CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF MASTER OF PROCUREMENT AND LOGISTICS MANAGEMENT

MPLM 831: PROCUREMENT ACCOUNTING

STREAMS: MPLM (Y1S1) (ODEL) TIME: 3 HOURS

DAY/DATE: WEDNESDAY 07/08/2024 8.30 A.M. – 11.30 A.M.

INSTRUCTIONS

- **Answer question ONE and any other THREE questions.**
- **Do not write anything on the question paper**

QUESTION ONE

a. The following Trial balance was extracted from the books of lowlands Hotel as at 31st Dec 2023.

	Dr	Cr
Capital		4,400,000
Premises	3,000,000	
Purchases	11,500,000	
Sales		21,102,000
Trade Debtors	2,100,00	
Trade Creditors		1,020,000
Plant & Machinery at cost	5,000,000	
Provision for depreciation : plant machinery		500,000
Salaries & wages	2,624,000	
Postage & stationery	85,000	
Carriage inwards	125,000	

Carriage outwards	60,000	
Inventory (1/1/2023)	1,800,000	
Cash at bank	418,000	
Returns inwards	102,ooo	
Returns outwards		300,000
Cash in hand	184,000	
Bad debts	57,000	
Drawings	200,000	
Provision for doubtful debts		23,000
Office general expenses	90,000	
	27,345,000	27,345,000

Additional information:

i. The closing inventory as at 31st Dec 2023 was valued at sham 160,000.

ii. Provision for bad debts is to be adjusted to 2.5% of trade debtors.

iii. Lowlands has rented out part of its business premises and a rent receivable of sh.500,000 is due for the period ending 31st Dec 2023.

iv. Office expenses prepaid as at 31st Dec 2023 was sh. 10,000.

v. Salaries and wages outstanding as at 31st Dec 2023 amounted to sh. 100,000.

vi. Depreciation is provided for premises at 5% on straight line basis while for plant & machinery at 15% on reducing balance method.

Required:

i. Income statement for the year ended 31st December 2020. (11 Marks)

ii. Statement of Financial position as at 31st Dec 2020. (9 Marks)

b. Explain the classification of costs in cost accounting. (10 marks)

QUESTION TWO

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 information was obtained from watts cost card.

	Cost per unit
Direct materials	40
Direct labour	10
Variable overheads	50
Total	100

The selling price per unit is 150. Production and sales quantities for the year 2023 were as follows:

	2023
Production (units)	3,000
Sales (units)	2,400
Fixed production overheads	10,000

Required: Operating income statement under:

i. Marginal costing (4 Marks)

ii. Absorption costing (4 marks)

c) Explain the difference between job costing and process costing (4 marks)

QUESTION THREE

Punda ltd processes a range of products which include a detergent which passes through three processes before completion and transfer to the finished goods store. During the month of February 2023, the following data was obtained from the company's records

	Process			
	1	2	3	Total
	Ksh	Ksh	Ksh	Ksh
Business raw materials (10,000 units)	6,000	-	-	6000
Direct materials added in process	8,500	9500	5500	23,500
Direct wages	4000	6000	12000	22000
Direct expenses	1200	930	1340	3470
Production overhead				16500

Output (units)	9200	8700	7900
Normal loss in process ($^0/0$)	10	5	10
Scrap value per unit (ksh.)	0.20	0.5	1.00

Production overheads are absorbed as a percentage of direct wages. There was no stock at the beginning or closing of any process.

Required:

(i) Process 1 account (4 marks)

(ii) Process 2 account (4 marks)

(iii) Process 3 account (4 marks)

(iv) Abnormal loss account (4 marks)

(v) Abnormal gain account (4 marks)

QUESTION FOUR

a) Discuss the utility of budgeting in procurement management. (6 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 2023 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)
1.1.2023	300	1000
31.12.2023	100	150

Finished goods on hand as at 31.12.2023 are projected at 200 units for each product.

Material prices are She 10 per Kg for material X and Sh. 7 per litre for material Y.

Required:

(i) Sales budget (3 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). (3 marks)

QUESTION FIVE

a) Explain the assumptions of the cost volume profit analysis. In your explanation, critique them. (10 marks)

b) Consider two companies with the following unit prices, fixed and variable costs.

H company	Ksh
Selling price per unit	12
Variable cost per unit	4
Fixed cost of operations per year	75,000
M company	
Selling price per unit	122
Variable cost per unit	8
Fixed cost of operations per year	50,000

Required:

i. Calculate the break-even point of each company in units. (5 marks)

ii. If both companies intended to make profit before tax of ksh. 120,000, what number of units would each company have to produce and sell? (5 marks)

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