

**ADVANCED DIPLOMA IN KNITWEAR STUDIES AND MERCHANDISING**  
**ADVANCED DIPLOMA IN APPAREL STUDIES AND MERCHANDISING**

**Examination Paper**

1<sup>st</sup> Term 2014

Module Name: Accounting and Costing

Module Code: 143

Date: 20 Mar 2014

Time Allowed: 3 hours

Reading Time: 15 minutes

Examination Time: 7:15pm – 10:15pm

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This question paper has 7 pages (including this page).

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**INSTRUCTION TO CANDIDATES:**

- This paper has A and B sections with EIGHT (8) questions.
  - Section A is composed of Question 1 to Question 4.
  - Section B is composed of Question 5 to Question 8.
  - Answer FIVE (5) questions, at least TWO (2) questions from each section.
  - All questions carry equal marks.
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**The following tools with an asterisk (\*) are NOT ALLOWED in the examination:**

- Paperback Dictionary \*
- Electronic Dictionary \*
- Open Book Examination Material \*
- Programmable Calculator \*

**DO NOT TURN OVER THE PAGE UNTIL YOU ARE TOLD TO DO SO**

## Section A

### Question 1 to Question 4

#### Choose at least TWO questions

#### Question 1

- (a) Chan's Garments Co. operates three production cost centres (for jeans, shirts, and pants) and one factory service cost centre. The total overhead of factory service centre is to be apportioned among the production cost centres on the basis of direct wages of each production cost centre. **(80%)**

The overheads incurred by the four cost centres for accounting year ended 31 December 2013 were rent \$2,400,000, electricity \$160,000, repairs to equipment \$80,000, depreciation of equipment \$800,000 and supervision expenses \$320,000.

The basis of apportionment of overheads to the four cost centres is shown below:

Overhead	Basis of apportionment
1. Rent	Area
2. Electricity	Area
3. Repairs to equipment	Value of equipment
4. Depreciation of equipment	Value of equipment
5. Supervision expenses	Number of employees

The following information about the cost centres is available and is to be used as overhead apportionment basis:

	Cost centres			
	Jeans	Shirts	Pants	Factory service
Area, sq. metre	600	450	300	150
Value of equipment	\$1,200,000	\$960,000	\$600,000	\$240,000
Number of employees	120	90	60	30
Direct wages	\$1,600,000	\$960,000	\$640,000	

You are required to apportion the overheads to the four cost centres. Firstly by primary apportionment (60%) and secondly by secondary apportionment (20%)

- (b) The director of Lee's Garments Co. has submitted the following sales and cost information of the company for the year ended December 31 2013. **(20%)**

1. 100,000 units of jeans were produced and sold	\$9,000,000
2. Direct Materials	\$3,500,000
3. Direct labour	\$2,200,000
4. Variable overhead	\$1,300,000
5. Fixed overhead	\$350,000
6. Selling expenses (Variable)	\$1,000,000
7. Administrative expenses (Fixed):	\$250,000

**You are required to :**

- i) calculate total marginal contribution. **(10%)**  
ii) calculate the breakeven sales amount. **(10%)**

## Question 2

- (a) Cheung's Garments Co. produces and sells two products – Pants and Shirts. The sales and cost information of current situation is shown below: (50%)

	Pants	Shirts
Sales (in units)	1,000,000	400,000
Sales amount	\$ 20,000,000	\$ 16,000,000
Direct materials	4,000,000	3,000,000
Direct labour	2,800,000	2,200,000
Variable overhead	2,000,000	1,900,000
Fixed overhead	500,000	400,000
Variable selling expenses	1,200,000	900,000
Fixed administrative expenses	600,000	500,000

The management is considering following two proposals submitted by the sales manager.

Proposal 1: To increase 20% in production and sales quantity of jeans and reduce production and sales of shirts by 80,000 units.

Proposal 2: To reduce production and sales quantity of jeans by 100,000 units and increase production and sales of shirts by 15%.

You are required to advise the management and give recommendation on the two proposals mentioned above.

- (b) Wong's Garments Co. has prepared following budgeted information from September to December, 2014. (50%)

	\$ September	\$ October	\$ November	\$ December
Sales	8,000	8,000	8,000	7,000
Purchase of Materials	4,000	4,000	4,000	3,500
Expenses (including depreciation)	2,000	2,000	2,000	1,500
Depreciation	100	100	200	200

### Additional information:

- 50% of sales is collected in the same month of sales and the remaining 50% of sales is expected to be received one month after date of sale.
- All purchases are paid one month after date of purchase.
- All expenses will be paid one month after the date at which the expenses incur.
- Furniture for \$6,000 is planned to be purchased and paid in November, 2014.
- Profit tax for \$5,000 will be paid in December, 2014.
- The budgeted cash balance at 1 October, 2014 is \$90,000.

You are required to prepare a monthly cash budget for the three months ending 31 December, 2014.

### Question 3

The following trial balance was extracted from books of accounts of Ho's Garments Co. on 31 December, 2013.

	DR \$	CR \$
Insurance expenses	17,000	
Capital		900,000
Carriage inwards	11,300	
Carriage outwards	30,200	
Cash at Bank	550,000	
Cash in hand	40,000	
Discount allowed	35,000	
Discount received		22,000
Drawings	10,000	
Electricity	33,000	
Furniture and fixture	600,000	
Interest expenses	40,000	
Motor vehicle	500,000	
Purchases	4,705,000	
Rent	90,000	
Return inwards	26,000	
Return outwards		35,000
Salary	88,000	
Sales		5,550,000
Stock at 1 January, 2013	55,000	
Sundry Expenses	9,500	
Trade creditors		560,000
Trade debtors	627,000	
10% loan payable (repayable on 31 Dec., 2017)		400,000
	----- 7,467,000 =====	----- 7,467,000 =====

#### Additional information:

1. Stock at 31 December, 2013 was \$45,000
2. Depreciation of all fixed assets is to be provided at 20% per annum using straight line method.
3. Prepayment of insurance expenses on 31 December, 2013 was \$4,000.
4. Sundry Expenses to be accrued at 31 December, 2013 is \$3,000.
5. The provision for doubtful debts is estimated to be \$2,000.

You are required to prepare:

- (a) Trading and Profit and Loss account for the year ended 31 December, 2013. (57.5%)
- (b) Balance Sheet as at 31 December, 2013. (42.5%)

### Question 4

- (a) The financial information of Chow's Garments Co. For 2012 and 2013 are shown below: (72%)

	For the year ended 31 December	
	2013 (\$'000)	2012(\$'000)
Sales	20,000	15,000
Opening stock	4,000	3,000
Purchase	12,000	10,000
Less: Closing Stock	5,000	4,000
Cost of goods sold	11,000	9,000
Gross Profit	9,000	6,000
Less: Operating expenses	8,800	5,700
Profit (before tax and interest)	200	300
Fixed assets, cost	4,000	4,000
Less: Provision for depreciation	1,600	800
Current assets		
Stock	5,000	4,000
Trade Debtors	4,000	3,000
Cash at Bank	400	500
Current Liabilities		
Trade creditors	4,000	3,000

The balance of Trade Debtors at December 31, 2011 is \$2,000,000.

You are required to calculate the following accounting ratios for 2012 and 2013: (12% each)

- i. Current ratio
- ii. Quick ratio
- iii. Stock turnover period (in days)
- iv. Debtors Collection period(in days)
- v. Gross profit margin (Industrial average is 35%)
- vi. Net profit margin (Industrial average is 4%)

(b) The management of Ma's Garments Co. is considering the following investment proposals: **(28%)**

Date	Project A (Production and sales of Jeans) Cash inflow/ (Cash outflow) \$	Project B (Production and sales of Shirts) Cash inflow/ (Cash outflow) \$	Project C (Production and sales of Pants) Cash inflow/ (Cash outflow) \$	Project D (Production and sales of Sport Jackets) Cash inflow/ (Cash outflow) \$
1 January, 2015	(90,000)	(90,000)	(90,000)	(90,000)
31 December, 2015	18,000	20,000	10,000	10,000
31 December, 2016	12,000	70,000	20,000	20,000
31 December, 2017	60,000	70,000	30,000	20,000
31 December, 2018	60,000	70,000	30,000	20,000
31 December, 2019	60,000	70,000	90,000	20,000

Additional information:

Lucky Garments Co. can choose one project out of the four proposed projects only. All the projects are independent.

You are required to rank the above projects with the Payback period investment appraisal method.

## Section B

### Question 5 to Question 8

#### Choose at least TWO questions

#### Question 5

- (a) According to the accounting ratios calculated in Question 4(a), comment on the profitability of Chow's Garments Co for 2012 and 2013. (40%)
- (b) Distinguish between accrual basis of accounting and cash basis of accounting. (30%)
- (c) Distinguish between bad debts and doubtful debts. (30%)

#### Question 6

- (a) Distinguish between remuneration on time basis system and remuneration on piece work system. (20%)
- (b) State 5 advantages and 3 disadvantages of remuneration on time basis system. (40%)
- (c) State 4 advantages and 4 disadvantages of remuneration on piece work system. (40%)

#### Question 7

- (a) Define margin of safety and list 4 methods to increase margin of safety. (40%)
- (b) Distinguish between zero based budgeting and conventional budgeting. (30%)
- (c) List 4 advantages and 5 disadvantages of payback period method used for investment appraisal. (30%)

#### Question 8

- (a) Distinguish between cost allocation and cost apportionment. (20%)
- (b) Distinguish between ordering cost and cost of storage. (20%)
- (c) Define perpetual inventory system. (10%)
- (d) List 7 advantages of perpetual inventory system. (30%)
- (e) Distinguish between cost centre and profit centre. (20%)

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