



*(Knowledge for Development)*

**KIBABII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**  
**2021 / 2022 ACADEMIC YEAR**

**SECOND YEAR 2ND SEMESTER**  
**SPECIAL/SUPPLEMENTARY EXAMINATIONS**

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

**COURSE CODE:** AEC 224/IAE 381  
**COURSE TITLE:** FINANCIAL MANAGEMENT AND  
ACCOUNTING IN AGRICULTURE

**DATE:** 28<sup>TH</sup> JULY 2022

**TIME:** 8 – 10 AM

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**INSTRUCTIONS TO CANDIDATES**

Answer Question ONE and any other two (2) Questions.

TIME: 2 Hours

This paper consists of 2 printed pages. Please Turn Over



KIBU observes ZERO tolerance to examination cheating

**QUESTION ONE****30 MARKS**

- (a) Discuss the advantages of a cash flow statement (10 Marks)
- (b) Differentiate between the following terms. (20 Marks)
- (i) Equity and debt financing
  - (ii) Production budget and Purchase budget
  - (iii) Debenture and bond financing
  - (iv) Profit maximization and wealth maximization
  - (v) Income Statement and Balance Sheet

**QUESTION TWO****20 MARKS**

Consider the balance sheet for Mwanga Agrochemicals Ltd. presented below.

Item	Year 2021
Total Current assets	1,223,000
Total fixed assets	4,669,000
Total current liabilities	620,000
Long term debt	1,023,000
Total liabilities	1,643,000
Total stockholders' equity	1,954,000

- (i) Compute the current ratio for the year 2021 and interpret the results? (4 Marks)
- (ii) Compute the debt ratio and debt-equity ratio for the year 2021 and interpret the results (6 marks)
- (iii) Given that the fiscal year 2021 reported annual sales of KSh. 3,074,000, Average inventory of KSh. 294,500 and annual cost of goods sold (cost of sales) of KSh. 2,088,000. Compute inventory turnover ratio, total asset turnover ratio and interpret the results (10 marks)

**QUESTION THREE****20 MARKS**

- (a) The risk bearing ability of a business determines its survival during unexpected changes in its environment. Giving relevant examples, describe the major types of financial risks that could affect an agricultural business. (10 Marks)
- (b) Explain briefly the possible strategies to cope with financial risk (10 Marks)

**QUESTION FOUR****20 MARKS**

There are two methods of evaluating cash flow (i) Traditional non-discounted and (ii) the modern discounted cash flow analysis techniques. Discuss. (10 Marks)

Several methods exist for evaluating investment projects under capital budgeting. Identify and explain the features of an ideal investment appraisal method (10Marks)

**QUESTION FIVE****20 MARKS**

- (a) Define the term Budget and state its key elements (5Marks)
- (b) Outline the steps you would follow to prepare a cash budget (10 Marks)
- (c) What do you understand by the term budgetary control (5 Marks)