



STRATHMORE INSTITUTE
DIPLOMA IN PROCUREMENT
END OF SEMESTER EXAMINATION
DPR 1206 - Procurement costing & budgeting

DATE: 13th August 2019

Time: 2 Hours

Instructions

1. This examination consists of **FIVE** questions.
2. Answer **Question ONE (COMPULSORY)** and any other **TWO** questions.
3. Do not write on this question paper.

QUESTION ONE

A chemical producer manufactures Product XK by means of two successive processes, Process 1 and Process 2. The information provided below relates to the most recent accounting period, period 10.

	Process 1	Process 2
Opening work in progress	Nil	Nil
Material input during period	2,400 units – cost \$5,280	2,200 units (from
Process 1)		
Added material		\$9,460
Direct labour	\$2,260	\$10,560
Factory overhead	100% of labour cost	2/3 of labour cost
Transfer to Process 2	2,200 units	
Transfer to finished goods		2,200 units

Closing work in progress	200 units	Nil
	100% complete with respect to materials and	
	30% complete with respect to labour and production overhead.	

Required

- Calculate the value of the goods transferred from Process 1 to Process 2 during period 10.
(10 Marks)
- Calculate the value of the closing work in progress left in Process 1 at the end of period 10.
(10 Marks)
- A business has a job costing system and prices jobs using total absorption costing. The cost estimates for Job 264 are as follows:

Direct materials 50 kg @ \$4 per kg

Direct labour 30 hours @ \$9 per hour

Variable production overhead \$6 per direct labour hour

Fixed production overheads are budgeted as \$80,000 and are absorbed on the basis of direct labour hours. The total budgeted direct labour hours for the period are 20,000.

Other overheads are recovered at the rate of \$40 per job.

Calculate the total job cost for Job 264.

(10 Marks)

QUESTION TWO

- Hans Bratch has a fleet of company cars for sales representatives. Running costs have been estimated as follows.
 - Cars cost \$12,000 when new, and have a guaranteed trade-in value of \$6,000 at the end of two years. Depreciation is charged on a straight-line basis.
 - Petrol and oil cost 15 cents per mile.
 - Tyres cost \$300 per set to replace; replacement occurs after 30,000 miles.
 - Routine maintenance costs \$200 per car (on average) in the first year and \$450 in the second year.

5. Repairs average \$400 per car over two years and are thought to vary with mileage. The average car travels 25,000 miles per annum.
6. Tax, insurance, membership of motoring organisations and so on cost \$400 per annum per car.

Required

Calculate the average cost per annum of cars which travel 15,000 miles per annum and 30,000 miles per annum.

NB: depreciation, routine maintenance and tax, insurance are fixed costs. **(10 marks)**

b)

Batch 7777 used 2000 kgs of a material in stores which cost \$10/kg, and also 500 kgs of special material that was bought in at \$4/kg. 90 hours labour were spent in Department A where the employees were paid at \$12/hour, and 40 hours were spent in department B where employees are paid at 10/hour.

Overheads are absorbed at the rate of \$3/labour hour.

900 units were produced

Calculate the total absorption cost of the batch and each unit produced. **(5 Marks)**

QUESTION THREE

a) A business has the following costs for the month of January 2018.

	\$
Materials	600
Labor	1,000
Production overheads	500
Administration overheads	700
	2,800

If the units produced during the month were 100 units and units sold were 80, determine the closing inventory value and gross profit. **(10 marks)**

b) Discuss the meaning of the term budgeting in a commercial firms' context and highlight three types of budgtes. **(5 marks)**

QUESTION FOUR

A factory has two production departments: preparation and assembly, and one canteen for the labour force.

Statistics about the departments are:

	<i>Preparation</i>	<i>Assembly</i>	<i>Canteen</i>
Floor area	400 m ²	500 m ²	100m ²
Machine value	\$94,000	\$80,000	\$6,000
Employees	8	6	2
Power consumption	75%	20%	5%

Fixed overhead costs are: rent \$45,000, insurance \$5,400, canteen costs \$12,000, electricity \$40,000

Show how the costs would be apportioned to each department. **(15 Marks)**

QUESTION FIVE

- a) Job 666 required 20 kgs of a material in stores which cost \$15/kg, and also a special component had to be bought at a cost of \$150. 30 hours' labour were spent on the job where the employees were paid at \$9/hour. In addition, 3 hours was spent by a supervisor who is paid at \$15/hour. Overheads are absorbed at the rate of \$4/labour hour.
- Calculate the total absorption cost of the job. **(7 Marks)**
- b) Discuss the four benefits of budgeting to a company **(8 marks)**