



(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS 2020/2021 ACADEMIC YEAR

SECOND YEAR 2ND SEMESTER SPECIAL/SUPPLEMENTARY EXAMINATION

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

COURSE CODE: AEC 228/IAE 289
COURSE TITLE: FARM BUSINESS MANAGEMENT
1(PRINCIPLES)

DATE: 19TH JANUARY 2022

TIME: 2 – 4 PM

INSTRUCTIONS TO CANDIDATES

Answer Question ONE and any other TWO Questions.

TIME: 2 Hours

This paper consists of 2 printed pages. Please Turn Over



KIBU observes ZERO tolerance to examination cheating

1. a) Distinguish between the following terminologies used in farm management:
 - i) Break-even budget and cash flow budget (2 marks)
 - ii) Net farm income and gross margin (2 marks)
 - iii) Marginal rate of technical substitution (MRTS) and marginal rate of product substitution (2 marks)
 - iv) Compounding and discounting (2 marks)

- b) What are the shortcomings of using simplex method as a planning tool? (4 marks)

- (c) Describe the managerial function of planning (4 marks)
- (d) Outline the procedure followed in preparing complete budget for the farm. (6 marks)
- (e) Outline the main sources of risks in farm business. (4 marks)
- (f) Cite five reasons to refute the statement “ Farm planning is an exercise in vain” (4 marks)

2. (a) Explain the standard assumptions of linear programming models (5 marks)
- (b) Discuss the factors that affect farmers’ managerial abilities (15 marks)

3. The information below was obtained from a 5 acre farm with 2 acres under maize, 1.4 acres wheat, 1 acre beans and 0.6 acres dairy.

Enterprise	Gross output Kes/Acre	Variable costs/Acre Kes
Maize	10,000	7,000
Wheat	15,000	7,000
Beans	5000	3,000
Dairy	25,000	12,000

- (a) Calculate the gross margin per acre for each enterprise. (12 marks)
- (b) Compute the whole farm gross margin (2 marks)
- (c) Explain how farmers can use gross margin analysis to make rational decisions. (6 marks)

4. As a dairy section manager, you wish to raise the mean annual milk yield of each cow from 2,460 litres to 3,000 litres. The present feeding system is based on natural grazing with bought concentrate feeds. You believe that by supplementing this with high quality maize silage, average annual yield will rise to 3,000 litres.

You have been given the following information:

- i) Herd size 75 cows
- ii) Mean annual yield: 2,460 per cow
- iii) Milk price Kes 35 per litre basic (8% SNF)
- iv) Quality premium Kes 0.306/litre for each percent rise in SNF over 8%.
- v) Present solids-not-fat: 8.5%
- vi) Expected solids-not-fat with silage: 10.5%
- vii) Silage needed: 18kg/cow/day for 301 days each year
- viii) Silage yield: 16.8 tonnes per ha
- ix) Silage variable costs: Kes 17,340/ha
- x) Concentrates fed 5.4kg/cow/day at Kes 10,506 per tonne
- xi) Labour needed to feed silage: 2 workers at Kes 35,496
- xii) Dairy Manager's salary Kes 255,000 p.a
- xiii) Crop manager's salary Kes 318,750 p.a
- xiv) New capital equipment needed

Item	Capital cost (Kes)	Straight line depreciation (Kes) p.a.	Annual repairs and maintenance (Kes)
Forage chopper	459,000	3,060	43,860
Trailer	204,000	1,530	20,400
Silo	63,750	510	

Based on the above information, determine whether it is financially feasible to

Introduce maize silage into the daily ration.

(20 marks)