

**CHUKA****UNIVERSITY****UNIVERSITY EXAMINATIONS****FIRST YEAR EXAMINATION FOR THE AWARD OF DEGREE OF MASTER OF SCIENCE IN PROCUREMENT AND LOGISTICS MANAGEMENT****MPLM 831: PROCUREMENT ACCOUNTING****STREAMS: MPLM Y1S1****TIME: 3 HOURS****DAY/DATE: THURSDAY 12/04/2018****2.30 P.M. – 5.30 P.M.****INSTRUCTIONS:**

- Answer question ONE and other THREE questions.

**QUESTION ONE (25 MARKS)**

- (a) Identify any four potential users of a company's financial statements and briefly explain for each one their likely information needs from those statements. (8 marks)
- (b) The following trial balance is extracted from the books of GL Ltd as on 31 December 2014:

**Trial balance as on 31 December 2014**

	<i>Dr</i>	<i>Cr</i>
	Shs.	Shs.
8% preference share capital (Sh. 10 par)		200,000
Ordinary share capital (Sh. 10 par)		700,000
10% debentures (repayable 2018)		300,000
Land at cost	300,000	
Investments (at Cost)	355,000	
Equipment at cost	182,000	
Motor vehicles as cost	672,000	
Provision for depreciation: Equipment 1.1.2014		24,000
Provision for depreciation: Motor vehicles 1.1.2014		51,000
Stock 1.1.2014	80,000	
Sales Revenue		1,022,000
Rental Income from Investment Property		43,000
Purchases	440,000	

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Carriage inwards	6,000	
Salaries and wages	190,000	
Directors' remuneration	156,000	
Motor expenses	3,000	
General expense	5,000	
Debenture interest	18,000	
Trade Receivables		186,000
Trade payables		110,000
Bank Balance	408,000	
General reserve		50,000
Share premium account		80,000
Revaluation Reserve		20,000
Interim ordinary dividend paid	14,000	
Retained Earnings as at 31.12.2013		43,000
	<b>2,829,000</b>	<b>2,829,000</b>

The following adjustments are needed:

- (i) Stock at 31.12.2014 was valued at Shs. 91,000.
- (ii) Depreciate motor vehicles at Shs. 12,000 while equipment at 20% on Reducing balance
- (iii) Accrue debentures interest
- (iv) Provide for preference dividend at 8% and final ordinary dividend at sh. 0.8 per share
- (v) Transfer Shs. 10,000 to general reserve
- (vi) Authorized share capital is Shs. 200,000 in preference shares and Shs. 1 million in ordinary shares.
- (vii) Income tax for the year to 31.12.2014 has been estimated at sh. 70,400
- (viii) On 31.12.2014, a qualified actuary valued investment property at Shs. 350,000. The company uses fair valuation model for its investment property.

Required

- (i) Income statement for the year ended 31<sup>st</sup> December 2014. (11 marks)
- (ii) Statement of financial position as at 31<sup>st</sup> December 2014. (6 marks)

**QUESTION TWO (25 MARKS)**

(a) Briefly explain any five fundamental accounting concepts and indicate their implications in the preparation of financial statements. (5 marks)

(b) On 1<sup>st</sup> January 2017, XYZ Enterprises bought a delivery van worth Sh. 1.5 million on credit from GK Motors Ltd.

On 5<sup>th</sup> January 2017, a debtor who owed XYZ enterprise sh. 200,000 was unable to pay his account. It was decided to write off the debt.

Required:

Pass journal entries to record the above transactions in the books of XYZ Enterprises. (2 marks)

(c) Explain the following costs as they relate to decision making by management

- (i) Controllable costs (2 marks)
- (ii) Sunk costs (2 marks)
- (iii) Opportunity costs (2 marks)
- (iv) Relevant costs (2 marks)

(d) XYZ produces two products and the following budget applies for 2013

	<b>Product X</b>	<b>Product Y</b>
Selling price	6	12
Variable costs	2	4
Contribution Margin	4	8
Fixed costs apportioned	Sh. 100,000	Sh. 200,000
Units sold	70,000	30,000

(i) Calculate the break-even points for each product and for the company as a whole. (5 marks)

(ii) What assumptions have you taken into consideration in the computations above? (5 marks)

**QUESTION THREE (25 MARKS)**

(a) Explain the distinction between the following budgeting concepts:

- (i) Incremental and zero based budget (4 marks)
- (ii) Fixed and Flexible budget (4 marks)

(b) The comparative statement of financial position of Delight Ltd. at the beginning and end of the year 2015 is presented below;

Delight Limited  
Statement of Financial Position

	2015	2014
<b>Assets</b>	Sh.	Sh.
Equipment	37,000	22,000
Accumulated Dep. On equipment	(17,000)	(11,000)
Cash	22,000	13,000
Receivables	<u>106,000</u>	<u>88,000</u>
Total Assets	<u>148,000</u>	<u>112,000</u>
<b>Equity and Liabilities</b>		
Ordinary Share Capital (sh. 5 par)	60,000	40,000
5% preferred stock (sh.5 par)	40,000	40,000
Retained earnings	28,000	17,000
Payables	<u>20,000</u>	15,000
Total Equity and Liabilities	<u>148,000</u>	<u>112,000</u>

Ordinary dividends of Sh. 15,000 and preferred stock dividends of Sh. 8,000 were paid in 2015.

**Delight Limited**  
**Income statement for the year ended 31<sup>st</sup> December 2015**

	Sh. 000	Sh. 000
Revenue		300
Less: Operating Expenses (excluding Depreciation)	240	
Less: Depreciation	<u>(6)</u>	<u>234</u>
		66
		<u>32</u>
		<u>34</u>

**Required:**

- (i) Prepare a statement of Cash flows for Delight Ltd. for the year ended 31<sup>st</sup> December 2015. (12 marks)
- (ii) Explain the significance of a cash flow statement to the management of a firm. (5 marks)

**QUESTION FOUR (25 MARKS)**

- (a) Briefly explain the deficiencies of using ratio analysis to a business enterprise. (5 marks)
- (b) The following are Faida Limited comparative financial statements for year ended 31 March 2018 and 2017 respectively.

## Income statements for the year ended 31 March 2018

	<b>2018</b>	<b>2017</b>
	Sh. "000"	Sh. "000"
Sales	144,000	140,000
<b>Cost of sales</b>		
Opening inventory	28,000	3,200
Purchases	<u>124,000</u>	<u>121,600</u>
	152,000	124,800
Closing inventory	<u>(32,000)</u>	<u>4,800</u>
	<u>120,000</u>	<u>120,000</u>
Gross profit	24,000	20,000
Distribution costs	7,200	2,800
Administrative expenses	8,160	9,500
	<u>(15,360)</u>	<u>(12,300)</u>
Profit for the year	<u>8,640</u>	<u>7,700</u>
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## Statement of financial position as at 31 March 2018

	Sh. "000"	Sh. "000"
<b>Assets</b>		
<b>Non-current assets:</b>		
Freehold property	20,000	14,000
Fixtures, fittings and equipment	21,750	13,840
Motor vehicles	<u>12,000</u>	<u>6,000</u>
	<u>53,750</u>	<u>33,840</u>
<b>Current assets:</b>		
Inventories	32,000	4,800
Accounts receivables	28,800	11,200
Bank balances	<u>8,950</u>	<u>11,360</u>
	<u>69,750</u>	<u>27,360</u>
<b>Total assets</b>	<b><u>123,500</u></b>	<b><u>61,200</u></b>
<b>Capital and liabilities</b>		
Capital	100,000	30,800
Account payables	8,000	10,000
Long-term Debt	<u>15,500</u>	<u>20,400</u>
<b>Total capital and liabilities</b>	<b><u>123,500</u></b>	<b><u>61,200</u></b>

Additional information:

1. All sales are on credit

**REQUIRED:** For each year, compute and comment on

- (i) Current ratio (4 marks)
- (ii) Gross Profit Margin (4 marks)
- (iii) Debt ratio (4 marks)
- (iv) Average collection period (4 marks)

**QUESTION FIVE (25 MARKS)**

- (a) Discuss the utility of budgeting in procurement management. (5 marks)
- (b) A division of Lube Chemicals Ltd is engaged in the production of two products A and B. These products are sold to external customers. Information regarding products, costs and sales levels for the year ending December 2015 is as follows:

Products	A	B
Materials requirement: X(Kg)	2	3
Y(Litres)	1	4
Planned Sales (units)	2000	1500
Opening stock of finished goods	5%	10%
As a % of sales units		

Material stock levels are as follows:

	Material X (kg)	Material Y(1)
1.1.2015	300	1000
31.12.2015	100	150

Finished goods on hand as at 31.12.2015 are projected at 200 units for each product. Material prices are Sh. 10 per Kg for material X and Sh. 7 per litre for material Y.

Required:

- (i) Sales budget (2 marks)
- (ii) Production budget (in units) (4 marks)
- (iii) Material usage budget (in Kg and litres) (4 marks)
- (iv) Material purchases budget in (Kg, litres, Ksh). (2 marks)

(c) The following cost data has been observed at Excel school for five years.

<b>Year</b>	<b>Number of students</b>	<b>Total costs Sh. '000'</b>
2012	180	3,200
2013	200	3,600
2014	400	7,000
2015	300	3,530
2016	320	3,820

Estimate the total cost for 2017 and 2018 when the school is expected to enroll 366 and 400 students respectively. (8 marks)

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