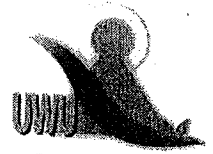


Uva Wellassa University  
Faculty of Animal Science and Export Agriculture  
BSc in Export Agriculture

End Semester Examination – August/ September 2011  
Year III Semester II



Uva Wellassa  
University

**Farm Financial Management (EAG 324 -2)**

**Instructions**

Answer **All** questions

No. of questions : Five (05)  
No. of pages : Seven (07)  
Time : Two Hours (02 hrs)  
Total marks allocated : 40/100

Index No:

**Question 01**

- a. Define the terms of “farm financial management”
- b. Discuss the significance of working capital
- c. List out the sources of financing available of a public company?
- d. What is cost of capital?
- e. Mention three major Techniques for Financial Analysis
- f. What are the usages of financial statements in making financial decisions?
- g. What are the three major risks in a farm Business?
- h. Explain three major forms of business organization with its characteristics
- i. What is time value of money?
- j. What are the Differences between money market and capital market?

(10x 3=30 marks)

## Question 02

ABI (Pvt) Ltd and KABI Plc are two Farm companies operating in same Farming industry. Both companies adopted similar production methods. But KABI Plc is a Quoted public Company.

Sigma Plc is considering the acquisition of one of these companies. Suppose you are the financial director of Sigma Plc and have been given following financial statements and other information regarding two companies.

### Income statement for the year ended 31<sup>st</sup> march 2011

Items	ABI 000'	KABI 000,
Sales(Revenue)	550000	475000
Cost of Sales	401500	332500
<b>Gross Profit</b>	<b>148500</b>	<b>142500</b>
Distributions Cost	65000	60000
Administration cost	62000	58000
Financial Cost	750	6500
<b>Profit before tax</b>	<b>20750</b>	<b>18000</b>
Taxation	7260	6300
<b>Profit after taxation</b>	<b>13490</b>	<b>11700</b>

**Balance Sheet as at 31 march 2011**

	ABI; 000'	KABI 000'
<b>Assets</b>		
<b>Non Current Assets</b>		
Property Plants and equipments	35000	65000
Investment property	10000	-
<b>Current Assets</b>		
Inventory	34000	25000
Trade Receivable	24000	22000
Other receivables	3000	1000
Cash and cash equivalents	3500	8000
	<b>109500</b>	<b>121000</b>
<b>Equity and Liability</b>		
Stated capital	45000	55000
Retained Earnings	35000	25000
<b>Non Current Liability</b>		
Leases Creditors	-	10000
Long term borrowings	4000	8000
<b>Current Liability</b>		
Trade Payable	18000	20400
Current portion of non current liability	600	4000
Other Payable	5500	1400
	<b>109500</b>	<b>121000</b>

Other information available

• Ratios and industry average

	ABI	KABI	Industry
Gross profit Ratio	-	-	35%
Inventory turn over period	36.5 days	33 days	30 days
Average credit period allowed on credit sales	40 days	30 days	30 days



You are required to

I. Calculate following ratios

- A. Gross profit margin
- B. Operating profit Ratio
- C. Net profit Ratio
- D. Operating assets turnover ratios
- E. Gearing ratio
- F. Return on capital employed
- G. Current Ratio
- H. Quick Asset Ratio
- I. Debt to Total Assets Ratio
- J. Total Assets Turnover Ratios

II. Write a report to the board of directors of Sigma Plc comparing the performance, working capital management , assets utilization, Gearing and equity

(15 marks)

**Question 03**

- (i). A company is considering the possibility of raising its capital by issuing debentures, preference shares and equity shares. The company has the following capital structure on 31<sup>st</sup> December 2010.

	Rs.
Ordinary Shares (30,000 shares)	300,000
Preference shares	300,000
16% Debentures	<u>400,000</u>
	<u>1,000,000</u>

- (A). the debentures are redeemed after 30 years and the current market price of a debenture is Rs. 900/- principle payment at maturity 1000/-
- (B). the 11% Rs.100/- value preference shares are issued at Rs. 130/- per share. However, the company will have to pay Rs. 7.25 per preference share as underwriting commission.

(C). the company's ordinary share is currently selling for Rs.150/-. It is expected that the company will pay a dividend of Rs.14/- per share at the end of the next year, which is expected to grow at a constant rate of 7%. The company also pays a flotation cost of Rs.6/- per share.

Calculate the Weighted Average Cost of Capital (WACC) of the company.

(15 marks)

#### Question 04

As the Financial Director of a company, you are required to prepare the cash budget for the first six month of year 2011. You are given the following information.

Month	Sales	Material Purchased	Wages	Production Overheads	Office & selling Expenses
January	72000	25000	10000	6000	5500
February	97000	31000	12100	6300	6700
March	46000	25500	10600	6000	7500
April	48600	30600	25000	6500	8900
May	102500	37000	22000	8000	11000
June	108700	38800	23000	8200	11500

Assume that 50% of the sales are on cash basis. Assets are to be acquired in the months of February and April. Therefore, provisions should be made for the payment of Rs. 80,000 and Rs.125, 000 for the same. It is anticipated that a dividend of Rs. 35,000/- will be paid in June. 50% of the credit sales are paid in the same month, and 30% in first month and remaining amount in the second month will be settled. Creditors for material purchased and overheads grant one month's credit period. Sales commission of 3% on cash sales will be paid to the salesman each month.

Funds can be borrowed and paid at any time on a monthly basis of 18% per annum rate. The loans should be repaid with the interest as soon as possible.

(15 marks)



### Question 05

The following information relate to two (A and B) possible capital expenditure projects that H PLC wants to undertake. However due to the shortage of fund only one project can be accepted.

	Projects	
	A	B
Initial cost	400000	440000
Scrap value	20000	30000
<b>Net cash flow</b>		
Year 1	160000	180000
Year 2	140000	139500
Year 3	120000	100000
Year 4	90000	100000
Year 5	80000	100000
<b>Expected Life</b>	<b>5 years</b>	<b>5 years</b>

H Plc expects a rate of return of 16% from its investment and charge.

You are required to:

- I) Calculate, in respect of projects A and B
  - a) Pay Back Period
  - b) Discounted pay back period
  - c) Net present Value
  - d) Internal rate of Return
  - e) Profitability Index
  
- II) Advice wish project should be accepted under each of the above methods.

Discounting factors are as follows.

Discounting rate	14%	16%	18%	20%
Year				
1	.877	.862	.847	.833
2	.769	.743	.718	.694
3	.675	.641	.609	.579
4	.592	.552	.516	.482
5	.519	.476	.437	.402
6	.456	.410	.370	.335

(15 marks)

