



MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATION 2018/2019 ACADEMIC YEAR FIRST YEAR SECOND SEMESTER

**SCHOOL OF BUSINESS AND ECONOMICS
BACHELORS OF COMMERCE, ECONOMICS, ECOOMICS AND
STASTICS, FINANCIAL ECONOMICS, SCIENCE IN AGRICULTURAL
ECONOMIS AND RESOURCE MANAGEMENT, HUMAN RESOURCE
MANAGEMENT AND EDUCATION.**

COURSE CODE: BCM 1206

COURSE TITLE: FOUNDATIONS OF ACCOUNTINGN 2

DATE :23RD APRIL,2019

TIME:2.00 P.M- 4.00 P.M

INSTRUCTIONS TO CANDIDATES:

Answers question ONE and any other three.

QUESTION ONE.

- a) Explain any three reasons why some businesses do not maintain a complete set of accounting records. **(3 marks)**
- b) On 31.12.2017, subscriptions paid in advance to Amani sports Club amounted sh. 1,101,200 while those arrears amounted to sh. 1,600,000. As at 31.12.2018, subscriptions in arrears were sh. 2,100,000 and subscriptions paid in advance amounted sh840,000. The receipts and payments account of the club showed total subscriptions received in 2018 as sh. 3,220,000. Prepare a subscriptions account to show the amount of subscriptions earned during the year ended 31.12.2018 which is to be reflected in the income and expenditure account. **[4 MARKS]**
- c) Explain five differences between a partnership deed and a partnership Act. **[5MARKS]**
- d) Name two types of goodwill and explain how each is treated in the books of accounts of partnerships. **(4 marks)**
- e) Explain any six factors that influence the value of goodwill. **(6 marks)**
- f) Explain the difference between prime costs and manufacturing overheads, and highlight why they are charged to the manufacturing account and not the trading profit and loss account. **(3 marks)**

QUESTION TWO.

The following trial balance was extracted from the books of accounts of KOWA partnership operated by Kori and Wangui partners for the period ended 31/12/2018 after preparing a trading account.

KOWA partnership Trial balance as at 31/12/2018

	Dr	Cr
Trading gross profit		5,423,000
Plant and machinery (cost)	4,000,000	
Motor vehicle (cost)	2,300,000	

Furniture and fittings (cost)	720,000	
Rates and insurance	527,000	
Debtors / Creditors	2,196,000	4,023,000
Sundry expenses	468,000	
Loan from KCB		4,500,000
Profit and loss appropriation account b/d		1,000,100
Capital Reserve		800,000
Pro. for depreciation: Plant and machinery		1,476,000
Motor vehicle		873,000
Furniture		324,000
Capital accounts: Kori		9,000,000
Wangui		5,400,000
Bank		837,000
Stock	3,090,000	
Current accounts: Kori		1,629,000
Wangui	1,044,000	
Drawings: Kori	1,656,000	
Wangui	1,080,000	
Electricity	710,000	
Interest on short term deposits		684,000
Short term deposits with HFCK	3,600,000	
Advertising	936,000	
Petty Cash	18,000	
Provision for doubtful debts		<u>30,000</u>
	<u>35,999,100</u>	<u>35,999,100</u>

Additional information:

1. Debtors include an irrecoverable debt of 36,000
2. There was prepaid advertising prepaid expense of 60,000 as at 31.12.2018.
3. Provision for bad and doubtful was to be 5% of the outstanding debts.
4. On 2nd Jan. 2019 a bill of 480,000 for water was received for the year ended 31st Dec. 2018.
5. On 3rd Jan 2019 a credit note of 64,000 from a correction of an error in meter reading for the month of December 2018 was received from KPLC.
6. Kori had drawn a monthly salary of 45,000 as an active partner and the total amount drawn had been included in salaries and wages account.

Retained Profit b/f.

_____	<u>38,200,000</u>
<u>767,700,000</u>	<u>767,700,000</u>

Additional information.:

1. Closing Stock was valued at 41,000,000
 2. Directors proposed to transfer 8,000,000 to general reserve and pay dividends at 3% on ordinary shares.
 3. Provide for depreciation of motor vehicles at 10% of cost and on furniture and fittings at 10% on book value.
- a) Prepare the company's comprehensive income statement for the year ended 31st Dec. 2018. **(8 marks)**
- b) Statement of the financial position as at 31 December 2018. **(7 marks)**

QUESTION FOUR.

Kericho Sports Club has been operating for some time now. The treasurer analysed the cash book and produced the following Receipts and Payments account for the year ended 31st Dec. 2018.

Receipts

Balance b/f	1,067,000
Subscriptions	1,780,000
Restaurant sales	4,030,000
Telephone	34,000
Social events	177,000
Miscellaneous	56,000

Payments

Loan repayment (capital)	170,000
Rent of ground	79,000
Repairs and maintenance	124,000
Rates	320,000
Water	38,000
Restaurant Purchase	2,937,000

	Electricity	506,000
	Insurance	221,000
	Repairs to equipment	326,000
	Expenses on social events	67,000
	Maintenance of ground	133,000
	Wages to grounds men	140,000
	Telephone	103,000
	Restaurant expenses	144,000
	Loan interest	97,000
	Miscellaneous	163,000
	Balance c/d	<u>1,700,000</u>
		<u>7,144,000</u>
	<u>7,144,000</u>	

The treasurer also provided a list of assets and liabilities at different dates.

Balances as at;	1.1 2018	31.12
		.2018
Restaurant debtors	231,000	50,000
Prepaid rates	68,000	76,000
Accrued subscriptions	778,000	425,000
Restaurant creditors	427,000	901,000
Accrued electricity	130,000	35,000
Restaurant Stock	291,000	394,000
Prepaid Subscriptions	398,000	65,000
Accrued water charges	13,000	23,000
Pavilion at cost	13,098,000	?
Loans to sports club	1,080,000	?

Additional information:

1. Loan interest outstanding and miscellaneous expenses accrued as at 31st Dec. 2018 were 33,000 and 75,000 respectively.
2. Depreciation on pavilion for the year was 498,000.
3. Rent prepaid and accrued restaurant expenses as at 31.12.2018 were 16,000 and 65,000 respectively.

Required:

- a) Restaurant Trading profit and loss account for the year ended 31.12.2018.
(3 marks)
- b) Prepare the sport's club Income and expenditure account for the year ended 31 December 2018.
(7 marks)

c) The club's Balance sheet as at 31 December 2018.

(5 marks)

QUESTION FIVE.

Handshake owns and manages a small manufacturing business in Narok town. The following balances have been extracted from his books of account at 31 December 2018:

	Dr	Cr
	Sh.	Sh.
Capital		1,711,200
Creditors		860,000
Bank and cash balance	54,000	
Debtors	920,000	
Drawings	600,000	
Administration expenses	1,503,600	
Advertising expenses	120,000	
Factory direct wages	600,000	
Factory indirect wages	240,000	
Factory power	360,000	
Furniture and fittings (all offices)	184,000	
Heat and light	160,000	
Plant and equipment	2,768,000	
Motor vehicle (used by salesmen)	1,440,000	
Plant hire	40,000	
Provision for bad debts		32,000
Provision for depreciation:		
– Furniture and fittings		92,000
– Plant and equipment		1,384,000
– Motor vehicle		240,000
Raw material purchases	2,280,000	
Rent rates	200,000	
Sales		8,294,400
Selling and distribution expenses	664,000	
Inventories at cost:		
– Raw materials	80,000	
– Work in progress	160,000	
– Finished goods	240,000	
	<u>12,613,600</u>	<u>12,613,600</u>

Additional information:

1. Accruals at 31 Dec. 2018 were:

Factory power	-	Sh.1, 6000
Rent and rates	-	Sh. 4, 0000

2. There was prepayment of Sh. 8,000 for salesmen's motor vehicle insurance.

3. Inventories at 31 December 2018, were valued at cost as follows:

Raw materials	-	Sh. 152,000
Work in progress	-	Sh. 304,000
Finished goods	-	Sh. 456,000

4. Depreciation is to be charged on plant and equipment, motor vehicle, furniture and fittings at the rates of 20%, 25% and 10% per annum respectively on cost.

5. Expenditure on heat and light, and rent and rates is to be apportioned between the factory and office in the ratio of 9 to 1 and 3 to 2 respectively.

6. Provision for doubtful debts is to be made equal to 5% of outstanding debtors at 31 December 2018.

Required:

a) Prepare Handshake's manufacturing, trading and profit and loss account for the year ended 31 December 2018. **(8 marks)**

b) Balance sheet as at 31st December 2018. **(7marks)**

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**SCHOOL OF BUSINESS AND ECONOMICS
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RESOURCE MANAGEMENT.**

COURSE CODE: AGB 3105

**COURSE TITLE: FINANCIAL MANAGEMENT IN
AGRIBUSINESS**

DATE :26TH APRIL,2019

TIME:8.30 - 10.30 A.M

INSTRUCTIONS TO CANDIDATES:

Answers question ONE and any other three.

QUESTION ONE

- a) Kenya Cooperative Creameries (KCC) is a firm that processes milk supplied by daily farmers in Kenya. The day-to-day management of KCC rests on the hands of the board of directors. In your view, does agency relationship exist between the farmers and the board of directors of KCC and how does it arise? **(4 marks)**
- b) Discuss the various causes of agency problem that may arise between the dairy farmers and the board of management of KCC. **(6 marks)**
- c) Kakuzi, a large-scale farming enterprise is considering the purchase of a new machine for its operations. Two alternative machines, Tata and Fuso, which will cost Sh.10, 000,000 and Sh.11, 500,000 respectively are available in the market. The anticipated cash flows after taxation of each plant are as follows:

Year	1	2	3	4	5	6	7
Tata	1.5 m	2.4 m	3.4 m	2.3 m	2.2 m	1.9 m	1.0 m
Fuso	2.1 m	3.2 m	4.3 m	2.8 m	2.2 m	1.5 m	1.2 m

Required; Assuming the firm intends to finance the purchase by acquiring a bank loan at an interest rate of 11%, for each plant compute;

- I. Payback period **(2 marks)**
- II. The net present value (NPV). **(6 marks)**
- III. Profitability Index. **(4 marks)**
- IV. Based on your computation above which plant is better and why? **(3 marks)**

QUESTION TWO

- a) Explain seven factors that influence the formulation of dividend policies by corporate bodies. **(7marks)**
- b) The management of Sasini, a company involved in a range of agricultural activities intends to raise additional capital to finance its activities. It is considering going for debt instead of equity. The management has approached you for advice concerning its intention.

Discuss factors you are likely advise the company to take into account when deciding to use debt finance. **(8 marks)**

QUESTION THREE

The following is the capital structure of company XYZ as at 31/12/2017.

	Sh."000"
Ordinary share capital Sh.10 par value	500,000
Retained earnings	300,000
10% preference share capital @ Sh.20 par value	200,000
12% debenture @ Sh.100 par value	<u>300,000</u>
	<u>1,300,000</u>

Additional information

1. Corporate tax rate is 30%
2. Preference shares which were issued 10 years ago are still selling at par value.
3. The debenture has a 10 years' maturity period. It is currently selling at Sh.110 in the market.
4. The firm has been paying dividend of Sh.5 per share. The DPS is expected to grow at 5% p.a. in future. The current MPS is Sh.30.

Required

- a) Compute the cost of each capital component. **(8 marks)**
- b) Determine the WACC of the firm. **(5marks)**
- c) Outline the weaknesses associated with WACC when used as the discounting rate, in project appraisal. **(2 marks)**

QUESTION FOUR

- a)i Explain why proper working capital management is important for the financial success of a corporate body. **(3 marks)**
- ii. Explain five factors which determine the firm's working capital needs. **(5 marks)**

b) At a recent seminar on "Gender Empowerment in Business' the invited financial analyst, James Mwangi advised the participants that extending credit

is one of the corner stone of modern business. Anne Mburu, the managing director of Sasini Limited took note of this important fact. After the seminar, she authorized a review of the credit system of her company. The following data relate to the current state of affairs.

1. Annual sales of the company are Sh.50,000,000
2. Credit sales are 25 per cent of all sales
3. Bad debts average 2% of all credit sales
4. Average collection period for debtor is 40 days
5. The company's cost of capital is 14% per annum
6. Net profit on sales is 15%.

Based on these facts, she is recommending a thorough restructuring of the credit policy of the company. The expected outcome of this action will be as follows:

- i. Increase in total sales by 30 per cent
- ii. Credit sales will be 40 per cent of all sales
- iii. Average collection period will decrease to 35 days
- iv. Bad debts will increase to 3 per cent of credit sales
- v. An additional part time credit control assistant will be hired for Sh.50,000 per annum.

Required

Comment about the effectiveness or otherwise of the proposed revamping of credit policy. (Show all your workings). **(7 marks)**

QUESTION FIVE

- a) Discuss five reasons that underlie mergers and acquisitions. **(6 marks)**
- b) The following information is on a company in the agricultural processing business:

10% preference shares (Sh.10 par)	40,000,000
Ordinary share capital (Sh.10 par)	<u>40,000,000</u>
	80,000,000
Retained profits	<u>70,000,000</u>
	150,000,000
15% debentures	<u>120,000,000</u>
	<u>270,000,000</u>

- i) Calculate the gearing ratio for the above company. **(2 marks)**

- ii) If the company's net profit (before interest and tax) is Sh.2,000,000,000 and assuming a dividend payout ratio of 60% of the earnings, compute the dividend per share (DPS). **(5 marks)**
- iii) If the market price per share now is Sh.80, compute the dividend yield. **(2 marks)**

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