



Uva Wellassa University of Sri Lanka
Faculty of Animal Science & Export Agriculture
B.Sc. in Export Agriculture



Year III Semester II
End Semester Examination - September/October 2012

EAG 324-3 Farm Financial Management

Instructions

Answer all questions in booklets provided.

No. of questions : Five (5)
No. of pages : Three (03)
Time : Three hours (3hrs)
Total marks allocated : 100

- 01) i. Define the term "Financial Management". (2 Marks)
- ii. Briefly explain the agency relationship, agency problem and agency cost in corporate finance. (3 Marks)
- iii. Briefly explain the importance of proper Financial Management for an organization. (4 Marks)
- iv. "The profit maximization is not an operationally feasible criterion". Do you agree? Illustrate your view. (5 Marks)
- v. Briefly explain the key decisions made by the Financial Manager. (6 Marks)
- (Total Marks 20)
- 02) i. Generally individuals show a time preference for money". Give main reasons for such a preference. (4 Marks)
- ii. Assume that you deposit Rs. 2,000 in a savings account that pays 10 percent interest, compounded annually. How much will your account be worth in 15 years? (5 Marks)
- iii. Assume that you can earn 15 percent interest, compounded annually from an account. How much must you deposit today to withdraw Rs. 4,000 in 10 years? (5 Marks)
- iv. If a 5-year ordinary annuity has a present value of Rs. 1,000, and if the interest rate is 10 percent, what is the amount of each annuity payment? (6 Marks)
- (Total Marks 20)

03) i. Define the term Working Capital Management. (2 Marks)

ii. Briefly explain the significance of Working Capital Management for companies. (4 Marks)

iii. Differentiate "Gross working capital" from "Net working capital". (4 Marks)

iv. What strategies can be used to manage cash conversion cycle effectively? (5 Marks)

v. Max Company, a producer of livestock feed, has annual sales of Rs.10 million, cost of goods sold of 75% of sales, and purchases that are 65% of cost of goods sold. Max has an average age of inventory (AAI) of 60 days, an average collection period (ACP) of 40 days, and an average payment period (APP) of 35 days. What is Max's cash conversion cycle? (5 Marks)

(Total Marks 20)

04) i. Briefly explain the significance of financial statement analysis. (5 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.

Ratios	Industry Benchmarks	2010	2011
Gross Profit Margin	25%	22%	22.7%
Net Profit Margin	7%	7.1%	6.1%
Return on Assets	12%	15.6%	15.5%
Return on Equity	20%	32%	26%
Inventory Turnover	6 Times	5.8 Times	5.58 Times
Assets Turnover	Not Given	2.2	2.53
Current Ratio	Ideal 2:1 Acceptable 1:1	1.78:1	1.70:1
Quick Ratio	Ideal 2:1 Acceptable 1:1	0.85:1	0.69:1
Days Payable	30 Days	Credit Purchase Not Available	49 Days
Debt/Equity	0.6:1	1.05:1	0.67:1
TIE	Below 3 Risky Above 5 Favorable	10.14 Times	39 Times

General prospects for the major industries in which LFC is involved look good and world demand for farm products remaining strong.

You are asked to provide the report to shareholders with an assessment of the firm's profitability, asset management, liquidity and capital structure. The report should evaluate the company's performance and financial position.

(15 Marks)

(Total Marks 20)

05) i. What is capital budgeting? Why it is significant for a firm? (4 Marks)

ii. Despite its weaknesses, the payback period method is popular in practice. List three reasons for its popularity? (4 Marks)

iii. A company is considering an investment proposal to install new machine at a cost of Rs.100,000. The facility has a life expectancy of 5 years and no salvage value. The tax rate is 35%. Assume 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	40,000
2	40,000
3	30,000
4	50,000
5	50,000

Compute the followings.

- Payback period.
- Accounting Rate of Return.
- Internal Rate of Return.
- Net Present Value at 10 percent discount rate.
- Profitability Index at 10 percent discount rate.

(12 Marks)

(Total Marks 20)

