CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF MASTER OF PROCUREMENT AND LOGISTICS MANAGEMENT

MPLM 831: PROCUREMENT ACCOUNTING

STREAMS: MPLM **TIME: 3 HOURS**

DAY/DATE: TUESDAY 05/10/2021 **8.30 A.M. – 11.30 A.M.**

Question one

a) Evaluate the assumption of accounting model under conceptional framework (6 marks)

b) Describe the standard procedure of making international accounting standards. (6 marks)

c) The following figures have been extracted from the books of Mwananchi Ltd. For the year ended 31.12.2020:

	Sh. ‘000’
Share capital authorized and issued 1,000,000 shares of sh.100, sh.50 paid	50,000
Reserve Fund	2,500
Share premium	9,500
Revaluations	30,000
Other revenues	80,000
Accruals	3,000
Investment (cost)	30,000
Interest accrued and paid	2,000
Salaries (including directors fee sh. 50,000)	800
Rent	200
General expenses including auditors fee sh. 20,000	100
Profit and loss (1.1.2020)	60,600
Dividend for 2,000	500
Premises (after depreciation to 1.12.000 sh.10M)	120,000
Cash in hand	600
Cash with central bank of Kenya	15,000

Cash with other banks	13,000
Borrowed from other banks	7,000
Revenues	11,500
Bills discounted and purchased	6,000
Bills payable	8,000
Loan overdraft and cash credits	70,000
Unclaimed dividends	300
Bills for collection	1,400
Debtors	2,000
Sundry creditors	300

Notes:

i. Rebate on bills discounted and purchased for unexpired term amounts to sh. 50,000

ii. Depreciation on premises is on straight line, 5% on cost while the provision for doubtful debts Sh. 300,000 is required.

iii. The bank has no business in outside Kenya, a provision for taxation sh. 1,000,000 is to be credited.

Required:

Prepare:

a) Statement of comprehensive income for the year income for the year ended 31.12.2020

b) Statement of financial position as at that date. (20 marks)

d) The following data of X ltd is provided to you

- Opening stock (20,000 units) – valued at marginal costing Shs. 450,000 and total cost of Shs. 590,000

- Units produced	140,000 units
- Units sold	135,000 units
- Factory overheads (fixed)	Shs. 250,000
- Variable costs i. Variable	Shs. 580, 000
ii. Fixed	Shs. 150,000
- Selling prices per unit	Shs. 50

Required:

Find the net profit under:

i. Absorption costing (5 marks)

ii. Marginal costing (5 marks)

iii. A reconciliation statement (5 marks)

e) Explain the purpose of standard costs in cost accounting. (2 marks)

Question two

a) The company has the option of introducing three products in the market; Premium, standard and Economy to serve the three divide of the local market population. The accountant has prepared the following budget.

	Premium	Standard	Economy	Total units
Units	70,000	90,000	140,000	300,000
Unit sale price	50	20	10	
	3,500,000	1,800,000	1,400,000	6,700,000
Variable	1,400,000	900,000	700,000	3,000,000
Unit var. costs	20	10	5	
Contributions	2,100,000	900,000	700,000	3,700,000
Fixed cost				1,500,000
Profit				2,200,000

Required

i. Calculate the BEP of the three products and hence calculate the BEP for each product. (10 marks)

ii. There is a proposal that the sales mix be changed to 3:2:4 advice the management. (5 marks)

b) The cost accountant of Ujuzi ltd was analyzing the cost relationships in a single product production process. You are required to help him explain assumptions of C-V-P analysis to the management in a board meeting: (5 marks)

Question three

a) The following information and figures are available from sales and costs forecasts of Nelly Co Ltd for the year ending 31st Dec 2019 at 50% (5,000 units) capacity utilization:

   i. Semi-variable expenses are Shs 55,000

   ii. Fixed expenses are Shs 58,000

   iii. Variable expenses are:

a) Material Cost at shs 6 per unit,

b) Labour Cost at Shs. 3 per unit, and

c) Direct Expenses at Shs 2 per unit

   iv. Fixed expenses remain constant for all levels of production and sales

v. Selling prices between 50% and 75% capacity utilization is Shs. 25 per unit.

vi. Semi-variable expenses will remain unchanged at 50% to 65% capacity utilization but will increase by 10% between 65% to 80% capacity utilization and by 30% between 80% to 100% capacity utilization.

vii. At 90% capacity utilization material cost will increase by 5% while selling price will reduce by 5%

viii. At 100% capacity utilization both material and labour costs will increase by 10% while selling price will reduce by 8%

Required:

a) A profit forecast statement through flexible budget at 60%, 75% and 100% capacity utilization. (15 marks)

b) Explain five end of year adjustments. (5 marks)

Question four

a) Timber corner furniture Co. Ltd maintains a standard costing system. In its production, it uses plywood tops for tables. The following information is availed from its standard costing:

Standard quantity of plywood per table	5sq. ft
Standard price per sq. of plywood	Shs. 60
Standard labour rate	Shs 0.95 per hour
Standard hours per table	2.5 hours
Actual number of tables manufactured	1,300
Plywood actually used	4,400 sq.ft
Actual price of plywood per sq.ft	Shs. 72
Actual labour rate	Shs. 1.1 per hour
Hours worked	820 hours

Required:

i. Material Cost Variance analysis (7 marks)

ii. Labour Cost Variance analysis (7 marks)

iii. Interpretation of each of the variances (6 marks)

Question five

a) CVP Analysis is a powerful tool of analysis for startup ventures, discuss (6 marks)

b) Explain the classification of costs in cost accounting. (14 marks)

Question six

a) Discuss five reasons to advance your argument as to why some organizations may not wish to hold inventory in its operations. (10 marks)

b) Explain five economic factors that may influence stock management/stock holding policy of a typical Fast Moving Consumer (FMCG) company in Kenya. (10 marks)

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