearing a 8% rate of dividend.

If the company's profits before interest and taxes are Rs. 10,000, Rs. 20,000, Rs. 40,000, Rs. 60,000, Rs. 100,000 as it is estimated.

(Assume that the losses will result in tax credits within the same year)

You are required to

- a) Determine the Earning Per Share under the three financial plans.
- b) Which alternative would you recommend and why?

(15 Marks)

3.

- I. Identify different sources of financing by the ventures in different stages of venture life cycle.
- II. The venture has introduced a new product to the market. It has a target sales growth of 25% per year. First year sales amount was Rs. 2 million. These sales were supported by an investment amount of Rs 1 million assets and produced a net income of Rs.180 thousand. Equity at the beginning of last year was Rs.850 thousand. Also it is the idea of management to pay the dividend at a ratio of 50% the profits in the venture.

Additional information:

The bank had accounts payable of Rs. 95,000 and accrued liabilities of Rs. 65,000.

You are required to:

- a) Estimate the sustainable sales growth rate of the venture. Interpret your answer.
- b) Calculate the additional funds needed for the venture. Justify your answer.

(15 Marks)