



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

Examination Paper

1st Term, 2016

Module Name: Accounting and Costing

Module Code: 143

Date: 18 Mar 2016

Time Allowed: 3 hours

Reading Time: 15 minutes

Examination Time: 7:15pm – 10:15pm

This question paper has 6 pages (including this page).

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) The following transactions of raw material No.678 are extracted from the books of accounts of Au's Garments Co. of the month of December 2015:

2015	Purchased Number of units	Purchased Unit price (\$)	Sold Number of units
December			
1	8,000	13	
6	8,000	11	
16			10,000
26	4,000	10	
31			7,000

You are required to calculate the stock balance of raw material No. 678 at 31 December, 2015 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) Chow's Garments Co. produces jeans and the standard costs are shown below.
Direct materials: 1.8 square metres @ \$10
Direct labour: 2 hours @\$15
- 200,000 units were produced in Dec. 2015 with actual cost as follows:
Direct materials purchased and used: 370,000 square metre @\$9
Direct labour hours used: 430,000 hours @\$16
- 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 %)**



Question 2

- (a) Chan's 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 (\$)	250	90	370
Variable cost per unit (\$)	210	40	250
Maximum quantity of production per month (units)	20,000	60,000	40,000
Total production hours available for the month (40,000 hours)			
Maximum market demand per month (units)	15,000	7,500	10,000

The production hours cannot be increased beyond 40,000 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 Li's 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, 2018	(700,000)	(700,000)	(700,000)	(700,000)
December 31, 2018	100,000	300,000	500,000	300,000
December 31, 2019	100,000	300,000	200,000	300,000
December 31, 2020	500,000	100,000	200,000	300,000
December 31, 2021	500,000	600,000	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 3

The following is trial balance of Cheung's Garments Co. at 31 December, 2015.

	Dr. \$	Cr. \$
Capital		350,000
Carriage outwards	8,000	
Cash at bank	92,000	
Discount allowed	18,700	
Discount received		6,000
Drawings	7,000	
Electricity	9,800	
Furniture and Fixture	400,000	
Insurance expenses	8,000	
Office Equipment	200,000	
Purchases	260,000	
Rent	90,000	
Return inwards	9,500	
Return outwards		2,500
Salary	96,000	
Sales		900,000
Stock at 1 January, 2015	24,000	
Trade creditors		53,000
Trade debtors	83,000	
Sundry expenses	5,500	
	1,311,500	1,311,500

Additional information:

- i. Stock at 31 December, 2015 was \$30,000
- 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, 2015 was \$2,000.
- iv. Salary to be accrued at 31 December, 2015 was \$3,000
- v. A customer Law 's Co. went into liquidation on Dec. 31, 2015 and the balance of trade debtors for \$4,000 needed to be written off.

You are required to prepare :

- (a) Trading and Profit and Loss account for the year ended 31 December, 2015. (50 %)
- (b) Balance Sheet as at 31 December, 2015. (50 %)



Question 4

- (a) Wong's Garments Co. manufactures and sells a single product (jeans). The result for the year ended 31 December 2015 is shown below:

	\$	\$
Sales(2,000,000units)		60,000,000
Direct materials	20,000,000	
Direct labour	10,000,000	
Variable Overheads	8,000,000	
Fixed Overheads	4,000,000	
Administrative expenses	1,000,000	

Total costs and expenses		<u>43,000,000</u>
Net profit		<u>17,000,000</u>
		=====

The following information is available for preparing the budget for the year ending 31 December, 2016

- (i) Selling price will be lowered by 10% and sales quantity will increase by 30%.
- (ii) Cost of direct materials will increase by 6%.
- (iii) Direct labour hourly wages rate will increase by 5%.
- (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 2016 **(50 %)**

- (b) The director of Ho's Garments Co. has submitted the following sales and cost information of the company for the year ended December 31, 2015.

	Per unit
1. 50,000 units of shirts were produced and sold	Selling price: \$100
2. Direct Materials : \$700,000	
3. Direct labour : \$800,000	
4. Variable overhead : \$800,000	
5. Fixed overhead : \$200,000	
6. Selling expenses (Variable) : \$700,000	
7. Administrative expenses (Fixed) : \$400,000	

You are required to :

- (i) Prepare a Marginal Costing Income Statement for the year ended 31 December 2015. **(40 %)**
- (ii) Calculate marginal contribution per unit. **(5 %)**
- (iii) If the sales quantity is 60,000 units, calculate the net profit. **(5 %)**



Section B

Question 5 to Question 8

Choose at least TWO questions

Question 5

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

Question 6

- (a) Distinguish between direct costs and indirect costs. (20 %)
- (b) Briefly explain the three elements of direct costs and three elements of indirect costs. (30 %)
- (c) Distinguish between variable costs and fixed costs. Please explain your answer by examples. (20 %)
- (d) Define step cost. Please explain your answer by examples. (20 %)
- (e) Define breakeven point (10 %)

Question 7

- (a) Define Standard costing. (15 %)
- (b) State four types of standards used in standard costing. (28 %)
- (c) Define process costing. (12%)
- (d) State six advantages and three disadvantages of job costing. (45 %)

Question 8

- (a) Define maximum stock level , minimum stock level and re-order stock level. (36 %)
- (b) State the six factors that should be considered in fixing maximum stock level. (12 %)
- (c) Define budget. (12%)
- (e) State five advantages and three limitations of budgeting. (40 %)

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