



WEDNESDAY: 29 November 2017.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

SECTION A

QUESTION ONE

- (a) Define the following terms as used in costing and budgeting:
- (i) Cost accounting. (2 marks)
  - (ii) Forecasting. (2 marks)
  - (iii) Marginal costing. (2 marks)
  - (iv) Budgetary control. (2 marks)
  - (v) Variance analysis. (2 marks)
- (b) Explain the following as used in procurement costing and budgeting:
- (i) Material usage variance. (2 marks)
  - (ii) Material price variance. (2 marks)
- (c) Discuss the various classifications of costs. (6 marks)

(Total: 20 marks)

SECTION B

QUESTION TWO

- (a) The project manager of Shangilia firm, a small production business, has provided you with the following information for the month of 30 September 2017:
- Production 1,100 units.
  - Sales 1,000 units.
  - There was no opening stock.
  - Variable manufacturing cost per unit Sh.7.
  - Total fixed manufacturing overhead cost Sh.2,200.
  - Variable selling and administration overhead per unit Sh.0.50
  - Fixed selling and distribution overhead Sh.400.
  - Selling price per unit Sh.15.

**Required:**

Prepare an income statement using:

- (i) Marginal costing approach. (6 marks)
  - (ii) Absorption costing approach. (6 marks)
- (b) Explain the difference in profit in (a) above under marginal and absorption costing. (4 marks)
- (c) Explain the TWO key elements of costs in a manufacturing firm. (4 marks)

(Total: 20 marks)

### QUESTION THREE

- (a) Explain why it is important to prepare a cash budget. (4 marks)
- (b) City Traders is a small company that operates an electronics shop. The company's accountant expects that on 1 January 2018, the opening cash balance would be Sh.35,000.

The projected sales budget was as below:

|               | Sh.    |
|---------------|--------|
| November 2017 | 80,000 |
| December 2017 | 90,000 |
| January 2018  | 75,000 |
| February 2018 | 75,000 |
| March 2018    | 80,000 |

#### Additional information:

- The company's debt policy states that:
  - 65% of the sales are collected within the actual month of sale.
  - 25% of the sales are collected a month after the actual sales.
  - 10% of the sales are collected the second month after the sales.
- The company's projected purchases were as below:

|               | Sh.    |
|---------------|--------|
| December 2017 | 60,000 |
| January 2018  | 55,000 |
| February 2018 | 45,000 |
| March 2018    | 55,000 |
- All purchases are made on credit.  
Past experience shows that:
  - 90% of the purchases are paid in the actual month when the purchases occur.
  - 10% are paid the month after the purchase.
- The company has employed three support staff who earn an equal monthly salary of Sh.5,000 each.
- The company also incurs factory overheads of Sh.20,000 monthly (including depreciation of Sh.5,000 monthly).
- Tax of Sh.8,000 will be settled in the month of February 2018.
- The company expects to be paid an insurance settlement of Sh.25,000 in the month of March 2018.

#### Required:

- Monthly cash collection schedule from January 2018 to March 2018. (3 marks)
- Monthly cash payment schedule from January 2018 to March 2018. (3 marks)
- Monthly cash budget from January 2018 to March 2018. (10 marks)

**(Total: 20 marks)**

### SECTION C

#### QUESTION FOUR

- (a) As a procurement specialist, examine FIVE factors that you would consider when analysing the price quoted by a supplier. (5 marks)
- (b) State FIVE departmental budgets that a manufacturing entity should prepare. (5 marks)
- (c) Discuss FIVE challenges faced by procurement professionals in costing and budgeting. (10 marks)
- (d) The following information has been provided on a manufacturing firm:

| Materials | Standard   |             | Actual     |             |
|-----------|------------|-------------|------------|-------------|
|           | Units      | Rate<br>Sh. | Units      | Rate<br>Sh. |
| A         | 40         | 50          | 50         | 50          |
| B         | <u>60</u>  | 40          | <u>60</u>  | 45          |
|           | <u>100</u> |             | <u>110</u> |             |

**Required:**

Calculate:

- (i) Material cost variance. (2 marks)
  - (ii) Material price variance. (2 marks)
  - (iii) Material usage variance. (3 marks)
  - (iv) Material mix variance. (3 marks)
- (e) The following information was extracted from the books of ABC Limited, a company in the motor vehicle assembly industry:

| Machine hours | Maintenance cost<br>Sh. |
|---------------|-------------------------|
| 50            | 120                     |
| 30            | 110                     |
| 10            | 60                      |
| 50            | 150                     |
| 40            | 100                     |
| 30            | 80                      |
| 20            | 70                      |
| 60            | 150                     |
| 40            | 110                     |
| 20            | 50                      |

**Required:**Ascertain the company's cost function in the form of  $y = a + bx$  using:

- (i) High-low method. (5 marks)
- (ii) Least Squares Method (LSM). (5 marks)

**(Total: 40 marks)**

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# KISM AND KASNEB

## CERTIFIED PROCUREMENT AND SUPPLY PROFESSIONAL (CPSP)

### PART II

#### PROCUREMENT COSTING AND BUDGETING

WEDNESDAY: 25 May 2016.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

#### SECTION A

##### QUESTION ONE

- (a) List THREE objectives of budgetary planning and control systems. (3 marks)
- (b) Explain the role of cost accounting information in procurement and supply. (3 marks)
- (c) Distinguish between budgeting and forecasting in procurement and supply. (4 marks)
- (d) Identify FIVE functional budgets in a manufacturing company and suggest the manager responsible for the preparation of each. (10 marks)

**(Total: 20 marks)**

#### SECTION B

##### QUESTION TWO

The following are the expenses of a contract which commenced on 1 January 2015:

|                     |         |
|---------------------|---------|
| Materials purchased | 100,000 |
| Materials in hand   | 5,000   |
| Direct wages        | 150,000 |
| Plant issued        | 50,000  |
| Direct expenses     | 80,000  |

The contract price was Sh.1,500,000 which was duly received when the contract was completed in August 2015. Indirect expenses are to be charged at 15% on wages, while Sh.10,000 is to be provided for depreciation on plant.

##### Required:

- (i) Contract account. (16 marks)
- (ii) Contractee account. (4 marks)

**(Total: 20 marks)**

##### QUESTION THREE

- (a) Explain the following terms:
  - (i) Marginal costing. (2 marks)
  - (ii) Break-even point. (2 marks)
- (b) Explain the application of marginal costing in decision making. (2 marks)
- (c) A manufacturing company in Kibera produces tyres. In the year 2015, 100,000 tyres were produced but only 90,000 tyres were sold. There was no opening and closing stock or work in progress.

Production costs were as follows:

|                      |                   |
|----------------------|-------------------|
|                      | <b>Sh.</b>        |
| Materials            | 28,000,000        |
| Labour               | 8,000,000         |
| Production overheads | <u>10,000,000</u> |
|                      | <u>46,000,000</u> |

NOTE: 60% of production overheads is fixed. The average selling price for each tyre was Sh.600. Selling and administration expenses for the year amounted to Sh.3,000,000 of which Sh.1,200,000 were fixed.

**Required:**

- (i) Profit and loss account for the manufacturing company on marginal costing basis. (7 marks)
  - (ii) Calculate the break-even level of output in units and shillings. (4 marks)
  - (iii) Suppose the company intended to make a profit of Sh.6,300,000. Compute the level of output in units. (3 marks)
- (Total: 20 marks)**

**SECTION C**

**QUESTION FOUR**

- (a) Distinguish between cost accounting and financial accounting. (10 marks)
- (b) Define the following terms as used in cost accounting:
  - (i) Cost unit. (2 marks)
  - (ii) Cost centre. (2 marks)
  - (iii) Cost analysis. (2 marks)
  - (iv) Cost benefit analysis. (2 marks)
  - (v) Responsibility centre. (2 marks)
- (c) The opening cash balance on 1 January was expected to be Sh.30,000. The sales budgeted were as follows:

|          | <b>Sh.</b> |
|----------|------------|
| November | 80,000     |
| December | 90,000     |
| January  | 75,000     |
| February | 75,000     |
| March    | 80,000     |

The purchases budgeted were as follows:

|          | <b>Sh.</b> |
|----------|------------|
| December | 60,000     |
| January  | 55,000     |
| February | 45,000     |
| March    | 55,000     |

**Additional information:**

1. Analysis of records shows that debtors settle their accounts as follows:
  - 60% within the month of purchase/sale.
  - 25% within the second month.
  - 15% within the third month.
2. All purchases are on credit and past experience shows that 90% are settled in the month of purchase and the balance a month after.
3. Wages are Sh.15,000 per month and overheads of Sh.35,000 per month including Sh.5,000 are settled monthly.
4. Taxation of Sh.8,000 has to be settled in the month of February and the company will receive settlement of an insurance claim of Sh.25,000 in the month of March.

**Required:**

Prepare a cash budget for January, February and March.

(20 marks)  
**(Total: 40 marks)**

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# KISM AND KASNEB

CERTIFIED PROCUREMENT AND SUPPLY PROFESSIONAL (CPSP)

## PART II

### PROCUREMENT COSTING AND BUDGETING

WEDNESDAY: 24 May 2017.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

#### SECTION A

##### QUESTION ONE

(a) Define the following terms as used in costing and budgeting:

- (i) Operational costing. (2 marks)
- (ii) Absorption costing. (2 marks)
- (iii) Uniform costing. (2 marks)
- (iv) Overhead costs. (2 marks)
- (v) Standard costs. (2 marks)

(b) "A fixed budget is not an ideal budgetary control in business".

Explain this statement in relation to procurement costing and budgeting. (4 marks)

(c) Highlight THREE limitations of using cost volume profit analysis in short-term business planning. (6 marks)

(Total: 20 marks)

#### SECTION B

##### QUESTION TWO

(a) The following information was extracted from a manufacturing firm dealing with pipes in the month of July:

###### Budget for 10,000 units

|                                   | (Sh.)          |
|-----------------------------------|----------------|
| Direct materials Sh. 15 per unit  | 150,000        |
| Direct wage Sh. 8 per unit        | 80,000         |
| Variable overheads Sh. 2 per unit | 20,000         |
| Fixed overheads                   | <u>30,000</u>  |
|                                   | <u>280,000</u> |

###### Actual results for July production for 9,000 units

| (Sh.)          |
|----------------|
| 153,000        |
| 63,000         |
| 22,500         |
| <u>30,000</u>  |
| <u>268,500</u> |

###### Required:

Prepare budgetary control statements for July as follows:

- (i) Based on fixed budget for 10,000 units. (10 marks)
- (ii) Based on flexible budget for the actual level of production. (10 marks)

(Total: 20 marks)

##### QUESTION THREE

(a) Define the following terms as used in contract accounting:

- (i) Retention money. (2 marks)
- (ii) Cost of work certified. (2 marks)
- (iii) Architect's certificate. (2 marks)

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Out of 2

- (b) Ujenzi contractors was awarded a contract to construct a water reservoir in Kariobangi. Construction started on 1 April 2016 and is expected to be completed by 30 September 2017.

The expenses incurred for the financial year ended 31 March 2017 are as below:

|                                             | Sh.        |
|---------------------------------------------|------------|
| Materials delivered to site                 | 6,400,000  |
| Wages paid                                  | 6,087,500  |
| Hire of equipment                           | 1,200,000  |
| Head office overhead apportioned            | 800,000    |
| Other contract overheads                    | 925,000    |
| Cost of work certified (31 March 2017)      | 437,500    |
| Materials on site (31 March 2017)           | 250,000    |
| Value of work not certified (31 March 2017) | 23,000,000 |
| Contract price                              | 26,250,000 |

**Additional information:**

- Further costs necessary to complete the contract are estimated at cash Sh.2,687,500 which includes the cost of materials on site as at 31 May 2017.
- Accrued wages as at 31 March 2017 amounted to cash Sh. 680,000.
- 10% of the equipment hire charges relates to contract work expected to be done in June 2017.

**Required:**

- A contract account for the year ended 31 March 2017. (12 marks)
- Determine the contract profit and loss for the year ended 31 March 2017. (2 marks)

**(Total: 20 marks)**

**SECTION C**

**QUESTION FOUR**

- (a) You have been provided with the information below:

| Unit of Output (x) | Cost (y) |
|--------------------|----------|
| 24                 | 2,000    |
| 27                 | 2,200    |
| 30                 | 2,400    |
| 33                 | 2,450    |
| 36                 | 2,500    |

Determine the fixed cost and variable costs using the Least Squares Method (LSM). (10 marks)

- (b) You have been trained in marginal and absorption costing at a two day training by an expert consultant. Your organisation has been using absorption costing all through.

Argue FIVE reasons for and against marginal costing. (10 marks)

- (c) Onyango is an accountant specialising in costing and budgeting for the last 15 years. He has also worked as procurement manager for a multinational organisation.

Evaluate FIVE challenges he faces when costing and budgeting for requirements from local and global markets.

(10 marks)

- (d) The usage of a stock item by XYZ Limited for the past six months is as given below:

| Month    | Unit |
|----------|------|
| January  | 94   |
| February | 90   |
| March    | 110  |
| April    | 108  |
| May      | 120  |
| June     | 115  |

**Required:**

- Calculate the moving average for the months of July and August. (4 marks)
- After analysing costs of buying a new equipment and old equipment, it was decided to lease instead of to buy. Evaluate THREE advantages and THREE disadvantages of leasing. (6 marks)

**(Total: 40 marks)**



# CERTIFIED PROCUREMENT AND SUPPLY PROFESSIONAL (CPSP)

## PART II

### PROCUREMENT COSTING AND BUDGETING



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WEDNESDAY: 23 May 2018.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

#### SECTION A

##### QUESTION ONE

(a) Distinguish between the following terms as used in procurement costing and budgeting:

- (i) Direct cost and indirect cost. (2 marks)
- (ii) Job costing and batch costing. (2 marks)
- (iii) Budgeting and forecasting. (2 marks)
- (iv) Re-order level and Economic Order Quantity (EOQ). (2 marks)
- (v) Standard cost and estimated cost. (2 marks)

(b) The following information relates to a particular item in stock:

|               |                   |
|---------------|-------------------|
| Normal usage  | 110 units per day |
| Minimum usage | 50 units per day  |
| Maximum usage | 140 units per day |
| Lead time     | 25 – 30 days      |
| EOQ           | 5,000 units       |

##### Required:

Using the data, calculate:

- (i) Re-order level. (2 marks)
- (ii) Minimum level. (2 marks)
- (iii) Maximum level. (2 marks)

(c) State FOUR objectives of cost accounting in procurement of goods, services and works. (4 marks)

(Total: 20 marks)

#### SECTION B

##### QUESTION TWO

(a) State FOUR limitations of a budget. (4 marks)

(b) ABC Limited manufactures a single product P and has an average monthly production of 5,000 units although this varies widely.

The following information shows the makeup of the budget and a month's actual results:

|                            | Budget for production of<br>5,000 units |        | Actual results in January for<br>4,650 units |  |
|----------------------------|-----------------------------------------|--------|----------------------------------------------|--|
|                            | Sh.                                     | Sh.    | Sh.                                          |  |
| Indirect labour: Fixed     | 3,000                                   |        |                                              |  |
| Variable @ Sh.1 per unit   | 5,000                                   | 8,000  | 7,650                                        |  |
| Consumables (All variable) |                                         | 15,000 | 14,250                                       |  |
| Variable overheads         |                                         | 20,000 | 18,200                                       |  |
| Fixed overheads            |                                         | 12,500 | 12,500                                       |  |
|                            |                                         | 55,500 | 52,600                                       |  |

**Required:**

- (i) Prepare a budgetary control statement for January based on fixed budget of 5,000 units. (8 marks)
- (ii) Prepare a flexible budget for the actual level of production. (8 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) The following information was extracted from the books of XYZ Ltd.:

| Materials    | Quantity  | Rate     | Amount<br>Sh. | Quantity  | Rate     | Amount<br>Sh. |
|--------------|-----------|----------|---------------|-----------|----------|---------------|
| A            | 10        | 2        | 20            | 5         | 3        | 15            |
| B            | 20        | 3        | 60            | 10        | 6        | 60            |
| C            | 20        | 6        | 120           | 15        | 5        | 75            |
| <b>Total</b> | <b>50</b> | <b>4</b> | <b>200</b>    | <b>30</b> | <b>5</b> | <b>150</b>    |

**Required:**

- (i) Material cost variance. (2 marks)
- (ii) Material price variance for materials A, B and C. (4 marks)
- (iii) Material usage variance for materials A, B and C. (4 marks)
- (i) State FOUR uses of profit volume ratio. (4 marks)
- (ii) The following details were extracted from the books of ABC manufacturing Ltd.:

|             | Sh.     |
|-------------|---------|
| Sales       | 100,000 |
| Total cost  | 75,000  |
| Fixed costs | 20,000  |
| Net profit  | 25,000  |

**Required:**

- (i) Profit volume ratio. (2 marks)
- (ii) Break even point in shillings. (2 marks)
- (iii) Margin of safety. (2 marks)

**(Total: 20 marks)**

**SECTION C****QUESTION FOUR**

- (a) ABC Ltd. won a contract to construct a dam at a cost of Sh.100,000. The following information relates to the contract as at 31 March 2017:

| Particulars                         | Sh.    |
|-------------------------------------|--------|
| Materials sent to site              | 32,250 |
| Labour                              | 27,400 |
| Plant on site                       | 5,650  |
| Work certified                      | 71,500 |
| Cash from contractee                | 65,000 |
| Value of plant as at 31 March       | 4,100  |
| Cost of work done but not certified | 1,700  |
| Direct expenditure                  | 1,200  |
| Cost of establishment               | 1,625  |
| Wages outstanding                   | 900    |
| Materials as at 31 March            | 700    |
| Direct expenses outstanding         | 100    |
| Materials returned to store         | 200    |

**Required:**

- Contract account showing profit/loss on contract to 31 March 2017

(10 marks)

- (b) The following information refers to the units produced by machine Y and the costs thereof:

| Units | Total machine cost<br>Sh. |
|-------|---------------------------|
| 10    | 5,000                     |
| 40    | 20,000                    |
| 30    | 13,000                    |
| 70    | 22,000                    |
| 100   | 9,000                     |
| 50    | 8,500                     |
| 80    | 12,000                    |
| 20    | 14,000                    |
| 60    | 17,000                    |
| 90    | 16,500                    |

**Required:**

Determine the cost function of the firm if  $y = a + bx$  using the least squares method. (10 marks)

- (c) Simple moving average forecasting method is widely used in predicting future sales. However, it is not a perfect tool for establishing trends.

Explain FIVE limitations of using simple moving average as a forecasting tool. (10 marks)

- (d) ABC Limited has won a tender to supply 500 cooking pots to the county government.

The following information relates to the period between January and 30 June 2017:

|                                            | Sh.     |
|--------------------------------------------|---------|
| Stocks of materials on 1 January 2017      | 50,000  |
| Stocks of materials on 30 June 2017        | 7,000   |
| Purchases of materials during the 6 months | 75,000  |
| Factory wages                              | 150,000 |
| Indirect charges                           | 25,000  |
| Sales                                      | 270,000 |
| Completed stocks in hand on 30 June 2017   | 50,000  |

**Additional information:**

The number of cooking pots manufactured during the 6 months was 2,000.

**Required:**

- (i) Determine the unit cost of production. (8 marks)

- (ii) Determine the percentage of profit on selling price. (2 marks)

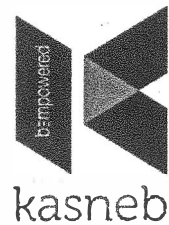
**(Total: 40 marks)**



CERTIFIED PROCUREMENT AND SUPPLY PROFESSIONAL (CPSP)

PART II

PROCUREMENT COSTING AND BUDGETING



WEDNESDAY: 22 May 2019.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

SECTION A

QUESTION ONE

(a) Define the following terms as used in procurement costing and budgeting:

- (i) Imputed cost.
- (ii) Sunk cost.
- (iii) Cost drivers.
- (iv) Forecasting.
- (v) Profit centre.
- (vi) Social cost.

(6 marks)

(b) Explain FOUR features of long term contracts.

(4 marks)

(c) Outline FOUR practical reasons for using absorption costing.

(4 marks)

(d) Highlight merits and demerits of standard costing.

(6 marks)

(Total: 20 marks)

SECTION B

QUESTION TWO

(a) The purchase and issue of raw materials by Ol Bolossot Water Authority for a five month period were as follows:

|              |          |                                |
|--------------|----------|--------------------------------|
| July 1       | Received | 2,000 units at Sh.10 per unit  |
| July 9       | Received | 520 units at Sh.10.50 per unit |
| July 18      | Issued   | 1,400 units                    |
| August 5     | Received | 800 units at Sh.11.50 per unit |
| August 22    | Received | 600 units at Sh.12.50 per unit |
| September 15 | Issued   | 1,240 units                    |
| October 14   | Issued   | 480 units                      |
| November 8   | Received | 1,000 units at Sh.11 per unit  |
| November 24  | Issued   | 760 unit.                      |

Required:

Prepare the stores ledger using FIFO method.

(9 marks)

(b) Give THREE distinctions between relevant and irrelevant cost.

(6 marks)

(c) Explain FIVE reasons why a cost accumulation system is required in the context of procurement budgeting and costing.

(5 marks)

(Total: 20 marks)

### QUESTION THREE

- (a) From the following information, find out the amount of fixed and receivable expenses out of semi variable expenses:

| Month    | Production<br>units | Semi-variables<br>expenses (Sh.) |
|----------|---------------------|----------------------------------|
| January  | 60                  | 130                              |
| February | 40                  | 110                              |
| March    | 70                  | 150                              |
| April    | 120                 | 210                              |
| May      | 90                  | 170                              |
| June     | <u>130</u>          | <u>245</u>                       |
|          | <u>510</u>          | <u>1,015</u>                     |

(10 marks)

- (b) State FOUR factors which can change break-even point.

(4 marks)

- (c) The following data was obtained from the records of XYZ Company Ltd:

|         | First year (Sh.) | Second year (Sh.) |
|---------|------------------|-------------------|
| Sales   | 80,000           | 90,000            |
| Profits | 10,000           | 14,000            |

**Required:**

Compute;

- (i) P/V ratio.

(2 marks)

- (ii) Fixed cost.

(2 marks)

- (iii) Break even sales.

(2 marks)

(Total: 20 marks)

### SECTION C

#### QUESTION FOUR

- (a) (i) Distinguish between job and batch costing.

(4 marks)

- (ii) Outline SIX procedures followed in job costing.

(6 marks)

- (b) The term "materials" covers a wide range of items depending on the nature of activities by an organisation:

Describe FIVE forms of materials.

(10 marks)

- (c) (i) Discuss TWO roles of procurement staff in budgeting.

(4 marks)

- (ii) Distinguish between forecasting and budgeting.

(6 marks)

- (d) The following data relates to the first 10 months of a company:

| Month | No. of units produced (X)<br>Units | Factory overheads (Y)<br>Sh. |
|-------|------------------------------------|------------------------------|
| 1     | 1,500                              | 800                          |
| 2     | 2,000                              | 1,000                        |
| 3     | 3,000                              | 1,350                        |
| 4     | 2,500                              | 1,250                        |
| 5     | 3,000                              | 1,300                        |
| 6     | 2,500                              | 1,200                        |
| 7     | 3,500                              | 1,400                        |
| 8     | 3,000                              | 1,250                        |
| 9     | 2,500                              | 1,150                        |
| 10    | 1,500                              | 800                          |

**Required:**

Determine the fixed and variable elements of factory overheads using least squares method.

(10 marks)

(Total: 40 marks)

# KISM AND KASNEB

CERTIFIED PROCUREMENT AND SUPPLY PROFESSIONAL (CPSP)

## PART II

### PROCUREMENT COSTING AND BUDGETING

WEDNESDAY: 23 November 2016.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

#### SECTION A

##### QUESTION ONE

(a) Explain the meaning of the following terms:

- (i) Margin of safety. (1 mark)
- (ii) Fixed budget. (1 mark)
- (iii) Marginal costing. (1 mark)
- (iv) Price (1 mark)
- (v) Master budget. (1 mark)

Explain FIVE roles of procurement staff during the process of budgeting in an organisation. (10 marks)

(c) Classify various types of materials bought by a manufacturing organisation. (5 marks)

(Total: 20 marks)

#### SECTION B

##### QUESTION TWO

(a) You are preparing for negotiation with a supplier of one of the materials used in producing your finished product.

Explain FIVE types of costs that you would require the supplier to breakdown. (5 marks)

(b) Describe the following methods of costing:

- (i) Process costing. (1 mark)
- (ii) Service costing. (1 mark)
- (iii) Contract costing. (1 mark)
- (iv) Batch costing. (1 mark)
- (v) Job costing. (1 mark)

(c) Assess FIVE advantages of standard costing.

(10 marks)

(Total: 20 marks)

##### QUESTION THREE

(a) Sagana Company Limited manufactures a single product and uses standard costing. The standard costs for producing a single unit of its product is as follows:

| Direct materials   | Sh. |
|--------------------|-----|
| Material X (5 kgs) | 20  |
| Material Y (4 kgs) | 24  |

**Direct wages**  
10 hours 80

**Production overhead**  
Variance 5  
Fixed 2  
Standard unit cost 131

In the month of October 2016, Sagana Company Ltd. budgeted to produce 1,000 units. However, only 800 units were actually produced and the costs incurred were as follows:

**Material cost** Sh. Sh.  
Material X (4,200 kgs) 17,200  
Material Y (3,000 kgs) 18,000  
35,200

**Labour costs**  
7,900 hours 71,100

**Manufacturing overheads**  
Variable 64,780  
Fixed 19,220 84,000  
Total cost 190,300

**Required:**

Calculate the following variances indicating whether they are favourable (F) or unfavourable (U):

(i) Material price variance for materials X and Y. (2 marks)

(ii) Material usage variance for materials X and Y. (2 marks)

(iii) Material cost variance. (4 marks)

(b) The following data was extracted from a stock item transaction in an organisation using FIFO stock costing method covering a period of two months:

| Date    | Receipts |         | Qty | Issues    |       | Qty | Balances |       | Remarks |
|---------|----------|---------|-----|-----------|-------|-----|----------|-------|---------|
|         | Qty      | Value   |     | Unit cost | Value |     | Qty      | Value |         |
| 1/6/16  |          |         |     |           |       | 100 | 100,000  |       |         |
| 5/6/16  |          |         | 50  | A         | B     | 50  | C        |       |         |
| 10/6/16 | 200      | 240,000 |     |           |       | 250 | D        |       |         |
| 30/6/16 |          |         | 100 | E         | G     | 150 | H        |       |         |
|         |          |         |     | F         |       |     |          |       |         |
| 20/7/16 |          |         | 100 | I         | J     | 50  | K        |       |         |
| 30/7/16 | 250      | 300,000 |     |           |       | 300 | L        |       |         |

**Required:**

Calculate the cost of (i) A (1 mark)  
(ii) B (1 mark)  
(iii) C (1 mark)  
(iv) D (1 mark)  
(v) E (1 mark)  
(vi) F (1 mark)  
(vii) G (1 mark)  
(viii) H (1 mark)  
(ix) I (1 mark)  
(x) J (1 mark)  
(xi) K (1 mark)  
(xii) L (1 mark)

(Total: 20 marks)

## SECTION C

### QUESTION FOUR

#### CASE STUDY

As the procurement planning expert, your role includes estimating the plan prices. Among the items included in your entity's business plan for next year is the supply and installation of specialised energy equipment. Your Procurement Director has requested you to conduct a market survey to establish the likely sources of the equipment and estimate the cost of the equipment for inclusion in the procurement plan.

You contact the internal technical department who provide the basic specification of the equipment. An internet search and information from leading energy experts lead you to three reputable manufacturers in Europe. The three manufacturers indicate the tentative Ex works prices as US\$ 5 million, US\$ 4.5 million and US\$ 4.3 million respectively. From your experience, you reckon that the actual price could be somewhere in between these prices. Installation would be done locally by sub contracted Kenyan engineers. The manufacturers provide the dimensions and weights of the equipment, which would fit in one 40 foot container.

To establish the transport costs, you contact two transporters in your register of service providers, who estimate the transport cost from the manufacturers to onboard the ship in the nearest port of departure to be US\$ 20,000 given the weight and dimensions of the one containerized equipment. The shipping cost from the European port to Mombasa port would be twice the transport cost to the nearest port of departure.

Three Kenyan insurance firms estimate the shipping insurance as 1%, 1.5% and 2% of the CIF price of the equipment. An average of these rates would be sufficient for planning purposes. A survey of local sources suggest that the costs of clearance and transport from Mombasa to the site of installation would be Sh.100,000 per 40-foot container.

You contact the Kenya Revenue Authority regarding taxation and they inform you that the total customs duty, excise and VAT cumulatively would be 75% of the CIF value of the equipment.

After collecting these data, you brief your Procurement Director on the progress made and your next task of calculating the estimated cost of the equipment. He reminds you to consider inflation and exchange rate fluctuations. Discussions with the chief Economist and a check with the statistics bureau indicate that the international inflation in the next year would average 1%. The exchange rate against the dollar would be sustained at US\$ 1 = 100 Kenya shillings.

#### Required:

- (a) Calculate the estimated Free on Board (FOB) price of the energy equipment in US Dollars. (10 marks)
- (b) Calculate the estimated cost of sea shipping insurance. (10 marks)
- (c)
  - (i) Determine the Cost Insurance and Freight (CIF) value that you would use for tax calculations. (5 marks)
  - (ii) Calculate the total estimated applicable taxes for the equipment. (5 marks)
- (d)
  - (i) If the equipment were to be installed and operational today, estimate the total cost in Kenya shillings. (5 marks)
  - (ii) Estimate the value of the equipment that you would include in the next year's procurement plan. (5 marks)

**(Total: 40 marks)**



# CERTIFIED PROCUREMENT AND SUPPLY PROFESSIONAL (CPSP)

## PART II

### PROCUREMENT COSTING AND BUDGETING



WEDNESDAY: 28 November 2018.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

#### SECTION A

##### QUESTION ONE

(a) Jembe Manufacturer Ltd. produces one product Gembe. The standard cost for the product are as stated below:

|                         |               |         |
|-------------------------|---------------|---------|
| Direct materials of Fee | 2 Kgs @ Sh.40 | Sh.80   |
| Direct materials of Gee | 3 Kgs @ Sh.20 | = Sh.60 |

Actual data for the month of July 2017 is as follows:

|                         |                    |
|-------------------------|--------------------|
| Direct materials of Fee | 15,000 Kgs @ Sh.41 |
| Direct materials of Gee | 9,000 Kgs @ Sh.18  |

Actual products of Gembe produced during the month was 5,000 units.

Required:

- (i) Calculate the direct material price variance. (3 marks)
  - (ii) Calculate the direct materials yield variance. (6 marks)
  - (iii) Calculate the direct material cost variance. (3 marks)
- (b) Explain FOUR importance of a sales budget. (8 marks)

(Total: 20 marks)

#### SECTION B

##### QUESTION TWO

(a) Highlight THREE key differences between job costing and batch costing. (6 marks)

(b) The following information was obtained from the books of builders Ltd. for a project in River View Estate:

|                                                            | Sh.    |
|------------------------------------------------------------|--------|
| Wages                                                      | 42,000 |
| Material direct to site                                    | 54,000 |
| Materials transferred to River View Estate site            | 1,500  |
| Plant purchased at cost                                    | 12,500 |
| Plant transferred from River View site                     | 5,300  |
| Sub-contractors charges                                    | 19,500 |
| Site expenses (power etc.)                                 | 5,000  |
| Materials on site (31.12.2016)                             | 18,300 |
| Plant on site (31.12.2016)                                 | 14,750 |
| Prepayments at (31.12.2016)                                | 500    |
| Accrued wages (31.12.2016)                                 | 920    |
| Cost of work done but not certified                        | 7,250  |
| Head office charges are 10% of wages materials from stores | 650    |

Additional information:

- (i) The contract value is Sh.550,000.
- (ii) Value of work certified by the architect was Sh.137,500 and the contractor had made progress payments of this amount less 15% agreed retention percentage.

Required:

Prepare the contract account for the year ended 31 December 2016, showing the profit for the year.

(14 marks)

(Total: 20 marks)

### QUESTION THREE

- (a) Describe FOUR characteristics that make marginal costing unique in decision making. (8 marks)
- (b) The Wildcat Co. Ltd. has provided the following information:

| Units of output        | 30,000 units | 42,000 units |
|------------------------|--------------|--------------|
|                        | Sh.          | Sh.          |
| Direct materials       | 180,000      | 252,000      |
| Workers wages          | 1,080,000    | 1,512,000    |
| Supervisors salaries   | 312,000      | 312,000      |
| Equipment depreciation | 151,200      | 151,200      |
| Maintenance            | 81,600       | 110,400      |
| Utilities              | 384,000      | 528,000      |
| Totals                 | 2,188,800    | 2,865,600    |

#### Required:

Using the high-low method and the information provided:

- (i) Identify the linear cost function equation. (4 marks)
- (ii) Estimate the total cost at 36,000 units of output. (2 marks)
- (c) Explain THREE features of overhead costs. (6 marks)
- (Total: 20 marks)

### SECTION C

#### QUESTION FOUR

- (a) Describe the procedure for receipt and issue of materials to the user departments. (10 marks)
- (b) The following information was obtained from the books of Soda Ltd. regarding demand for juice in the last five months of 2018:

| Month        | January | February | March | April | May |
|--------------|---------|----------|-------|-------|-----|
| Demand '000' | 20      | 30       | 25    | 35    | 40  |

#### Required:

- (i) Using a 3-month moving average, determine sales for June 2018. (4 marks)
- (ii) Apply exponential smoothing with a smoothing constant of 0.9 to generate forecast demand for June. (6 marks)
- (c) XYZ Ltd. is in production of leather shoes and has given the following data for production of 1,000 units:

| Particular                        | Per unit (Sh.) |
|-----------------------------------|----------------|
| Material cost                     | 700            |
| Labour                            | 250            |
| Variable overheads                | 200            |
| Selling expenses (20% fixed)      | 130            |
| Administrative expenses (200,000) | 200            |
| Total cost                        | 1,480          |

#### Required:

Prepare a budget for production of 600 units and 800 units assuming administrative expenses are rigid for all levels of production. (10 marks)

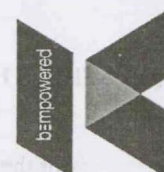
- (d) (i) Explain the meaning of the term "cost analysis" as used in procurement costing and budgeting. (2 marks)
- (ii) Enumerate FOUR benefits of cost analysis to a manufacturing firm. (4 marks)
- (iii) Highlight FOUR limitations of using budgeting systems to regulate business activities. (4 marks)
- (Total: 40 marks)



# CERTIFIED PROCUREMENT AND SUPPLY PROFESSIONAL (CPSP)

## PART II

### PROCUREMENT COSTING AND BUDGETING



kasneb

TUESDAY: 26 November 2019.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

#### SECTION A

##### QUESTION ONE

- (a) ABC Ltd. manufactures waffles that are used in construction. In July 2018, the following materials were used to manufacture 10,000 waffles:

| Material  | Quantity | Actual price | Standard price |
|-----------|----------|--------------|----------------|
| Limestone | 100 tons | Sh.75/ton    | Sh.70/ton      |
| Clay      | 150 tons | Sh.20/ton    | Sh.24/ton      |
| Sand      | 250 tons | Sh.10/ton    | Sh.12/ton      |

##### Required:

- (i) Identify THREE reasons why the firm may have experienced favourable material price variance of clay and sand. (6 marks)
- (ii) Identify THREE reasons why the firm may have experienced adverse material price variance for limestone. (6 marks)
- (b) Outline FOUR assumptions of marginal costing. (8 marks)

(Total: 20 marks)

#### SECTION B

##### QUESTION TWO

- (a) ABC Ltd. manufactures parts that are used in production of electric cars. Each order involves over 10,000 units. When a different part is to be manufactured, the machines are reset in 2 days and are ready to roll again.

##### Required:

- (i) Identify the most suitable costing method to be used. (2 marks)
- (ii) Explain FOUR main features of the costing method identified in (i) above. (8 marks)
- (b) Jackson deals in second hand cars from Japan. He has 10 cars in his yard and has decided to investigate the link between age of the cars (x) in years and mileage (y) in thousands of kilometers.

The data for the cars is as follows:

|                   |    |     |    |    |     |     |    |    |    |     |
|-------------------|----|-----|----|----|-----|-----|----|----|----|-----|
| Age in years (x)  | 2  | 2.5 | 3  | 4  | 4.5 | 4.5 | 5  | 3  | 6  | 6.5 |
| Mileage Kms (000) | 22 | 34  | 33 | 37 | 40  | 45  | 49 | 30 | 58 | 58  |

After analysing the data, Jackson gave you the following data:

$$\text{Sum } x = 41, \quad \text{sum } y = 406, \quad \text{sum } x^2 = 188, \quad \text{sum } xy = 1818.15$$

##### Required:

- (i) Find the equation of least square regression in the form  $y = a + bx$ . (5 marks)
- (ii) Give the interpretation of the slope (b). (3 marks)
- (iii) Given a car age of 9 years, determine the mileage in thousands of Kms. (2 marks)

(Total: 20 marks)

### QUESTION THREE

- (a) ABC Ltd. uses gross profit method of valuing its inventory.

For the month of August, the following information was available:

1. Opening inventory 10 units @ Sh.5 per unit.
2. Purchases 140 units @ Sh.6 per unit
3. Sales 100 units @ Sh.8 per unit
4. Gross profit margin is 40%.

**Required:**

Calculate the value of closing inventory.

(4 marks)

- (b) Distinguish between the following cost concepts:

- (i) Opportunity cost and actual cost. (2 marks)
- (ii) Business cost and full cost. (2 marks)
- (iii) Explicit cost and imputed cost. (2 marks)
- (iv) Fixed cost and variable cost. (2 marks)

- (c) Bigmine Construction Company Ltd. won a contract to construct a 15 km road in Butere district.

The following details pertain to the contract for the year ended 31 December 2018:

|                                 | Sh.     |
|---------------------------------|---------|
| Plant sent to site              | 700,000 |
| Materials:                      |         |
| Direct purchases                | 200,000 |
| Unused from the stores          | 100,000 |
| Wages paid                      | 80,000  |
| Direct expenses                 | 50,000  |
| Materials returned              | 10,000  |
| Accrued wages                   | 22,000  |
| Plant on site as at 31 December | 200,000 |
| Work certified                  | 250,000 |
| Work uncertified                | 400,000 |

**Additional information:**

1. Depreciation on plant is at the rate of 10% per annum.
2. The value of the contract amounted to Sh.1,000,000.
3. It is always the practice of Bigmine Construction Company to transfer 2/3 of the notional profits to profits and loss account.

**Required:**

Prepare a contract account.

(8 marks)

(Total: 20 marks)

### SECTION C

#### QUESTION FOUR

- (a) The demand for a product for 6 months is shown below:

| Month        | 1  | 2  | 3  | 4  | 5  | 6  |
|--------------|----|----|----|----|----|----|
| Demand "000" | 42 | 41 | 43 | 38 | 35 | 37 |

**Required:**

Calculate the 3 month moving average for each month and forecast demand for month 7.

(5 marks)

- (b) ABC Ltd. produces wiper blades for vehicles. For the 4 quarters of 2018, the company expected to sell 25,000, 20,000, 34,000 and 22,000 units. The company has a policy of maintaining inventory at 20% of previous quarter sales. The inventory at the beginning of 2018 was 3000 units while the last quarter of 2017 had sales of 28,000 units.

**Required:**

Prepare a production budget for each quarter of 2018 and for the whole year.

(10 marks)

- (c) Budgeting has evolved over time to be at the core of organisational activities.

Explain FIVE challenges that may be encountered while budgeting for an organisation.

(10 marks)

- (d) Mary has been hired as cost accountant of XYZ Ltd. that operates in the EPZ zone producing for export. The previous accountant was recording all costs under one account. Mary feels that costs should be classified differently.

Giving examples, explain FIVE ways that XYZ may classify its costs.

(10 marks)

- (e) State FIVE purposes of cost accounting information in decision making.

(5 marks)

**(Total: 40 marks)**

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