



127

2ND SEM. 2004/2005

PAGE 1 OF 3

UNIVERSITY OF SWAZILAND

FINAL EXAMINATION PAPER

PROGRAMME: BACHELOR OF SCIENCE IN AGRICULTURE
YEAR IV

AGRICULTURE (CP, HORT, APH, AND LWM
OPTIONS) YEAR IV

COURSE CODE: AEM 410

TITLE OF PAPER: FARM BUSINESS II

TIME ALLOWED: TWO AND A HALF (2½) HOURS

INSTRUCTION: 1. ANSWER ALL FOUR (4) QUESTIONS

2. ALL QUESTIONS CARRY EQUAL MARKS

**DO NOT OPEN THIS PAPER UNTIL PERMISSION HAS BEEN
GRANTED BY THE CHIEF INVIGILATOR**

128

QUESTION ONE

Three types of budgets were discussed in class. These were partial, enterprise and cash flow budgets. Compare and contrast these three budgets. Be sure to describe their differences/similarities and how you would use each budget to make management decisions. (25 marks)

QUESTION TWO

Below are summarised financial statements for Sun Ltd and Flower Ltd for the year ended 31st December 2003:

Profit and loss account the year ending 31 Dec 2003

	Sun Ltd E'000		Flower Ltd E'000
Sales	5,000		3,800
Cost of sales	3,950		2,600
Gross margin		1,050	1,200
Distribution costs	200		200
Administrative costs	300		550
		500	750
Net profit		<u>550</u>	<u>450</u>

Balance sheet as at 31 Dec 2003

Fixed assets			
Land and buildings		500	500
Plant		660	420
		<u>1,160</u>	<u>920</u>
Current assets			
Stocks	200		400
Debtors	750		1,600
Bank	50		-
	<u>1,000</u>		<u>2,000</u>
Current liabilities			
Trade creditors	160		400
Bank overdraft	-		20
	160		420
Net current assets		<u>840</u>	<u>1,580</u>
		<u>2,000</u>	<u>2,500</u>
Ordinary share capital			
		1,800	1,800
Profit and loss reserve		200	700
		<u>2,000</u>	<u>2,500</u>

129

- i) From the above financial statements, calculate two liquidity ratios and two solvency ratios you consider appropriate for assessing the financial position of Sun Ltd and of Flower Ltd as at 31st December 2003, and their performance during 2003 (12 marks)
- ii) Interpret and comment upon the results of your calculations in part (i) (6 marks)
- iii) Compare the performance of Sun Ltd and of Flower Ltd as at 31st December 2003. (3 marks)
- iv) Discuss briefly the limitations of ratio analysis. (4 marks)

QUESTION THREE

Compare and contrast budgeting and optimisation techniques in farm business planning. Discuss the significance of, and potential solutions to the main assumptions underpinning techniques such as programme planning and linear programming. (25 marks)

QUESTION FOUR

- (a) What is an enterprise budget? How is it different from partial budgeting?
(10 marks)
- (b) Assume maize is produced from a one hectare piece of land and the following costs and returns are involved.
- 3 bag of 50kg fertilizer at E59.50 a bag
 - 100 man-days of labour at E5.00 per man-day
 - Insecticides worth E100 and marketing costs of E100
 - 15 bags of 70kg maize are produced and sold at E45 a bag

The farmer wants to convert the hectare of maize to bean production, which will involve the following costs:

- 2 bags of 50kg fertilizer at E59.50 a bag
- 120 man-days of labour at E5.00 per man-day
- Fungicide worth E150
- Marketing costs worth E130
- Yield is estimated at 25 bags of 50kg and the selling price would be E120/bag

Using a partial budget determine whether the farmer should effect the change. (15 marks)