



MACHAKOS UNIVERSITY

University Examinations 2021/2022 Academic Year

SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM

MANAGEMENT

DEPARTMENT OF BUSINESS ADMINISTRATION AND FINANCE

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF SCIENCE (AGRIBUSINESS MANAGEMENT AND TRADE)

AGB 407: AGRIBUSINESS FINANCE AND CREDIT MANAGEMENT

DATE: 26/8/2022

TIME: 8.30-10.30 AM

INSTRUCTIONS

- Answer question **ONE (Compulsory)** and any other **TWO** Questions

QUESTION ONE (30 MARKS)

- a) Identify and explain **five** sources of finance available to a business (5 marks)
- b) State five advantages of debentures as a source of finance (5 marks)
- c) An employer offers to start a pension plan for your 40-year-old brother. The plan is to place Kshs.5,000 at the end of each year in an account that earns 5% annually. Your brother wants to know how much will be in the account by retirement age at 60 years. He has asked you to assist him in his dilemma. Calculate the amount that will be in the account at retirement. (5 marks)
- d) On 31 March 2017 your Father gave you a one hectare farm near River Thwake banks as a gift on your graduation day. You prepared and planted Onion which in total cost you Shs.750,000. The total expenses up to harvest time amounted to another Shs.1,250,000. If you expect to receive Sh.3,000,000 after selling the output four months later. What is your expected gross profit margin? (5 marks)
What is your net profit? (3 marks)
- e) An investment has the following possible returns with associated probabilities:

Possible returns	20%	18%	8%	0%	-6%
Probability	0.10	0.45	0.30	0.05	0.10

Required:

Calculate:

Standard deviation of the rate of return.

(7 marks)

QUESTION TWO (20 MARKS)

a) The following securities, Y and Z relates to Pema Ltd.

State of the Economy	Possibility of occurrence	Security Y	Security Z
P	0.2	10%	16%
Q	0.3	20%	18%
R	0.1	30%	15%
S	0.3	20%	20%
T	0.1	10%	21%

- i. Calculate the expected return on each security. (6 marks)
 - ii. Calculate the standard deviation of the returns on security Y and Z (8 marks)
 - iii. Which security do you recommend for the company to invest in? Justify your choice. (2 marks)
- b) Explain why a shilling today is more Valuable than a shilling five years from today (4 marks)

QUESTION THREE (20 MARKS)

- a) Explain the three risk preference behaviors among managers and investors. (8 marks)
- b) You have been looking at the shares of companies with an intention to invest in equity shares and you got attracted by the shares of Sasini. You bought Sasini shares on 31 March 2017 for Sh.50 per share . At the end of the year, you received a dividend of Sh.2.50. per share. Unsatisfied by this amount of dividend, you decided sell the investment in Sasini at share for Sh.60 per share after one year and invest in the shares of Kakuzi.

Required:

- i. Calculate the Dividend yield (3 marks)
- ii. Calculate the capital Gain. (4 marks)

- iii. Calculate your Total Return from this investment. (5 marks)

QUESTION FOUR (20 MARKS)

- a) Explain the significance of Agricultural Finance in the agro-socio-economic development of a country like Kenya. (8 marks)
- b) Identify and explain four financial requirements of the Kenyan Farmers. (4 marks)
- c) Investment in Agribusiness has a range of opportunities. Identify and explain four of such opportunities. (8 marks)

QUESTION FIVE (20 MARKS)

- a) List FOUR items of cash flow for a farmer under each of the following two categories.
- i. Cash inflows
 - ii. Cash outflows (4 marks)
- b) What is meant by “term structure of interest rates”? (4 marks)
- c) With the aid of a well labelled diagram, explain the terms:
- i. Normal Yield Curve
 - ii. Flat Yield Curve
 - iii. Inverted Yield Curve (6 marks)
- d) Clearly explain three theories of interest rates. (6 marks)