# KENYATTA UNIVERSITY

## UNIVERSITY EXAMINATIONS 2011/2012

## SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF SCIENCE IN AGRIBUSINESS AND TRADE

## KBT 103: FINANCIAL ACCOUNTING IN AGRIBUSINESS

**DATE: MONDAY, 26$^{TH}$ MARCH 2012** **TIME: 2.00 P.M. – 4.00 P.M.**

**INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS**

**QUESTION ONE (40 MARKS)**

i. State **three** main reasons as to why farm managers, within the enterprise, need accounting information (6 marks)

ii. Outline the steps that are usually taken to control cash in any farm enterprise (5 marks)

iii. Explain **two** major characteristics of quantitative accounting information (4 Marks)

iv. A farm enterprise purchases a lathe machine for the Ksh 4,000,000. The machine has estimated life of five years and scrap value of Ksh 500,000. The enterprise has a policy providing depreciation for rate of 40 percent. Compute the depreciation using the straight line method (5 marks)

v. Outline the steps necessary to convert a receipt and payment account into an income and expenditure account (5 marks)

vi. Carefully consider the balances brought down below by Mavuno Farm accounts as at 2$^{nd}$ June 2011

| PARTICULARS | AMOUNT Ksh ' 000 |
|---|---|
| Sales | 18,600 |
| Purchases | 11,556 |
| Opening Stock | 3,776 |
| Returns inwards | 440 |
| Returns outwards | 355 |
| Carriage inwards | 234 |
| Cash in Hand | 120 |
| Carriage outwards | 326 |
| Salaries / wages | 2,447 |
| Motor vehicle expenses | 664 |
| Rent | 576 |
| Sundry expenses | 1,202 |
| Capital | 12,844 |
| Fixtures & fittings | 600 |
| Motor Vehicles | 2,400 |
| Debtors | 4,577 |
| Cash at Bank | 3,876 |
| Creditors | 3045 |
| Drawings | 2,050 |
| Closing stock | 4,998 |

**TASK:**

Help the Mavuno's Farm Manager:

a) **Prepare a trial balance** (5 marks)

b) Determine the financial performance of the enterprise (5 marks)

c) Determine the financial position of the enterprise (5 marks)

## QUESTION TWO (15 MARKS)

i) Consider the set of data below extracted from books of Smart Farm Enterprises for the Year 2011

| Date | Transaction | Amount(Ksh.) |
|---|---|---|
| 1/1 | Paid for transport | 1500 |
| 3/1 | Paid as rent | 3500 |
| 4/1 | Paid for a laptop | 15000 |
| 5/1 | Received as loan from Irene | 25000 |
| 6/1 | Sold three bags of maize | 18000 |
| 7/1 | Sold two bull | 30000 |
| 8/1 | Bought farm machine | 4500 |
| 10/1 | Advertising | 1800 |
| 14/1 | Stationery | 500 |

**TASK:**

a) Write up the cash book recording the transactions and carrying down the balances in hand (10 marks)

b) How could Smart Farm manager verify that the cash book has been correctly written up? (5 marks)

**QUESTION THREE (15 MARKS)**

i. By giving examples discuss the major components of a cash flow statement (4 Marks)

ii. Distinguish between omission and principle errors of accounting and explain how the two errors could be corrected (4 Marks)

iii. Clearly illustrate the difference between bad debts and provisions for bad debts (4 Marks)

iv. Why do some businesses keep a petty cash book as well as a main cash book? (3 Marks)

## QUESTION FOUR (15 MARKS)

Consider the set of data below got from the books of Mali Enterprises.

| **Particular** | **Amount (Ksh)** |
|---|---|
| Total assets | 509900 |
| Current liabilities | 61000 |
| Cash | 2100 |
| Temporary investment | 100 |
| Average equity capital and reserves | 10000 |
| Accounts receivable | 10000 |
| Cost of goods | 38000 |
| Average inventory | 30000 |
| Total liabilities | 481000 |
| Net credit sales for the year | 50000 |
| Current assets | 28000 |
| Profit before tax | 29200 |

**TASK:**

i. Compute:

a) Returns on Equity (3 Marks)

b) Current Ratio (3 Marks)

c) Quick Ratio (3 Marks)

d) Inventory turnover (3 Marks)

e) Debt to equity ratio (3 Marks)

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