

Uva Wellassa University
Faculty of Animal Science & Export Agriculture
BSc. in Export Agriculture

End Semester Examination – January/ February 2016
Year III Semester II

Farm Financial Management (EAG 324-3)



Instructions

Answer only six (06) questions including question number one (01).

No. of questions : Seven (07)
No. of pages : Five (05)
Time : Three hours (3 hrs)
Total marks allocated : 100%

ESSAY

Question 01

Following forecasted information is extracted from the reports of Tree Acres Farming (Pvt.) Ltd. regarding 'Cane bag' production for the year to be ended on the 31st March 2017.

- i. Unit selling price will be Rs. 150
- ii. Sales will be 10,000 units
- iii. Finish goods:
Desired Ending Inventory: 2,000 units
Beginning Inventory: 1,500 units
- iv. Raw Material:
To produce one bag it requires one square meters of cane, which is estimated to be Rs. 100.00 per square meter in next year.
Desired Ending Inventory of cane; 200 square meters
Beginning Inventory of cane; 250 square meters
- v. Labor Hours:
To produce one unit, 45 minutes of labor time is required
Hourly Labor Rate will be Rs.110
- vi. Costs of beginning inventories (Rs)

Direct Material	25,000
Work In Progress	12,000

- | | |
|--------------------|---------|
| Finished Inventory | 225,000 |
|--------------------|---------|
- vii. Costs of ending inventories (Rs)
- | | |
|--------------------|---------|
| Direct Material | 20,000 |
| Work In Progress | 15,000 |
| Finished Inventory | 300,000 |
- viii. Sales and Marketing expenses has been estimated as Rs. 40,000
- ix. Administrative and establishment expenses have been estimated as Rs. 60,000
- x. Financial expenses will be Rs. 20,000

You are required to prepare;

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|--|------------|
| 1.1. Production budget | (03 Marks) |
| 1.2. Material budget | (04 Marks) |
| 1.3. Labor budget | (03 Marks) |
| 1.4. Statement that shows cost of goods sold | (10 Marks) |
| 1.5. Budgeted Income Statement | (10 Marks) |
| (Total - 30 Marks) | |

Question 02

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.

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|---|------------|
| 2.1. Briefly explain the components of a business plan. | (08 Marks) |
| 2.2. Briefly explain the purpose of the Financial Section of a business plan. | (06 Marks) |
| (Total - 14 Marks) | |

Question 03

Hacros Agro (Pvt.) Ltd. has forecasted their quarterly credit sales for the year ended on the 31st March 2017 as follows.

Quarter	1	2	3	4
Sales (Rs)	900,000	600,000	850,000	400,000

- i. 40 % of credit sales could be collected during the same quarter and the balance will be received in the next quarter.

- ii. Cost of purchase per quarter will be 70% of the quarter's predicted sales revenue. Suppliers have agreed on 90 days credit period.
- iii. Machinery is to be bought for Rs.120,000 during fourth quarter.
- iv. Owner wishes to withdraw Rs.100,000 in April 2016.

You are required to prepare the quarterly Cash Budget of Hacros Agro (Pvt.) Ltd. for the year to be ended on the 31st March 2017. (14 Marks)

Question 04

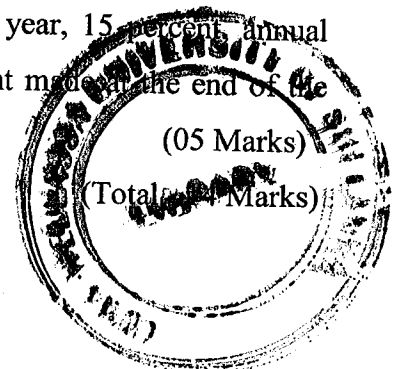
A new business faces three major issues when selecting an appropriate source of Finance. Those are; (a) can the finance be raised from internal resources or will new finance have to be raised outside the business, (b) if finance needs to be raised externally, should it be debt or equity? (c) if external debt or equity is to be used, where it should be raised from and in which form. (Steve Jay, 2003)

Briefly explain the different types of financing sources, which are available throughout the different stages of Business Life Cycle. (14 Marks)

Question 05

- 5.1. "Cash flows of two years in absolute terms are incomparable". Discuss and give reasons to support your answer. (03 Marks)
- 5.2. Suppose that you can earn 15 percent of interest, compounded annually. How much have you to deposit today to withdraw Rs. 4,000,000 in 10 years? (03 Marks)
- 5.3. You just put Rs. 1,000,000 in a bank account which pays 6 percent nominal annual interest, compounded monthly. How much will you have in your account after 3 years? (03 Marks)
- 5.4. Your company is planning to borrow Rs. 1,000,000 on a 5 year, 15 percent annual payments, fully amortized loan. What fraction of the payment made at the end of the second year will represent repayment of principle? (05 Marks)

(Total Marks)



Question 06

6.1. Explain the difference between independent and mutually exclusive projects. Support your answer by providing examples for each type.

(04 Marks)

6.2. A company is considering an investment proposal to purchase a new milling machine at a cost of Rs. 1,000,000. The facility has a life expectancy of 5 years and no salvage value. The tax rate is 35%. Assume that the firm uses straight-line depreciation and the same is allowed for tax purposes. The estimated cash flows before depreciation and tax (CFBT) from the investment proposal are as follows.

Year	CFBT (RS)
1	400,000
2	400,000
3	300,000
4	50,000
5	150,000

Compute the following.

- a) Payback period. (02 Marks)
- b) Accounting Rate of Return. (02 Marks)
- c) Internal Rate of Return. (02 Marks)
- d) Net Present Value at 10 percent discount rate. (02 Marks)
- e) Profitability Index at 10 percent discount rate. (02 Marks)

(Total - 14 Marks)

Question 07

7.1. Briefly explain the significance of Working Capital Management (WCM) for a business firm. (03 Marks)

7.2. Differentiate "Conservative approach to asset financing" and "Aggressive approach to asset financing". (02 Marks)

7.3. What are the strategies that can used to manage a Cash Conversion Cycle effectively?
Provide practical example by taking an agricultural business firm.

(04 Marks)

7.4. Bubble Corporation has an inventory period of 85 days, accounts payable period of 40 days and accounts receivable are collected on average in 34 days. The Chief Financial Officer plans to implement a discount plan in order to reduce the time it takes to collect receivables to 23 days and delay accounts payables by another 5 days.

a) What is the Bubble's Cash Conversion Cycle before implementing the discount plan? (03 Marks)

b) What will happen to the firm's Cash Cycle after implementing the discount plan? (02 Marks)

(Total - 14 Marks)

