



*(Knowledge for Development)*

**KIBABII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**  
**2020/2021 ACADEMIC YEAR**

**THIRD YEAR**  
**SPECIAL/SUPPLEMENTARY EXAMINATIONS**

**FOR THE DEGREE OF BACHELOR OF SCIENCE AGRICULTURE  
ECONOMICS AND RESOURCE MANAGEMENT**

**COURSE CODE:** AEC 314/IAE 288  
**COURSE TITLE:** AGRICULTURAL FINANCE

**DATE:** 13<sup>TH</sup> JANUARY 2022

**TIME:** 8 – 10 AM

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**INSTRUCTIONS TO CANDIDATES**

Answer Question ONE and any other TWO Questions.

TIME: 2 Hours

This paper consists of 3 printed pages. Please Turn Over



KIBU observes ZERO tolerance to examination cheating

### QUESTION ONE (30mks)

A company has to choose one of the following two mutually exclusive projects. Both the projects will be depreciated on a straight-line basis. The firm's cost of capital is 10 per cent and the tax rate is 35 per cent. The before-tax cash flows are given below: Which project should the firm accept using the net present value criteria:

	C <sub>0</sub>	C <sub>1</sub>	C <sub>2</sub>	C <sub>3</sub>	C <sub>4</sub>	C <sub>5</sub>
X	-20,000	4200	4800	7000	8000	2000
Y	-15,000	4200	4500	4000	5000	1000

### QUESTION TWO (20mks)

- Discuss five reasons why agricultural organizations need to give investment decisions special attention (10mks)
- Outline six characteristics that should be possessed by a sound investment evaluation criterion (6mks)
- It is said that the merits of both profitability index and internal rate of return recognizes the time value of money. Is this statement true or false? Explain (4mks)

### QUESTION THREE (20 marks)

- Define the term working capital (2mks)
- What are the sources of working capital (10 mks)
- Outline Uses of working capital(8mks)

#### **QUESTION FOUR (20 marks)**

- a) Explain the term Strategy (5 mks)
- b) State four main components of strategy (4mks)
- c) The market growth-market share model popularized by the Boston Consulting Group (BCG), groups businesses based on market growth rates and relative market shares. Describe the characteristics of the four business portfolios conceptualized in this model and outline the appropriate strategies that will enhance the satisfaction of the stakeholders (11mks)

#### **QUESTION FIVE (20 Marks)**

- a) Assume you have graduated and working with an international flower growing firm which expects to receive or make payment in foreign currency. Explain what is meant by the term Foreign exchange risk(5mks)-
- b) Explain your understanding of the following terms with respect to international financial management (15mks)
  - i) Transaction exposure.
  - ii) Translation exposure
  - iii) Economic exposure