



UNIVERSITY OF SWAZILAND

SUPPLEMENTARY EXAMINATION PAPER

PROGAMME: BACHELOR OF SCIENCE IN AGRICULTURAL
ECONOMICS AND AGRIBUSINESS
MANAGEMENT YEARS III & IV

COURSE CODE: AEM 308/407

TITLE OF PAPER: AGRICULTURAL FINANCE

TIME ALLOWED: TWO (2) HOURS

INSTRUCTION: ANSWER ANY FOUR (4) QUESTIONS

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INVIGILATOR**

Question 1

The general principle is that potential return rises with an increase in risk. Low levels of uncertainty (low risk) are associated with low potential returns, whereas high levels of uncertainty (high risk) are associated with high potential returns. According to the risk-return trade off, invested money can render higher profits only if it is subject to the possibility of being lost. It is important to be able to measure risk and its impact, and take decisions on the level of risk that can be tolerated.

- (a) Discuss the various sources of risk in agribusiness management **(10 marks)**
- (b) Defining and using the concept of covariance and correlation, explain how diversification of ones' investment portfolio of activities reduces risk **(10 marks)**
- (c) Using examples, define diversifiable and non-diversifiable risk **(5 marks)**

Question 2

- (a) The relationship between financial management and other functional areas and the environment is important. Describe the other functional areas of organizations and how they relate to the financial management function **(15 marks)**
- (b) Discuss the objectives of financial analysis **(10 marks)**

Question 3**Benguni Poultry Producers****Balance Sheet as at December 2011**

Cash	E77,500	Accounts payable	E129,000
Receivables	336,000	Notes payable	84,000
Inventories	241,500	Other current liabilities	117,000
Total Current Assets	655,000	Total current liabilities	330,000
Net fixed assets	292,500	Long term debt	256,500
		Common equity	361,000
Total Assets	947,500	Total liabilities	947,500

Benguni Poultry Producers**Income Statement as at December 2011**

	2011
Sales	E1,607,500
Cost of Goods	(1,353,000)
Gross profit	254,500
Fixed operating expenses	(143,000)
Depreciation	(41,500)
Earnings before interest and tax	70,000
Interest	(24,500)
Earnings before tax	45,000
Taxes (40%)	(18,200)
Net Income	27,300

(a) Calculate the following ratios for Benguni Poultry Producers (15 marks)

(i) Current ratio

(ii) Inventory turnover ratio

(iii) Total assets turnover ratio

(iv) Debt ratio

(v) Net Profit margin on sales ratio

(b) Calculate the break even sales at a desired profit margin of 15% (fifteen percent) (5 marks)

(c) What is the current mark up rate? (5 marks)

Question 4

(a) Describe the main types of agribusiness industries in Swaziland in relation to the bottlenecks faced by each industry and opportunities for success (15 marks)

(b) Discuss the considerations that farmers need to take into account when choosing a bank for their farming activities in Swaziland. (10 marks)

Question 5

(a) Explain what the following statement means "a dollar in the hand today is worth more than a dollar to be received next year" (5 marks)

(b) Define compounding and discounting processes (5 marks)

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- (c) Assuming that you are given a future value, write an equation that can be used to determine the present value. **(5 marks)**
- (d) An amortized loan is a loan that requires equal payment over its life. The repayments include both interest and repayment of the debt. How is the periodic instalment determined and apportioned to principal debt repayments and interest payments? **(10 marks)**