(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS 2022/2023 ACADEMIC YEAR

THIRD YEAR 1ST SEMESTER MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF SCIENCE INAGRICULTURAL ECONOMICS & RESOURCE MANAGEMENT

COURSE CODE: AEC 314
COURSE TITLE: AGRICULTURAL FINANCE

DATE: 22ND DECEMBER 2022   **TIME:** 9 – 11AM

INSTRUCTIONS TO CANDIDATES

Answer Question ONE and any other TWO Questions

TIME: 2 Hours

This paper consists of 4 printed pages. Please Turn Over ▶

KIBU observes ZERO tolerance to examination cheating

Q1.

    a) Explain any three economic principles of financial resource management in the farm.

                                                                     (6 marks)

    b) Explain the roles of a financial manager.   **(10 marks)**

    c) Explain the constraints in agricultural credit procurement in Kenya   **(10 marks)**

    d) Differentiate between formal and informal financial intermediaries in Kenya **(4 Marks)**

Q2.

    a) Discuss how farmers can overcome or prevent the risks and uncertainties that confront them.

                                                                       (10 marks)

    b) Given that Unga Feeds Company is willing to issue dairy feeds on credit worth Ksh. 40,000, and give a credit condition of 2/10, n-30 days. How much will the manager pay in case he makes payment;-

                        i) Within 10 days?   **(4 Marks)**

                        ii) After three months ?   **(6 marks)**

Q3.

A manager of Molo farm expressed the following scenario for his investment in two hectare farm.

His forecast	Maize enterprise		Wheat enterprise	
Economic conditions	Profit level	probability	Profit level	probability
Best(optimistic)	15,000	30%	20,000	10%
Most likely(average condition)	12,000	40%	15,000	60%
Worst(pessimistic)	9,000	30%	10,000	30%

Additional information

The three forecasts (best, most likely and worst) relate to weather and national economic conditions. Under good conditions the manager is optimistic. Under normal conditions, most likely results, and in worst or poor conditions the manager is pessimistic.

Required

a) Use coefficient of variation to advise the manager on the level of risk involved in each enterprise.   **(10 marks)**

b) Does the value of coefficient of variation and the choice of a given enterprise reflect the manager's levels of risk aversion? Discuss.   **(10 marks)**

Q4.

The following information was obtained from the books of Sosian Farm, a medium sized farm for the year ending 31st December, 2014.

Item	Amount (Ksh)
Capital 1.1. 2008	500,000
Net profit for 2008	150,300
Drawings during 2008	72,000
AFC loan	150, 000
ICDC Loan	100,000
Farm Creditors	78,400
Bank overdraft	22, 300
Premises	300,000
Debtors	139,000
Machinery	280,000
Stock	115,400
Motor vehicles	48,000
Cash in hand	11,000
Furniture and fittings	16,500

Required:

Prepare a balance sheet for Sosian Farm as at 31st December, 2014   **(20 marks)**

Q5.

a) Farm management is the decision making process whereby limited resources are allocated to a number of production alternatives to organize and operate the business in such a way as to attain some objectives. Discuss some of the goals of a farm financial manager.

(10 marks)

b) The following information relates to Sunrise Flower Farm in Kenya for the period ending 31st December, 2009: Fixed Assets=2,400,000, Current and Intermediate Assets= 2,000,000, Current Liabilities=400,000, Total Liabilities=2,000,000, Equity Capital=1,200,000, Net Profit after Tax=1,000,000, Net Profit before Tax=1,200,000, Sales=4,000,000, Gross Revenue=6,000,000 and Cost of Goods Sold=4,500,000

Required

Compute the following ratios, interpret the results to advise Sunrise flower Farm on what to do.

i)	Gross Margin Ratio (GMR)	**(2 marks)**
ii)	Net Profit Ratio (NPR)	**(2 marks)**
iii)	Debt Structure (DS)	**(2 marks)**
iv)	Return on Assets Ratio (ROA)	**(2marks)**
v)	Equity to Asset Ratio (EAR)	**(2 marks)**