



MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

THIRD YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF SCIENCE (AGRIBUSINESS MANAGEMENT)

AGB 407: AGRIBUSINESS FINANCE AND CREDIT MANAGEMENT

DATE: 11/11/2020

TIME: 2:00 – 4:00 PM

INSTRUCTIONS:

Answer question one and any other two questions.

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Identify and explain **five** sources of finance available to a business (5 marks)
- b) State five disadvantages of debentures as a source of finance (5 marks)
- c) An employer offers to start a pension plan for your 40-year-old brother. The plan is to place Kshs.5,000 at the end of each year in an account that earns 5% annually. Your brother wants to know how much will be in the account by retirement age at 60 years. He has asked you to assist him in his dilemma. Calculate the amount that will be in the account at retirement. (5 marks)
- d) On 31 March 2017 your Father gave you a one hectare farm near River Thwake banks as a gift on your graduation day. You prepared and planted Onion which in total cost you Shs.750,000. The total expenses up to harvest time amounted to another Shs.1,250,000. If you expect to receive Sh.3,000,000 after selling the output four months later .
- i) What is your expected gross profit margin? (5 marks)
- ii) What is your net profit? (3 marks)

e) An investment has the following possible returns with associated probabilities

Possible returns	20%	18%	8%	0%	-6%
Probability	0.10	0.45	0.30	0.05	0.10

Required:

Calculate:

Standard deviation of the rate of return.

(7 marks)

QUESTION TWO (20 MARKS)

a) The following securities, Y and Z relates to Pema Ltd.

State of the Economy	Possibility of occurrence	Security Y	Security Z
P	0.2	10%	16%
Q	0.3	20%	18%
R	0.1	30%	15%
S	0.3	20%	20%
T	0.1	10%	21%

i) Calculate the expected return on each security. (6 marks)

ii) Calculate the standard deviation of the returns on security Y and Z (8 marks)

iii) Which security do you recommend for the company to invest in? Justify your choice. (2 marks)

b) Explain why a shilling today is more Valuable than a shilling five years from today (4 marks)

QUESTION THREE (20 MARKS)

- a) Explain the three risk preference behaviors among managers and investors. (8 marks)
- b) You have been looking at the shares of companies with an intention to invest in equity shares and you got attracted by the shares of Sasini. You bought Sasini shares on 31 March 2017 for Sh.50 per share. At the end of the year, you received a dividend of Sh.2.50. per share. Unsatisfied by this amount of dividend, you decided to sell the investment in Sasini shares for Sh.60 per share after one year and invest in the shares of Kakuzi.

Required:

- i) Calculate the Dividend yield (3 marks)
- ii) Calculate the capital Gain. (4 marks)
- iii) Calculate your Total Return from this investment. (5 marks)

QUESTION FOUR (20 MARKS)

- a) Explain the significance of Agricultural Finance in the agro-socio-economic development of a country like Kenya. (8marks)
- b) Identify and explain four financial requirements of the Kenyan Farmers. (4 marks)
- c) Investment in Agribusiness has a range of opportunities. Identify and explain four of such opportunities. (8 marks)

QUESTION FIVE (20 MARKS)

- a) List two items of cash flow for a farmer under each of the following two categories.
- i) Cash inflows
- ii) Cash outflows (2 marks)
- b) Expert Agribusiness Investors income and expenditure account for the year ended 31 December 2016 was as shown below:

Cash Inflow**Cash outflow**

Description	Month	Income	Description	Month	Expenditure
Sale of maize	January	270,000	Money spent on farm inputs(Maize)	March	300,000
	March	300,000		September	300,000
	September	300,000			
	October	100,000			
	November	100,000			
Sale of Green Grams	April	340,000	Money spent on farm inputs(Green Grams)	February	18,000
	August	120,000		May	19,000
Sale of Milk	March-September	420,000	Money spent on farm inputs(Livestock)	January	30,000
				February-September	400,000
				October-December	90,000
Sale of chicken	January	130,000	Brooding cost and Feeding(Chickens)	September	60,000
	September	60,000			
Sale of French Beans	July December	450,000 400,000	Money spent on inputs(Beans)	April	200,000
				May	50,000
				July	40,000
				October	180,000
				December	40,000
			Money to cover living expenses	January-December	120,000
			Money to cover School fees	February May September	200,000 140,000 100,000
			Money to cover health expenses	January-December	120,000
	Total	2,990,000		Total	2,407,000

The investors proposed to take a loan from a Microfinance Institution in May amounting to Shs.800,000 at 18% interest rate. The microfinance institution gave them a grace period of 2 months and the loan was to be repaid in 4 equal monthly installments.

Required

- i) Prepare a cash flow table for the cash inflows and outflows. (8 marks)
- ii) Prepare the monthly net cash flows (6 marks)
- iii) Prepare the Cumulative Cash flows (4 marks)