



UNIVERSITY OF SWAZILAND

FINAL EXAMINATION PAPER

**PROGRAMME: BACHELOR OF SCIENCE IN AGRICULTURAL
ECONOMICS AND AGRIBUSINESS
MANAGEMENT YEAR IV**

COURSE CODE: AEM 407

TITLE OF PAPER: AGRICULTURAL FINANCE

TIME ALLOWED: TWO (2 HOURS)

**INSTRUCTION: ANSWER QUESTION 1 AND ANY TWO OTHER
QUESTIONS**

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GRANTED BY THE CHIEF INVIGILATOR**

QUESTION ONE

Assume that you have been asked by the Government of Swaziland to provide advise on the expansion of Beef Production in the country. You are presented with the following information relating to the project.

Profit and loss account for the year ended to 31 March 2006 and 31 March 2007.

	2006 E'000	2007 E'000
Sales [credit] less cost of goods sold	15,000	20,000
Opening stock	1,200	1,500
Purchases [all credit]	7,800	18,700
	9,000	20,200
Less: closing stock	1,500	7,200
	7,500	13,000
Gross profit	7,500	7,000
Less expenses	6,000	6,900
	1,500	100
Taxation	450	20
	1,050	80
Dividends	800	-
Retained profit for the year	250	80

Balance sheet as at 31 March 2006 and 31 March 2007

	2006 E'000	2007 E'000
Fixed assets at cost	5,000	5,500
Less: accumulated depreciation	1,500	1,820
	3,500	3,680
Current assets		
Stock at cost	1,500	7,200
Trade debtors	4,500	9,000
Cash at bank	500	50
	6,500	16,250
Current liabilities		
Trade creditors	2,500	8,500
Taxation	450	20
Proposed dividend	800	-
Bank overdraft	-	3,080
	3,750	11,600
	6,250	8,330
Capital and reserves	5000	5000
Ordinary shares E1 each	1,250	1,330

Profit and loss account	6,250	6,330
Long term loans -15%	-	6,250
Debenture stock	6,250	8,330

(a) Calculate the following financial ratios and explain in details the formula adopted in the preparation of each ratio: [15 MARKS]

- (i) Gross profit margin
- (ii) Acid Test
- (iii) Trade Debtor's collection period
- (iv) Trade Creditor payment period
- (v) Gearing Ratio

(b) From the information given, outline clearly five possible reasons why the government has an overdraw bank account as at 31st March 2007. [15 MARKS]

(c) What are the advantages of cash flow statement? [10 MARKS]

QUESTION TWO

(a) Most investment decisions involve a large element of uncertainty about the future and they are taken in the expectation of returns that might not materialize fully or that might result in losses. The investment dilemma is how to maximize returns from investments at the same time minimise risk. To achieve this, the first step that most investors take is to reduce risk by holding a diversified portfolio. Explain what this means to you and its advantages to the investor. [10 MARKS]

(b) Define the following [10 MARKS]

- i. Market Risk
- ii. Credit Risk
- iii. Liquidity Risk
- iv. Assets
- v. Active Market

(c) The basic understanding of Agricultural Finance Management entails planning for the future for a business enterprise to ensure a positive cash flow, which this process involves the identification and managing of risks. Explain this statement in details as it relates to Agricultural Finance Management. [10 MARKS]

QUESTION THREE

(a) Many major agricultural businesses have humble beginnings; describe the main types of businesses that prevail in the agricultural industry. [15 MARKS]

(b) Discuss in details the effect of agricultural and rural credit policies on the production of cash crops in Swaziland [15 MARKS]

QUESTION FOUR

In the lowveld of Swaziland there is a company that owns a piece of land with buildings. This company has leased out this property to a well known association of sugar cane farmers under an operating lease.

- (a) Discuss fully whether the directors of the company shall account for land and buildings as an investment property [10 MARKS]
- (b) Define the following: [15 MARKS]
 - i. Operating lease
 - ii. Finance lease
 - iii. Finance charge
 - iv. Hire purchase
 - v. Owner occupied
- (c) Discuss the main role played managers in an agricultural business as it relates to financial management [5 MARKS]