

**BINDURA UNIVERSITY OF SCIENCE EDUCATION**  
**FACULTY OF AGRICULTURE AND ENVIRONMENTAL SCIENCE**

AGM 103

**Department of Agricultural Economics, Education and Extension**  
**BSc Agricultural Science (Honours) Part II Examination**  
**FINANCIAL ANALYSIS AND MANAGEMENT IN AGRICULTURE**

**3 HOURS (100 Marks)**

**INSTRUCTIONS**

Answer any **FOUR** questions. Each question carries **25 marks**.

MAR 2023

1. Explain the following terms:
  - a) Vertical analysis [5 marks]
  - b) Valuation analysis [5 marks]
  - c) Variance analysis [5 marks]
  - d) Scenario and Sensitivity analysis [5 marks]
  - e) Profitability [5 marks]
2.
  - a) Explain the limitations of financial analysis. [10 marks]
  - b) Explain the generic framework for financial statement analysis. [15 marks]
3. Discuss the two basic financial analysis techniques. [25 marks]
4. Discuss the objectives of financial statement analysis. [25 marks]
5. Redbourne Ltd ('Redbourne') is a company which manufactures and sells plastic furniture. The directors have pursued a policy of rapid expansion since April 2011. A number of new products have been developed and market share has increased. Redbourne's accounting department is finalising its accounting statements for the year ended 31 March 2013. These statements will be presented to the forthcoming meeting of the board of directors where the financial results for the year will be assessed. When reviewing the accounts, the directors will study four target ratios identified in loan covenants given to Redbourne's bankers. The target ratios set out in the contractual arrangements between Redbourne and the bank are as follows:

Quick (liquidity ratio)	1.1:1
Current(working capital) ratio	1.5:1
Interest Cover	9.5 times
Gearing (debt: equity) ratio	0.5:1

The draft accounts are as follows

Income statement for the year ended 31 March	2013	2012
	US\$000	US\$000
Revenue	102 600	86 700
Cost of sales	-72 000	-60 750
Gross Profit	30 600	25 950
Distribution costs	-5 000	-3 200
Administration expenses	-10 360	-6 700
Finance Cost	-1 560	-1 350
Profit before tax	13 680	14 700
Taxation	-3 900	4 200
Profit for the period	9 780	10 500

Statement of financial position as at 31 March	2013	2012
	US\$000	US\$000
<b>Assets</b>		
Non-current assets		
Property, plant and equipment	77 790	53 640
Available-for-sale investments	18 600	16 200
<b>Total non-current assets</b>	<b>96 390</b>	<b>69 840</b>
<b>Current assets</b>		
Inventories	13 500	10 800
Trade receivables	12 900	15 600
Cash and cash equivalent	-	360
<b>Total current assets</b>	<b>26 400</b>	<b>26 760</b>
<b>Total assets</b>	<b>122 790</b>	<b>96 600</b>
<b>Equity and liabilities</b>		
Share capital(US\$1 ordinary shares)	30 000	30 000
Revaluation reserve	12 600	3 300
Other reserves	5 400	3 000
Retained earnings	22 380	12 600
<b>Total equity</b>	<b>70 380</b>	<b>48 900</b>
<b>Non-current liabilities</b>		
Loan repayable December 2014	16 200	15 600
Other loans	18 000	18 000

Total non-current liabilities	34 200	33 600
<b>Current liabilities</b>		
Trade and other payables	14 000	9 900
Bank overdraft	310	-
Taxation	3 900	4 200
Total current liabilities	18 210	14 100
<b>Total liabilities</b>	<b>52 410</b>	<b>47 700</b>
<b>Total equity and liabilities</b>	<b>122 790</b>	<b>96 600</b>

The following additional information is provided:

- ✓ The movement on the revaluation reserve relates to property, plant and equipment revalued on 1 January 2013.
- ✓ The increase in the other reserves arose from increases in the market value of the available-for-sale investments.
- a) Calculate the four ratios identified in the covenants given to the bank, and [10 marks]
- b) Calculate four other ratios that are relevant when assessing the financial performance. The ratios should be calculated to one decimal place. [15 marks]

6. With the aid of examples, explain how financial analysis is utilised in farm evaluation. [25 marks]

**End of Paper**