



MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

THIRD YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

AGB 306: FINANCIAL MANAGEMENT FOR AGRIBUSINESS

DATE: 19/01/2021

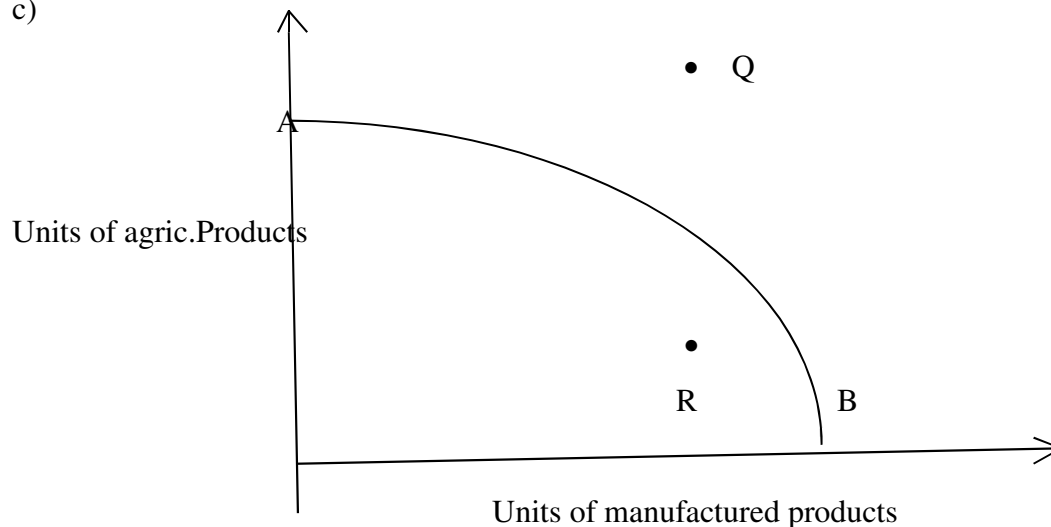
TIME: 11.00-1.00 PM

INSTRUCTIONS:

Answer question one and any other two questions.

QUESTION ONE (30 MARKS)

- What would be the implication if factors of production were abundant in the society.
- Explain the meaning of production possibility curve.
-



The above is a graph showing the possibility production curve(PPC), AB, of a certain country where it produces two products, agricultural and manufactured with a budget of one hundred billion shillings in a given financial year.

1. Explain the basic assumptions of such a curve (PPC).
 2. Explain the implication of moving downwards from A to B.
 3. Explain the meaning of points on the Curve AB.
 4. What is the implication of points Q and R?.
 5. Determine the opportunity cost in this scenario.
 6. If the country is using all its resources in the production of manufactured products , and now decides to start producing agricultural products, comment on the opportunity cost of the first few units of agriculture.
- c) Identify the risks involved in foreign exchange trading and suggest ways of hedging them.
- d) Identify agricultural credit institutions in Kenya.

QUESTION TWO (20 MARKS)

- a) Calculate the Internal Rate of Return(IRR) of a project whose initial cost is shs. 450 million and is expected to generate cashflows amounting to shs 70 million p.a over its 10 years of useful life.
- b) Mjengo Limited intends to invest in either machine KX40 or KY50. Each of these machines costs shs.200,000 and have an estimated economic life of 10 years and no scrap value. The net returns after tax but before depreciation for the two machines are as follows:

Year	KX40 Shs.	KY50 Shs.
1	40,000	60,000
2	50,000	40,000
3	30,000	50,000
4	10,000	30,000
5	20,000	20,000
6	30,000	18,000
7	15,000	14,000
8	10,000	8,000
9	5,000	3,000
10	30,000	30,000

Calculate the Accounting Rate of Return for each of the machines and advise the management on the machine to purchase.

QUESTION THREE (20 MARKS)

- a) Explain the determinants of capital structure of a firm.
- b) On 1st January 2012, the capital Structure of Exports Company ltd was as follows:

	Shs.
Ordinary share capital (sh.1 each)	500,000
Reserves	200,000
8% Preference Share Capital	100,000
10% Debentures	<u>200,000</u>
Total Capital Employed	<u>1,000,000</u>

Corporation tax rate is 30%. The Ordinary shareholders require 12% return on Equity.

REQUIRED:

Calculate the Company's Weighted Average Cost of Capital (WACC).

QUESTION FOUR (20 Marks)

The management of Dawamu ltd is evaluating 5 investment projects whose expected cash flows are shown below:

	1/1/2006	31/12/2006	31/12/2007	31/12/2008
Project	Shs (000)	shs(000)	shs(000)	shs(000)
A	(60,000)	30,000	25,000	25,000
B	(30,000)	(20,000)	25,000	45,000
C	(40,000)	(50,000)	60,000	70,000
D	0	(80,000)	45,000	55,000
E	(50,000)	10,000	30,000	40,000

Additional information

- 1. None of the 5 projects can be delayed or brought forward.
- 2. All the projects are divisible
- 3. the required rate of return is 15%.

Required:

Using the NPV approach determine which projects should be undertaken.20mks.

QUESTION FIVE (20 MARKS)

- a) Explain the determinants of the concept of time Value of Money.
- b) Explain the characteristics of a good method of appraising projects.
- c) Explain the importance of capital Budgeting.
- d) Distinguish between marginal cost of capital and weighted average cost of capital.