



MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF SCIENCE (AGRIBUSINESS MANAGEMENT)

AGB 306 FINANCIAL MANAGEMENT FOR AGRIBUSINESS

DATE: 12/8/2021

TIME: 8.30-10.30 AM

INSTRUCTIONS:

Answer question ONE and any other TWO questions

QUESTION ONE (COMPULSORY) (30MARKS)

- a) Giving examples discuss five sources of financing an agribusiness firm (5 marks)
- b) Explain the term annuity as used by financial analysts (5 marks)
- c) Briefly explain the following terms:
 - i. Cost of capital (4 marks)
 - ii. Capital budgeting (4 marks)
 - iii. Working capital (4 marks)
- d) Explain four reasons why money in the future is worth less than similar money today and in the past (8 marks)

QUESTION TWO (20 MARKS)

- a) Plum Agro Firm issues Ksh. 100,000, 8% debentures at par. The tax applicable to this company is 30%. You are required to compute the cost of debt for Plum (4 marks)
- b) Describe the various classes of cost of capital (16 marks)

QUESTION THREE (20 MARKS)

- a) Discuss the various methods of capital budgeting (6 marks)
- b) Discuss the benefits of working capital management for the business firm (14 marks)

QUESTION FOUR (20 MARKS)

Janet invested Ksh. 2000 at an annual interest of 10%. What is the amount after two years if compounding is done?

- a) Annually (5 marks)
- b) Semi-annually (5 marks)
- c) Monthly (5 marks)
- d) Daily (5 marks)

QUESTION FIVE (20MARKS)

The following information of cash flows is provided for three projects to be undertaken by ABC Ltd:

Year	Project 1	Project 2	Project3
1	Ksh. 50000	Ksh. 60000	Ksh. 35000
2	Ksh. 50000	Ksh. 70000	Ksh. 45000
3	Ksh. 50000	Ksh. 75000	Ksh. 85000
4	Ksh. 50000	Ksh. 45000	Ksh 50000
5	Ksh.50000	-	Ksh. 35000

You are required to calculate the payback periods using the above information given that each requires initial Ksh. 200000. Suggest the most profitable project.