



*(Knowledge for Development)*

# **KIBABII UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2017/2018 ACADEMIC YEAR**

**THIRD AND SECOND YEAR**

**MAIN EXAMINATION**

**FOR THE DEGREES OF BACHELOR OF SCIENCE IN  
AGRICULTURAL ECONOMICS AND RESOURCE MANAGEMENT  
AND BACHELOR OF SCIENCE IN AGRICULTURE AND  
BIOTECHNOLOGY**

**COURSE CODE: IAE 283 / 381**

**COURSE TITLE: FINANCIAL MANAGEMENT AND ACCOUNTING IN  
AGRICULTURE**

**DATE: 15<sup>TH</sup> JANUARY 2018**

**TIME: 2 – 4 PM**

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## **INSTRUCTIONS TO CANDIDATES**

**Answer Question ONE and any TWO Questions.**

**TIME: 2 Hours**

**This paper consists of 4 printed pages. Please turn over.**



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1. (a) Briefly describe the importance of the following ratios to farmers:
    - (i) Net Capital Ratio (2 marks)
    - (ii) Working Capital (2 marks)
  - (b) Distinguish between the following terminologies used in Financial Management:
    - (i) “**Income Statement**” and “**Cash Flow Statement**” (2 marks)
    - (ii) “**Farm Records**” and “**Final Accounts**” (2 marks)
  - (c) Cite any **SIX** reasons to justify the statement “Farm Recording cannot be carried out by all farmers”. (6 marks)
  - d) Explain **FOUR** questions whose solutions are sought in Partial Budgeting. (4 marks)
  - e) Describe the components of a complete budget. (6 marks)
  - f) Suppose you have been assigned the task of valuing the assets of Jaribu Farm enterprises. Explain how you would complete the task. (8 marks)
2. As a dairy section manager, you wish to raise the mean annual milk yield of each cow from 2,460 litres to 3,000 litres. The present feeding system is based on natural grazing with bought concentrate feeds. You believe that by supplementing this with high-quality maize silage, average annual yield will rise to 3,000 litres.

You have been given the following information:

- |   |   |
|---|---|
| (i) Herd size:                            | 75 cows   |
| (ii) Mean annual yield:                   | 2,460 per cow   |
| (iii) Milk price:                         | Kes 35 per litre basic (8% SNF)                       |
| (iv) Quality premium                      | Kes 0.306 /litre for each percent rise in SNF over 8% |
| (v) Present solids-not-fat:               | 8.5%  |
| (vi) Expected solids-not-fat with Silage: | 10.5%   |
| (vii) Silage needed:                      | 18 kg/cow/day for 301 days each year                  |
| (viii) Silage yield:                      | 16.8 tonnes per ha                                    |
| (ix) Silage variable costs:               | Kes 17,340/ha   |
| (x) Concentrates fed                      | 5.4 kg/cow/day at Kes 10,506 per tonne                |

- (xi) Labour needed to feed silage: 2 workers at kes 35,496
- (xii) Dairy Manager's Salary Kes 255,000 p.a
- (xiii) Crop Manager's salary Kes 318,750 p.a
- (xiv) New capital equipment needed

Item	Capital Cost (Kes)	Straight line depreciation (Kes) p.a.	Annual repairs and maintenance (Kes)
Forage Chopper	459,000	3,060	43,860
Trailer	204,000	1,530	20,400
Silo	63,750	510	

On the basis of the above information, determine whether it is financially feasible to introduce maize silage into the daily ration. (20 marks)

3. Ms. Yesufu is a vegetable trader who does not keep full books of account or have a bank account. On 1<sup>st</sup> January 2015, she had the following assets and liabilities:

Item	Kes	Item	Kes
Creditors	42,350	12% loan from Ms. Rafiki Sacco Ltd (Interest payable on 31 <sup>st</sup> December 2015)	36,300
Cash	18,150	Value of Vegetable stocks	29,700
Pick-up truck	620,920		
Furniture	60,050		

During the financial year Ms. Yesufu kept details of her transactions and provides you with the following information:

	Kes
Payment to suppliers	199,650
Spoiled vegetables returned to suppliers	9,680
Payments due to suppliers as at 31 <sup>st</sup> December 2015	50,820
Total annual cash receipts	294,250
Cash in hand as at 31 <sup>st</sup> December 2015	19,360
Value of stock of vegetables as at 31 <sup>st</sup> December 2015	39,380

She estimates the running expenses of her pick-up truck at Kes 1,210 a week and other sundry expenses at Kes 660 a week. Cash not otherwise accounted for should be treated as drawings.

Prepare:

- (a) Her income statement for the year (depreciating the pick-up at 20%) (10 marks)
  - (b) Her Balance Sheet as at 31<sup>st</sup> December 2016. (10 marks)
4. (a) Distinguish between “Risk” and “Exposure” (2 marks)
- (b) Explain **SIX** major types of financial risk. (18 marks)