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FEDERAL UNIVERSITY OF TECHNOLOGY
SCHOOL OF AGRICULTURE AND AGRICULTURAL TECHNOLOGY
DEPARTMENT OF AGRICULTURAL ECONOMICS
2018/2019 HARMATTAN SEMESTER EXAMINATION

AEC 405: AGRICULTURAL FINANCE

TIME: 3 HRS

INSTRUCTION: Answer 4 question, at least, 1 question from each section

SECTION A

1(a) Distinguish between agricultural finance and agricultural credit.

(b) Below are the data for the Balance sheet and Income statement of Mazi Uchendu Farms Ohaji- Imo State, Nigeria.

Balance Sheet of Mazi Uchendu Poultry Farm, Ohaji Imo State Nigeria as at 31st December, 2018

ASSETS		LIABILITIES	
<u>Current Assets</u>	N	<u>Current Liabilities</u>	N
Cash in Bank	52,500	A/Cs Payable	25,500
A/Cs Receivables	112,500	Taxes due	15,000
Stored feeds	22,500	Short term Bank loan	37,500
Stored Eggs	75,000	Feed Purchases	37,500
<i>Total current assets</i>		<i>Total C L =</i>	<u>115,500</u>
<u>Fixed Assets</u>		<u>Long Term Liabilities</u>	
Automated cages	22,500	Mortgage	435,000
Land	750,000	Long term bank loan	300,000
Buildings	262,500	Networth Capital Stock	450,000
Vehicles	235,000	Retained Earnings	480,000
TOTAL ASSETS =	N1,785,000	TOTAL LIABILITIES & NETWORTH =	N1,785,000

Income Statement of Mazi Uchendu Poultry Farm, Ohaji, Imo State- Nigeria, 1st Jan-31st Dec 2018

Sales		Expenses	
	N		N
Eggs	337,500	Hired Labour	37,500
Culled Birds	75,000	Taxes	15,000
Dressed Birds	375,000	Cost of Goods Sold	300,000
Day Old Chicks	187,500	Feed Purchased	187,500
TOTAL	N 975,000	Veterinary Charges	30,000
		Fuel & Electricity	22,500
		Depreciation	75,000
		Interest expense	64,875
		Others	75,000
		TOTAL	N 807,375

From the above financial statement, analyze them by calculating the following ratios:

- i. Liquidity ratios
- ii. Leverage ratios
- iii. Efficiency ratios

$\frac{262,500}{115,500}$

$= \frac{16,762,500 + 64,875}{232,500} = 72.11$

$\frac{165,000}{1,039,875}$

$\frac{1,039,875}{1,785,000}$

QOT B

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- 2(a) Explain the meaning of the following terms: (i) Book Value (ii) Salvage Value
 (iii) Networth (iv) Useful Life (v) Depreciation
- (b) Itemize and discuss each of the 5 major methods of valuation of farm assets usually used in agricultural financing.

SECTION B

3. a) A farmer borrowed ₦12,000 at 5% add on interest. Use the Add on interest to estimate the nominal interest rate if the loan is repaid in 36 monthly installments, 24 monthly installments and 12 monthly installments.
 b) Use an example to define and compare simple interest and discount interest.
 c) What are the reasons for variations in interest rate.
4. a) As the Desk Officer of Agricultural Loans in Central Bank of Nigeria, discuss the loan procedure of the bank.
 b) Banks are yet to impact significantly on agricultural development in Africa. Discuss.
 c) Define the acronym "LITE" and state what are the objectives.

SECTION C

5. a) Discuss the various methods of classifying agricultural credit.
 b) List the steps involved in capital budgeting process?
 c) Write brief notes on the 5C's of credit.
6. a) What is internal rate of return (IRR).
 b) In capital budgeting process, why is cash flow discounted?
 c) Consider two investment proposals A and B, with initial cost outlay of ₦80,000 respectively.

Year	2019	2020	2021	2022	2023	2024	2025	2026	2027
Net Cash flow of Project "A" (₦)	25,000	30,000	30,000	32,000	35,000	38,000	35,000	30,000	20,000
Net Cash flow of Project "B" (₦)	15,000	15,000	30,000	25,000	40,000	70,000	80,000	85,000	60,000

- i) Calculate their respective Net Present Worth if the discount rate is 18.4%.
 ii) Which of these projects is more feasible? Give reasons for your answer.

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