

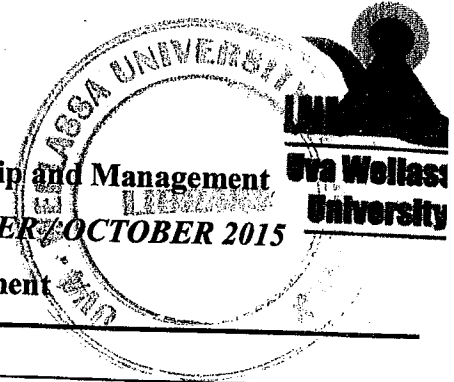
Uva Wellassa University

Faculty of Management

Degree of Bachelor of Business Management in Entrepreneurship and Management

THIRD YEAR FIRST SEMESTER EXAMINATION – SEPTEMBER/OCTOBER 2015

EMG 351-3 Entrepreneurial Financial Management



Instructions to candidates:

- No. of pages : Six (06)
No. of questions : Seven (07) Essay
Time : Three (03) Hours
Marks allocated : 100 Marks
Answer **only six (06) questions including question No.01**

Index No:

01.

- i). Explain the importance of Pro Forma financial statements? (02 Marks)
- ii). An accurate sales forecast is critical to the firm's financial position and performance. Briefly explain the impact of over-optimistic sales forecast on financial position and performance of an entity. (03 Marks)
- iii). ABC (Pvt) Ltd is a company which produces flower-vases. Following information was extracted from their management report on budget decisions for the year ended 31st March 2017.
 - Unit selling price will be Rs. 200 and budgeted Sales quantity is 20,000 units.
 - A flower-vase is made with 02 square meters of plastic. The cost of one meter has been estimated as Rs. 40.
 - Thirty (30) minutes of labour time is required to produce one unit. Labor rate per hour has been estimated as Rs.120.
 - Inventories were estimated as follows:

Description	01/04/2016	31/03/2017
Direct Material -plastic (Meters)	630	230
Finished Goods (Units)	46,000	36,000

- Manufacturing overhead costs will be Rs. 80,000
- Sales and Marketing expenses has been estimated as Rs. 34,000
- Administrative and Financial expenses will be Rs. 56,000
- Estimated tax expense for the next year is Rs. 10,200

You are required to:

- a) Calculate the number of units to be produced during the year ended 31st March 2017 (02 Marks)
- b) Calculate the cost of raw materials (plastic) to be purchased (03 Marks)
- c) Calculate the total direct labour cost (02 Marks)
- d) Calculate the total manufacturing cost (03 Marks)
- e) Prepare Budgeted Income Statement for the year ended 31st March 2017 (05 Marks)

(Total Marks-20)

02.

- i). Following financial Statements were extracted from the books of Grady (Pvt) Ltd for the year ended 31st March 2015

Grady (Pvt) Ltd
Income Statement
For the year ended 31st March 2015 (Rs)

Sales		500,000
Cost of Goods Sold		(200,000)
Gross Profit		300,000
Selling and Distribution Expenses	55,000	
Depreciation Expenses	51,000	
Other Administration and Establishment Expenses	100,000	
Interest Expenses	29,000	(235,000)
Net Profit		65,000

Grady (Pvt) Ltd
Statement of Financial Position
As at 31st March 2015

(Rs)

Assets		
Net non-current assets		300,000
<i>Current Assets</i>		
Inventory	37,800	
Debtors	10,800	
Bank	40,000	88,600
Total Assets		<u>388,600</u>
Equity and Liabilities		
Owners' Equity	271,600	
Retained Earnings	23,000	294,600
<i>Non Current liabilities</i>		
Long term loan	70,000	70,000
<i>Current Liabilities</i>		
Accounts Payables	9,000	
Notes Payable	15,000	24,000
Total Equity and Liability		<u>388,600</u>

Additional information

- Sales growth rate of Grady (Pvt) Ltd is 10%
- Dividend Payout Ratio is 80%

You are required to;

- i). Prepare the forecasted Income Statement of Grady (Pvt) Ltd for the year ended 31st March 2016 based on the percentage of sales approach. (06 Marks)
- ii). Prepare the forecasted Statement of Financial Position of Grady (Pvt) Ltd for the year ended 31st March 2016 based on the percentage of sales approach. (07 Marks)
- iii). Calculate the External Financial Need (EFN) and suggest an appropriate plug variable (03 Marks)

(Total Marks-16)

03. Planning is vital for organizational success. "If you fail to plan, you are planning to fail." Business plan helps the founders to break uncertainty down into meaningful pieces like sales projection, expense budget, milestones and tasks.

- i). Briefly explain the reasons for new venture failure. (06 Marks)
 - ii). Briefly explain the components of a business plan. (06 Marks)
 - iii). Discuss the purpose of the Financial Section of a business plan. (04 Marks)
- (Total Marks-16)

04. Clere (Pvt) Ltd is a fast food restaurant and their cash inflow comes from the sale of bakery items. The forecasted quarterly credit sales of Clere (Pvt) Ltd for the year ended on 31st March 2017 are given below.

Quarter	1	2	3	4
Sales (Rs)	380,000	570,000	490,000	780,000

Additional information

- 50 % of credit sales could be collected during the same quarter and the balance will be received in the next quarter.
- Cost of purchases per quarter will be 60% of the quarter's predicted sales revenue. The suppliers need to be settled within the same quarter at which goods are purchased.
- Machinery is to be bought for Rs.120, 000 during fourth quarter.
- Owner wishes to withdraw Rs.50, 000 in June 2016.
- Dividend payout ratio is 10% where quarterly net profit margin is 20% on budgeted sales revenue.

You are required to:

Prepare the quarterly cash budget of the Clere (Pvt) Ltd for the year ended 31st March 2017.

(Total Marks-16)

05.

- i). Briefly explain the differences between Entrepreneurial Finance and Corporate Finance?
(05 Marks)
 - ii). Briefly explain the factors that entrepreneurial ventures should take into account when deciding on the mix of debt and equity finance.
(05 Marks)
 - iii). Discuss the different financing options available for different stages of venture life cycle.
(06 Marks)
- (Total Marks-16)

06.

- i). Differentiate the 'Aggressive Funding Strategies' from 'Conservative Funding Strategies'.
(04 Marks)
- ii). Assume you are the Finance Manager of Zahara Manufacturing Ltd. You are required to find out the net working capital of Zahara Manufacturing Ltd.

The company's cost structure is as follows.

	(Rs)
Raw Materials	150
Direct labour	50
Over Head	100
Total Cost	300
Profit	100
Selling Price	400

The following additional information has been provided for you.

Units produced are 208,000 per year. The raw materials are in stock for **one (01)** month. Credit allows by suppliers is **one (01)** month. Finished goods are in stock for **one (01)** month. Materials are in process for **three (03)** weeks. Time lap in payments from debtors is **three (03)** months. Time lap in payments of wages is **two (02)** weeks. Time lap in payment of overhead is **one (01)** month. Cash sales are 30% of the total sales. Cash in hand is Rs. 100,000.

(12 Marks)

(Total Marks-16)

07.

- i. "Profitability and Solvency are the two key factors for business survival".

Comment on the above statement.

(05 Marks)

- ii. Briefly explain the information you need to perform an Effective Financial Statement analysis.

(05 Marks)

- iii. Is it possible for a firm to have a high current ratio and still find difficulties in paying its current debt? Explain.

(06 Marks)

(Total Marks-16)

