KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

SPECIAL/SUPPLEMENTARY EXAMINATIONS

2019/2020 ACADEMIC YEAR

THIRD YEAR FIRST SEMESTER

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: BBL 312

COURSE TITLE: LOGISTICS COST ACCOUNTING

DATE: 16/02/2021 **TIME: 8.00 – 10.00AM**

INSTRUCTIONS TO CANDIDATES

Answer Question ONE (compulsory) and ANY OTHER TWO questions

QUESTIONS : SECTION A

QUESTION ONE

Webuye Paper Mills is a manufacturing company in Western Kenya. The Company sells stationery and office supplies on a wholesale basis and has an annual revenue of $4,000,000. Materials purchases represent approximately 80% of revenue and inventory levels have remained consistent over recent years. The company employs four people in its sales ledger and credit control department at an annual salary of $12,000 each. All sales are on 40 days' credit with no discount for early payment. Bad debts represent 3% of revenue and Webuye Paper Mills pays annual interest of 9% on its overdraft. Webuye Paper Mills is considering offering a discount of 1% to customers paying within 14 days, which it believes will reduce bad debts to 2.4% of revenue. The company also expects that offering a discount for early payment will reduce the average credit period taken by its customers to 26 days. The consequent reduction in the time spent chasing customers where payments are overdue will allow one member of the credit control team to take early retirement. Two-thirds of customers are expected to take advantage of the discount.

Required:

a) Considering the context of Webuye Paper Mills, explain the following concepts in so far as Logistics Costing is concerned:

   i. Cost Object **(2 marks)**
   ii. Logistics Cost **(2 marks)**
   iii. Revenue Centre **(2 marks)**
   iv. Variable Production Overheads **(2 marks)**
   v. Production Costs **(2 marks)**

b) Describe, giving an example for each, the steps Webuye Paper Mills would take in order to improve the management of working capital **(10 marks)**

c) How would Webuye Paper Mills achieve its fundamental objective of maximizing the wealth of its shareholders? **(10 marks)**

(Total: 30 marks)

QUESTIONS : SECTION B

QUESTION TWO

a) Differentiate between Finance Leases and Operating Leases **(12 marks)**

b) Explain four factors that would affect the choice debt to equity financing **(8 marks)**

QUESTION THREE

a) In the context of Total Cost Analysis, describe the components of Logistics Total Life Cycle Costing (TLCC) **(8 marks)**

b) What position does a manager doing modern budgeting stand to gain over the traditional budgeting approach? **(12 marks)**

QUESTION FOUR

a) Describe the five C's of lending **(10 marks)**

b) *"Logistics has been said to be one single most important contributor on Shareholders' Value growth."* Discuss. **(10 marks)**

QUESTION FIVE

Mumias Sugar Company wants to overhaul its milling machine. It has the option of buying a new milling machine or overhauling the old machine. The cost of a new machine is $45,000, while the cost of a complete overhaul of the old machine is $27,500, with either payment being due on 1st January 2015. The first maintenance payment for the new machine is $2,500 which is set to rise by 7.5% per year. The maintenance payments for the old machine are expected to be $4,000 in 2015. The contribution from the old machine (excluding maintenance costs) is tabulated as follows, with the inflow of funds assumed to be at the end of each year:

Year	***2015***	***2016***	***2017***	***2018***	***2019***
Contribution with Old machine ($)	**13,000**	**14,500**	**15,500**	**16,000**	**16,000**
Inflation Index	**100**	**110.5**	**122.1**	**134.9**	**149.1**

Required:

a) Establish and tabulate the net cash flows for each plan, assuming that all other costs are the same for keeping the Old Machine. **(10 marks)**

b) Calculate the payback period for overhauling the Old Machine **(4 marks)**

c) Establish the net present value of the plan to acquire the Old Machine, assuming a 12% cost of capital. **(6 marks)**