



**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF AGRICULTURAL AND FOOD SCIENCES
UNIVERSITY EXAMINATION FOR DEGREE OF BACHELOR OF SCIENCE IN
AGRIBUSINESS MANAGEMENT**

SECOND YEAR SECOND SEMESTER 2013/2014 ACADEMIC YEAR

REGULAR

COURSE CODE: AAE 3223

COURSE TITLE: Agricultural Finance

EXAM VENUE:LR 2

STREAM: BSc (Agribusiness Management)

DATE:11/12/14

EXAM SESSION: 9.00 -11.00 AM

TIME: 2.00 HOURS

Instructions:

- 1. Answer ALL questions in Section A (compulsory) and ANY TWO questions in Section B.**
- 2. Candidates are advised not to write on the question paper.**
- 3. Candidates must hand in their answer booklets to the invigilator while in the examination room.**

SECTION A **[30 MARKS]**

1. Credit is the “temporary transfer of asset from one who has to another who does not and is provided for certain purpose on certain conditions with some interest, which can be repaid sooner (or) later.
- (a) Explain the credit needs in agriculture in Kenya today. [4 marks]
- (b) Differentiate between the following terms;
- i. Collateral security and Mortgage. [2 marks]
 - ii. Straight-end and Amortized Repayment Plans. [2 marks]
 - iii. Informal and formal sources of finance. [2 marks]
2. Classification of credit based on time gives rise to three different types of loans.
- (a) Identify the three types of loans. [3 marks]
- (b) For each type of loan identified in (a) above, briefly explain its characteristics in terms of repayment period and purpose. [7 marks]
3. (a) Briefly explain the following terms:
- i. Risk- bearing ability. [1 marks]
 - ii. Repayment Capacity. [1 marks]
 - iii. Returns from an Investment. [1 marks]

(b) Brookside Company is considering an investment in a beef enterprise with the following cash flows:

Year	Investment (Shs)	Cash Inflow (Shs)
1	38,000	2,000
2	6,000	4,000
3		8,000
4		9,000
5		12,000
6		10,000
7		8,000
8		6,000
9		5,000

- i. Determine the pay-back period for the investment. [5 marks]
- ii. Would the payback period be affected if the cash inflow in 8th year was Shs18,000? [2 marks]

SECTION B **[40 MARKS]**

4. (a) A farmer has 10 acres of land on which he grows 2 acres of maize and beans (maize in first rains and beans in the 2nd rains), 2 acres of potatoes and keeps 2 milking cows on 6 acres. He has now established that 4 acres are adequate for his two cows and he wishes to use the 2 acres remaining for growing potatoes. Potatoes will require 70 man-days of labour per acre which is available on casual basis at a wage rate of Shs. 25 per Man-Day. In addition 2 bags of fertilizer per acre at the cost of 850 per bag will be necessary. Seed costs for potatoes will be 600 per acre. No change in fixed costs is expected. Potatoes are expected to yield 60 bags per acre selling at Shs. 200 per bag. Double cropping is the normal practice for potatoes in this area. Prepare a partial budget and advise the farmer on the viability of the proposed change. [12 marks]
- (b) The basis for identifying and choosing viable agricultural investment will depend on the type of enterprise to be established and the motive of establishing it. Evaluate some of the factors that should be considered in choosing a viable agricultural investment. [8 marks]
5. (a) The following information relates to Kunguru Farm in Kenya for the period ending 31st December, 2010: Total expenses = 21602, Fixed expenses = 9764, total operating expenses = 11888, Gross income = 38711, Fixed Assets = 2,400, Current and Intermediate Assets = 2,000, Current Liabilities = 400, Total Liabilities = 2,000. Compute the following ratios and interpret the results to advise Kunguru Farm on what to do:
- i. Operating ratio. [3 marks]
 - ii. Fixed ratio. [3 marks]
 - iii. Gross ratio. [3 marks]
- (b) Explain some of the challenges faced by small scale farmers in accessing agricultural finances in Kenya. [11 marks]
6. (a) Mr. Watson recently secured agricultural loan from Agricultural Finance Corporation for production of wheat. Follow up done by the bank officials revealed that he had used part of the first disbursed loan on his beef enterprise that was almost collapsing which prompted the bank to release the remaining money in phases. Following the bumper harvest, Mr. Watson sold all the produce and decided to use all the revenues in resuscitating his collapsing beef enterprise instead of paying back the loan as agreed earlier.
- i. Identify the principles of credit applied in the scenario above. [2 marks]
 - ii. For the principle identified in (a) above, assess how it has been violated. [6 marks]
- (b) Assess how the repayment capacity of Kenyan farmers can be strengthened. [5 marks]
- (c) Differentiate between risk and uncertainty. [2 marks]
- (d) Explain some of the risks embedded in agricultural production. [5 marks]