

10 Which statement is **not** correct?

- A Control accounts reveal whether there are errors in sales and purchases ledgers.
- ✓ B Credit balances in a sales ledger are trade receivables.
- C Debit balances in a purchases ledger are current assets. *inventory*
- D A sales ledger control account includes irrecoverable debts.

11 A business maintains an allowance for irrecoverable debts of 5% of trade receivables. At the end of the current financial year, trade receivables totalled \$8000 which was 20% less than the year before.

How will the profit for the current financial year be affected by the change in the allowance for irrecoverable debts?

- A decrease by \$100
- B decrease by \$400
- ✓ C increase by \$100
- D increase by \$400

*Last year's trade receivables =  $8000 / 0.8 = 10000$   
 Allowance for bad debt =  $10000 \times 0.05 = \$500$   
 This year's allowance =  $8000 \times 0.05 = \$400$   
 Profit of current year will increase by 100  
 (as expense go down)*

12 A trader does **not** keep full records but supplies the following information.

*Actual Sales = 19030  
 + 5400 + 7200  
 + 7 (cash increase)  
 = 31,637*

	1 January	31 December
	\$	\$
bank (debit)	4240	6320
cash balance	264	271

*issued cheques 4240  
 -19950  
 Sale +3000  
 -6320  
 -----  
 +7 19030  
 = Sales per bank*

Cheques issued during the year were \$19 950.

All takings from sales were banked except that cash of \$5400 was used for drawings and \$7200 was paid for wages.

In addition, \$3000 was paid to bank from the sale of a motor vehicle.

What was the total amount of sales during the year?

- A \$22 037
- B \$31 630
- ✓ C \$31 637
- D \$34 637

- 20 When comparing with the previous year, a trader finds that his gross profit margin has increased and his trade receivables turnover has decreased.

Which statement would explain this?

COGS decreased, or Revenue increased, More customers paid cash

- A He bought in bulk and passed the savings on to his customers who bought more.
- B He offered more trade discount and more customers paid in cash.
- ✓ C He raised his selling price and offered more cash discounts.
- D He reduced his selling price to increase the total value of sales.
- 21 B Limited had credit sales for the year of \$3 285 000 and trade receivables at year end of \$405 000.

The sales director believed that if cash discounts had been given, then trade receivables would have been \$351 000. The allowance for irrecoverable debts would have been reduced by \$9000.

What difference would the discounts have made to the trade receivables turnover?

- A It would have been 5 days faster.
- B It would have been 5 days slower.
- ✓ C It would have been 6 days faster.
- D It would have been 6 days slower.
- Receivable days =  $\frac{\text{Receivables} \times 365}{\text{credit sales}}$
- Previously, Days =  $\frac{405000 \times 365}{3285000} = 45 \text{ days}$
- Now, Receivable Days =  $\frac{351000 \times 365}{3285000} = 39 \text{ days}$

- 22 A business makes wedding dresses. Each machinist is paid \$30 a day and each supervisor \$40 a day. Each supervisor can work with up to 10 machinists and each machinist can produce one wedding dress a day.  $95 \times 30 + 10 \times 40 = 400 + 2850 = 3250$

If 95 wedding dresses a day are produced, what is the daily labour cost?

- A \$2850      B \$3210      C \$3230      ✓ D \$3250

Machinists = 95/day needed

Supervisor = 10/day needed

- 23 Which statement best describes variable costs?

- A costs that are the same in total up to a certain level then increase with output
- B costs that are the same in total over any output level
- ✓ C costs that are constant per unit as output increases
- D costs that increase per unit as output increases
- Variable costs are calculated per unit and remain consistent till 100% factory output.

24 P Limited makes wooden chairs at a unit cost of \$70 each.

It has received an order to produce a batch of 1000 wooden chairs with padded seats. This requires \$6000 of additional materials, an extra 500 labour hours at \$15 per hour and a \$2000 increase in overheads.

What is the cost of the batch?

- A \$13 500      B \$15 500      C \$83 500       D \$85 500

$$\begin{array}{r}
 \text{Add materials} \quad 7000 \ 0 \\
 \quad \quad \quad \quad 600 \ 0 \\
 \quad \quad \quad \quad 7500 \quad \text{Labour} \\
 \quad \quad \quad \quad \underline{2000} \quad \text{OH cost} \\
 \quad \quad \quad \underline{85500}
 \end{array}$$

25 Why would overheads be over absorbed?

- A Overheads absorbed is less than overheads budgeted.  
 B Overheads absorbed is more than overheads budgeted.  
 C Overheads incurred is less than overheads absorbed.  
 D Overheads incurred is more than overheads absorbed.

$$\text{Actual O.H} < \text{Budgeted Rate} \times \text{Actual Labour Hours}$$

26 A company makes one product with a selling price of \$384 per unit. The costs are as follows:

	per unit
direct materials	4 kilos at \$8 per kilo
direct labour	8 hours at \$12 per hour
selling and distribution	\$40

$$\begin{array}{r}
 \text{COGS} = 384 \times 0.5 \\
 = 192 \\
 - 40 \\
 - 96 \\
 - 32 \\
 \hline
 \text{Overhead} = 24
 \end{array}$$

The mark-up is 50%.

$$\text{Absorption Rate} = \frac{24}{8} = \$3 \text{ per labour hour}$$

What is the factory overhead absorption rate per labour hour?

- A \$3      B \$5      C \$11      D \$22

27 Which statements about marginal costing are correct?

- 1 It enables a business to make the best use of its resources when there is a limiting factor. *Calculate fixed costs of operations*  
 2 It ensures that decisions taken are based upon the total cost of producing a product.  
 3 It takes into account apportionment of service costs to production cost centres.  
 4 It usually leads to a lower inventory valuation than absorption costing. *Does not include fixed cost in product cost*

- A 1 and 4 only      B 1, 2 and 4      C 2 and 3      D 3 and 4 only