

**UNIVERSITY OF KABIANGA**

**UNIVERSITY EXAMINATIONS**

**2015/2016 ACADEMIC YEAR**

**THIRD YEAR FIRST SEMESTER EXAMINATIONS**

**FOR THE DEGREE OF BACHELOR OF SCIENCE IN AGRICULTURAL ECONOMICS AND RESOURCE MANAGEMENT**

**COURSE CODE: ARE 340**

**COURSE TITLE: AGRICULTURAL FINANCE**

**TIME: 3 HOURS**

**INSTRUCTIONS TO CANDIDATES:**

Answer Any **FIVE** Questions.

**Question One**

1. Explain the following areas of concern to a financial manager;
2. Capital budgeting. (4 marks)
3. Capital structure. (4 marks)
4. Working capital management. (4 marks)
5. Assuming that finance is available the decision to invest is based on three major factors. Identify and briefly explain these factors. (8 marks)

**Question Two**

1. Discuss the following traditional methods of capital budgeting clearly stating their decision criteria, advantages and disadvantages.
2. Payback Period. (10 marks)
3. Return on capital employed (R.O.C.E) (10 marks)

**Question Three**

1. State four basic assumptions of a discounted cash flow project appraisal. (4 marks)
2. Discounted Cash Flow (DCF) techniques use cash flows rather than profit and take account of time value of money. Explain why these are preferred for investment appraisal. (4 marks)
3. State the advantages and disadvantages of the Net Present Value (NPV) method of investment appraisal. (12 marks)

**Question Four**

1. State the significance of agricultural finance. (10 marks)
2. Explain the roles of credit in agricultural development. (10 marks)

**Question five**

1. Identify the three organizational areas within which business plans for firms occur. (3 marks)
2. Explain briefly the major consideration in designing an acceptable financing programme. (5 marks)
3. The financial feasibility analysis of Mr. Limo’s firm credit worthiness indicates that credit is not sufficient to finance the projected demand for cash and hence the plan is deemed financially infeasible. Suggest various alternatives or options that Mr. Limo may consider to achieve feasibility. (12 marks)

**Question Six**

Sigotik holdings limited is considering a new product line to supplement its range of products. It is anticipated that the new product line will involve cash investment of Kshs. 700,000 at time 0 and Kshs. 1,000,000 in year 1. After tax inflows of Kshs. 250,000 are expected in year 2, Kshs. 300,000 in year 3, Kshs. 350,000 in year 4 and Kshs. 400,000 each year thereafter through year 10, while the product line might be viable after year 10, the company prefers to be conservative in all calculations at the time required.

1. What is the project’s Payback Period? (4 marks)
2. If the required rate of return is 15%, what is the Net Present Value (NPV) of the project? Is it acceptable? (10 marks)
3. What would be case if the required rate of return is 10%. (6 marks)

**Question Seven**

1. Agricultural finance can be dealt with at both the macro and micro levels. Explain. (5 marks)
2. Describe three main types of decisions financial managers are involved in. (15 marks)