



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

**Examination Paper**

1<sup>st</sup> Term, 2017

Module Name: Accounting and Costing

Module Code: 143

Date: 16 Feb 2017

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.
- 

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) Victory 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)	200,000	60,000
	\$	\$
Sales amount	6,000,000	12,000,000
Direct materials	2,000,000	5,500,000
Direct labour	1,000,000	2,000,000
Variable overhead	900,000	1,000,000
Fixed overhead	600,000	600,000
Variable selling expenses	500,000	500,000
Fixed administrative expenses	700,000	700,000

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

Proposal 1: To increase 20% in production and sales quantity of pants and reduce production and sales of shirts by 2,000 units.

Proposal 2: To reduce production and sales quantity of pants by 20,000 units and increase production and sales of shirts by 10%.

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

- (b) Ip's Garments Co. has prepared the following budgeted information from September to December, 2017. **(50 %)**

	\$ September	\$ October	\$ November	\$ December
Sales	80,000	80,000	80,000	90,000
Purchase of Materials	50,000	50,000	50,000	60,000
Expenses (including depreciation)	12,000	12,000	12,000	13,000
Depreciation	500	500	1,500	1,500

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 \$60,000 is planned to be purchased and paid in October, 2017.
- Profit tax for \$20,000 will be paid in December, 2017.
- The budgeted cash balance at 1 October, 2017 is \$99,000.

You are required to prepare a monthly cash budget for the three months ending 31 December, 2017.



## Question 2

The following trial balance was extracted from books of accounts of Wu's Garments Co. on 31 December, 2016.

	DR \$	CR \$
Insurance expenses	14,000	
Capital		800,000
Carriage inwards	13,300	
Carriage outwards	28,200	
Cash at Bank	400,000	
Cash in hand	180,000	
Discount allowed	26,000	
Discount received		10,000
Drawings	30,000	
Electricity	42,000	
Furniture and fixture	400,000	
Interest expenses	50,000	
Motor vehicle	500,000	
Purchases	3,144,000	
Rent	90,000	
Return inwards	36,000	
Return outwards		46,000
Salary	69,000	
Sales		4,557,000
Stock at 1 January, 2016	40,000	
Sundry Expenses	6,500	
Trade creditors		688,000
Trade debtors	1,532,000	
10% loan payable (repayable on 31 Dec., 2018)		500,000
	----- 6,601,000 =====	----- 6,601,000 =====

### Additional information:

1. Stock at 31 December, 2016 was \$55,000.
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, 2016 was \$1,000.
4. Sundry Expenses to be accrued at 31 December, 2016 is \$1,000.
5. The provision for doubtful debts is estimated to be \$50,000.

### You are required to prepare:

- (a) Trading and Profit and Loss account for the year ended 31 December, 2016. **(57.5%)**
- (b) Balance Sheet as at 31 December, 2016. **(42.5%)**



### Question 3

- (a) Ha'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 2016 were rent \$2,400,000, electricity \$160,000, repairs to equipment \$40,000, depreciation of equipment \$1,600,000 and supervision expenses \$800,000.

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:

	<u>Cost centres</u>			
	Jeans	Shirts	Pants	Factory service
Area, sq. metre	400	300	200	100
Value of equipment	\$1,600,000	\$1,200,000	\$800,000	\$400,000
Number of employees	50	20	20	10
Direct wages	\$500,000	\$250,000	\$250,000	

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 management of Au's Garments Co. is considering the following investment proposals: **(20 %)**

Date	Project A (Production and sales of Jeans)	Project B (Production and sales of Shirts)	Project C (Production and sales of Pants)	Project D (Production and sales of Sport Jackets)
	Cash inflow/ (Cash outflow) \$	Cash inflow/ (Cash outflow) \$	Cash inflow/ (Cash outflow) \$	Cash inflow/ (Cash outflow) \$
1 January, 2018	(80,000)	(80,000)	(80,000)	(80,000)
31 December, 2018	20,000	60,000	40,000	80,000
31 December, 2019	30,000	20,000	20,000	20,000
31 December, 2020	15,000	20,000	20,000	10,000
31 December, 2021	15,000	20,000	30,000	10,000
31 December, 2022	80,000	20,000	90,000	10,000

Additional information:

Au's 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.



### Question 4

(a) The director of Chiu's Garments Co. has submitted the following sales and cost information of the company for the year ended December 31 2016.

1. 40,000 units of jeans were produced and sold	\$4,000,000
2. Direct Materials	\$1,500,000
3. Direct labour	\$1,000,000
4. Variable overhead	\$500,000
5. Fixed overhead	\$300,000
6. Selling expenses (Variable)	\$200,000
7. Administrative expenses (Fixed):	\$100,000

**You are required to :**

- |  |       |
|--|-------|
| i. calculate total marginal contribution.                                | (7 %) |
| ii. calculate marginal contribution per unit.                            | (7 %) |
| iii. calculate the breakeven sales quantity.                             | (7 %) |
| iv. calculate the sales quantity if the desired net profit is \$800,000. | (7 %) |

(b) The financial information of Chow's Garments Co. For 2015 and 2016 are shown below: (72 %)

	For the year ended 31 December	
	2016 (\$'000)	2015(\$'000)
Sales	80,000	60,000
Opening stock	5,000	4,000
Purchase	66,000	46,000
Less: Closing Stock	7,000	5,000
Cost of goods sold	64,000	45,000
Gross Profit	16,000	15,000
Less: Operating expenses	15,200	13,800
Profit (before tax and interest)	800	1,200
Fixed assets, cost	4,000	4,000
Less: Provision for depreciation	1,600	800
Current assets		
Stock	7,000	5,000
Trade Debtors	9,000	8,000
Cash at Bank	200	100
Current Liabilities		
Trade creditors	8,000	7,000

The balance of Trade Debtors at December 31, 2014 is \$6,000,000.

You are required to calculate the following accounting ratios for 2015 and 2016: (12% each)

- |                                      |  |
|--------------------------------------|--|
| i. Current ratio                     | iv. Debtors Collection period(in days) |
| ii. Quick ratio                      | v. Gross profit margin                 |
| iii. Stock turnover period (in days) | vi. Net profit margin                  |



## Section B

### Question 5 to Question 8

Choose at least TWO questions

#### Question 5

- (a) Distinguish between bad debts and doubtful debts. **(30 %)**
- (b) Distinguish between accrual basis of accounting and cash basis of accounting. **(30 %)**
- (c) Distinguish between current assets and fixed assets. Please explain your answer by examples. **(30 %)**
- (d) State two basic ways in which financial ratios of a company can be interpreted. **(10 %)**

#### Question 6

- (a) Define margin of safety and list the methods to increase margin of safety. **(40 %)**
- (b) Define perpetual inventory system. **(15 %)**
- (c) List six advantages of perpetual inventory system. **(30 %)**
- (d) State three objectives of stock control. **(15 %)**

#### Question 7

- (a) Distinguish between cost allocation and cost apportionment. **(20 %)**
- (b) List four advantages and five disadvantages of payback period method used for investment appraisal. **(30 %)**
- (c) Distinguish between zero based budgeting and conventional budgeting. **(30 %)**
- (d) State four advantages of zero based budgeting. **(20 %)**

#### Question 8

- (a) Distinguish between remuneration on time basis system and remuneration on piece work system. **(20 %)**
- (b) State five advantages and three disadvantages of remuneration on time basis system. **(40 %)**
- (c) State four advantages and four disadvantages of remuneration on piece work system. **(40 %)**