

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

**Examination Paper**

2<sup>nd</sup> Term, 2014

Module Name: Accounting and Costing

Module Code: 143

Date: 11 Sep 2014

Time Allowed: 3 hours

Reading Time: 15 minutes

Examination Time: 7:15pm – 10:15pm

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This question paper has 5 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) Shanghai Garments Co. produces three products jeans, pants, shirts, and from the same manufacturing facilities. The selling price and cost details are shown below:

Product	Jeans	Pants	Shirts
Selling price per unit (\$)	240	80	350
Variable cost per unit (\$)	200	30	250
Maximum quantity of production per month (units)	25,000	30,000	20,000
Total production hours available for the month (20,000 hours)			
Maximum market demand per month (units)	20,000	9,000	10,000

The production hours cannot be increased beyond 20,000 hours per month.

**You are required to compute:**

- (i) **the most profitable product mix (the quantity of each product to be produced).** **(63 %)**
- (ii) **total marginal contribution if production quantity equals to the most profitable product mix.** **(5 %)**
- (b) The management of Taiwan Garments Co. is considering the following investment proposals:

Date	Project A	Project B	Project C	Project D
	Manufacture Jeans	Manufacture Sports Jackets	Manufacture Shirts	Manufacture Pants
	Cash Inflow/ (Cash Outflow)	Cash Inflow/ (Cash Outflow)	Cash Inflow/ (Cash Outflow)	Cash Inflow/ (Cash Outflow)
	\$	\$	\$	\$
January 1, 2015	(600,000)	(600,000)	(600,000)	(600,000)
December 31, 2015	200,000	400,000	500,000	300,000
December 31, 2016	100,000	400,000	200,000	300,000
December 31, 2017	500,000	200,000	200,000	300,000
December 31, 2018	500,000	200,000	200,000	300,000

Additional information:

All the projects are independent. The required rates of return for all the projects are the same at 10% p.a..

**You are required to rank the above projects with the Net present value investment appraisal method.** **(32 %)**

## Question 2

The following is trial balance of Beijing Garments Co. at 31 December, 2013.

	Dr.	Cr.
	\$	\$
Capital		450,000
Carriage outwards	15,000	
Cash at bank	91,000	
Discount allowed	17,700	
Discount received		5,000
Drawings	9,000	
Electricity	8,800	
Furniture and Fixture	500,000	
Insurance expenses	8,000	
Office Equipment	100,000	
Purchases	360,000	
Rent	89,000	
Return inwards	8,500	
Return outwards		3,500
Salary	95,000	
Sales		910,000
Stock at 1 January, 2013	23,000	
Trade creditors		43,000
Trade debtors	82,000	
Sundry expenses	4,500	
	1,411,500	1,411,500

Additional information:

- i. Stock at 31 December, 2013 was \$40,000
- ii. Depreciation of all fixed assets is to be provided at 20% per annum using straight line method.
- iii. Insurance expenses prepaid on 31 December, 2013 was \$1,000.
- iv. Salary to be accrued at 31 December, 2013 was \$2,000
- v. A customer Kong 's Co. went into liquidation on Dec. 31, 2013 and the balance of trade debtors for \$5,000 needed to be written off.

**You are required to prepare :**

- (a) **Trading and Profit and Loss account for the year ended 31 December, 2013. (50 %)**
- (b) **Balance Sheet as at 31 December, 2013. (50 %)**

### Question 3

- (a) Kowloon Garments Co. manufactures and sells a single product (jeans). The result for the year ended 31 December 2013 is shown below:

	\$	\$
Sales(1,000,000units)		50,000,000
Direct materials	15,000,000	
Direct labour	20,000,000	
Variable Overheads	5,000,000	
Fixed Overheads	3,000,000	
Administrative expenses	2,000,000	
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Total costs and expenses		<u>45,000,000</u>
Net profit		<u>5,000,000</u>

The following information is available for preparing the budget for the year ending 31 December, 2014

- (i) Selling price will be lowered by 5% and sales quantity will increase by 10%.
- (ii) Cost of direct materials will increase by 4%.
- (iii) Direct labour hourly wages rate will increase by 4%.
- (iv) Variable overheads will increase by 4%.
- (v) Fixed overheads and administrative expenses will remain unchanged.

**You are required to prepare a Budgeted Profit and Loss Account for the year ending 31 December 2014. (50 %)**

- (b) The director of Guangzhou Garments Co. has submitted the following sales and cost information of the company for the year ended December 31, 2013.

		Per unit
1. 20,000 units of shirts were produced and sold		Selling price: \$200
2. Direct Materials	: \$900,000	
3. Direct labour	: \$800,000	
4. Variable overhead	: \$700,000	
5. Fixed overhead	: \$300,000	
6. Selling expenses (Variable)	: \$600,000	
7. Administrative expenses (Fixed)	: \$200,000	

You are required to :

- (i) Prepare a Marginal Costing Income Statement for the year ended 31 December 2013. (40 %)
- (ii) Calculate marginal contribution per unit. (5 %)
- (iii) If the sales quantity is 30,000 units, calculate the net profit. (5 %)

### Question 4

- (a) The following transactions of raw material No.168 are extracted from the books of accounts of Spring Garment Co. of the month of December 2013:

2013	Purchased Number of units	Purchased Unit price (\$)	Sold Number of units
December			
1	6,000	13	
6	6,000	11	
16			10,000
26	2,000	10	
31			3,000

You are required to calculate the stock balance of raw material No. 168 at 31 December, 2013 using the following methods (Please show number of units, unit price and total value in your answer):

- (i) **First-in-first-out** (24 %)  
(ii) **Last-in-first-out** (24 %)  
(iii) **Moving weighted average cost** (24 %)
- (b) Four seasons Garments Co. produces pants and the standard costs are shown below.  
Direct materials: 1.5 square metre @ \$30  
Direct labour: 2 hours @\$20

100,000 units were produced in Dec. 2013 with actual cost as follows:  
Direct materials purchased and used: 160,000 square metre @\$28  
Direct labour hours used: 220,000 hours @\$21

**You are required to calculate:**

- (i) **Direct material usage variance** (7 %)  
(ii) **Direct material price variance** (7 %)  
(iii) **Direct labour efficiency variance** (7 %)  
(iv) **Direct labour rate variance** (7 %)

## Section B

### Question 5 to Question 8

Choose at least TWO questions

#### Question 5

- (a) Distinguish between prepaid expenses and accrued expenses. **(15 %)**
- (b) Distinguish between current liabilities and long term liabilities. Please explain your answer by examples. **(15 %)**
- (c) Explain the rights and needs of seven users of financial statements. **(70 %)**

#### Question 6

- (a) Define break even point. **(15 %)**
- (b) Define step cost. Please explain your answer by examples. **(20 %)**
- (c) Distinguish between direct costs and indirect costs. **(15 %)**
- (d) Briefly explain the three elements of direct costs and three elements of indirect costs. **(30 %)**
- (e) Distinguish between variable costs and fixed costs. Please explain your answer by examples. **(20 %)**

#### Question 7

- (a) Distinguish between job costing and process costing. **(27 %)**
- (b) State six advantages and three disadvantages of job costing. **(45 %)**
- (c) State four types of standards used in standard costing. **(28 %)**

#### Question 8

- (a) State the five steps involved in the entire process of budgetary control. **(20 %)**
- (b) State seven advantages and four limitations of budgeting. **(44 %)**
- (c) Define maximum stock level , minimum stock level and re-order stock level. **(24 %)**
- (d) State the six factors that should be considered in fixing maximum stock level. **(12 %)**

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