

Cambridge
International
AS & A Level

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Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING**9706/32**

Paper 3 A Level Structured Questions

March 2019

MARK SCHEME

Maximum Mark: 150

Published

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge International will not enter into discussions about these mark schemes.

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This document consists of **22** printed pages.

Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

Question	Answer	Marks																														
1(a)	<p data-bbox="215 712 247 1518">Income and expenditure account for year ended 30 June 2018</p> <table data-bbox="287 481 798 1769"> <tr> <td data-bbox="287 1556 359 1769">Subscription fee</td> <td data-bbox="287 851 319 873">\$</td> <td data-bbox="287 627 319 649">\$</td> </tr> <tr> <td data-bbox="359 1041 391 1769">(\$544 000 + \$3400 + \$8200) (1) – (\$7000 + \$2400) (1))</td> <td></td> <td data-bbox="359 593 391 705">546 200</td> </tr> <tr> <td data-bbox="391 1310 422 1769">Restaurant profit (\$12 600 – \$3300)</td> <td></td> <td data-bbox="391 593 422 705"><u>9 300</u> (1)</td> </tr> <tr> <td></td> <td></td> <td data-bbox="422 593 454 705"><u>555 500</u></td> </tr> <tr> <td data-bbox="470 1265 502 1769">Depreciation clubhouse \$300 000 × 4%</td> <td data-bbox="470 817 502 907">12 000</td> <td data-bbox="470 526 502 571">(1)</td> </tr> <tr> <td data-bbox="502 1086 534 1769">Depreciation equipment (\$140 000 – \$64 000) × 15%</td> <td data-bbox="502 817 534 907">11 400</td> <td data-bbox="502 526 534 571">(1)</td> </tr> <tr> <td data-bbox="534 1444 566 1769">Club operating expenses</td> <td data-bbox="534 817 566 907">192 000</td> <td></td> </tr> <tr> <td data-bbox="566 1534 598 1769">Club staff salaries</td> <td data-bbox="566 817 598 907">326 000</td> <td></td> </tr> <tr> <td data-bbox="614 1321 710 1769">Loan interest \$10 000 × 10% × $\frac{6}{12}$</td> <td data-bbox="614 817 710 907"><u>500</u></td> <td data-bbox="614 526 710 571">(1)</td> </tr> <tr> <td data-bbox="726 1310 758 1769">Surplus of income over expenditure</td> <td></td> <td data-bbox="726 481 798 705"><u>541 900</u> <u>13 600</u> (1) OF</td> </tr> </table>	Subscription fee	\$	\$	(\$544 000 + \$3400 + \$8200) (1) – (\$7000 + \$2400) (1))		546 200	Restaurant profit (\$12 600 – \$3300)		<u>9 300</u> (1)			<u>555 500</u>	Depreciation clubhouse \$300 000 × 4%	12 000	(1)	Depreciation equipment (\$140 000 – \$64 000) × 15%	11 400	(1)	Club operating expenses	192 000		Club staff salaries	326 000		Loan interest \$10 000 × 10% × $\frac{6}{12}$	<u>500</u>	(1)	Surplus of income over expenditure		<u>541 900</u> <u>13 600</u> (1) OF	7
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1(b)	<p>Responses could include:</p> <ul style="list-style-type: none"> receipts and payments account is a summary of cash book while income and expenditure account is of same nature as an income statement; (1) receipts and payments account applies cash basis accounting while income and expenditure account applies accrual accounting; (1) receipts and payments account records only cash transactions while income and expenditure also records non-cash transactions such as depreciation; (1) receipts and payments account looks for the increase / decrease in cash during the year while income and expenditure account looks for the surplus / deficit; (1) the opening balance of receipts and payments account represents cash balance at bank and in hand while there is no opening balance for income and expenditure account. (1) <p>Accept other valid points. (1 mark) × 2 differences</p>	2

Question	Answer	Marks																																																																																																														
1(c)	<p style="text-align: center;">Statement of financial position at 30 June 2018</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 15%; text-align: right;">\$</th> <th style="width: 15%; text-align: right;">Accumulated depreciation</th> <th style="width: 10%; text-align: right;">\$</th> <th style="width: 10%; text-align: right;">NBV</th> </tr> </thead> <tbody> <tr> <td>Non-current assets</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Clubhouse</td> <td style="text-align: right;">300 000</td> <td style="text-align: right;">168 000</td> <td></td> <td style="text-align: right;">132 000</td> </tr> <tr> <td>Equipment</td> <td style="text-align: right;">140 000</td> <td style="text-align: right;">75 400</td> <td></td> <td style="text-align: right;">64 600</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>440 000</u></td> <td style="text-align: right;"><u>243 400</u></td> <td></td> <td style="text-align: right;"><u>196 600</u></td> </tr> <tr> <td>Current assets</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Inventory</td> <td></td> <td style="text-align: right;">23 400</td> <td></td> <td></td> </tr> <tr> <td>Subscriptions in arrears</td> <td></td> <td style="text-align: right;">8 200</td> <td></td> <td></td> </tr> <tr> <td>Cash and cash equivalents</td> <td></td> <td style="text-align: right;">7 700</td> <td></td> <td></td> </tr> <tr> <td>Total assets</td> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>39 300 (1)</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>235 900</u></td> </tr> <tr> <td>Accumulated fund at 1 July 2017</td> <td></td> <td></td> <td></td> <td style="text-align: right;">194 000</td> </tr> <tr> <td>Surplus for the year</td> <td></td> <td></td> <td></td> <td style="text-align: right;">13 600</td> </tr> <tr> <td>Non-current liability</td> <td></td> <td></td> <td></td> <td style="text-align: right;">10 000 (1)</td> </tr> <tr> <td>Loan from member</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Current liabilities</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Trade payables</td> <td></td> <td style="text-align: right;">12 100</td> <td></td> <td></td> </tr> <tr> <td>Subscriptions in advance</td> <td></td> <td style="text-align: right;">2 400</td> <td style="text-align: right;">(1)</td> <td></td> </tr> <tr> <td>Accrued wages</td> <td></td> <td style="text-align: right;">3 300</td> <td style="text-align: right;">}</td> <td></td> </tr> <tr> <td>Accrued interest</td> <td></td> <td style="text-align: right;">500</td> <td style="text-align: right;">} (1) OF</td> <td></td> </tr> <tr> <td>Total accumulated fund and liabilities</td> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>18 300</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>235 900</u></td> </tr> </tbody> </table>		\$	Accumulated depreciation	\$	NBV	Non-current assets					Clubhouse	300 000	168 000		132 000	Equipment	140 000	75 400		64 600		<u>440 000</u>	<u>243 400</u>		<u>196 600</u>	Current assets					Inventory		23 400			Subscriptions in arrears		8 200			Cash and cash equivalents		7 700			Total assets				<u>39 300 (1)</u>					<u>235 900</u>	Accumulated fund at 1 July 2017				194 000	Surplus for the year				13 600	Non-current liability				10 000 (1)	Loan from member					Current liabilities					Trade payables		12 100			Subscriptions in advance		2 400	(1)		Accrued wages		3 300	}		Accrued interest		500	} (1) OF		Total accumulated fund and liabilities				<u>18 300</u>					<u>235 900</u>	7
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1(e)	<p>Responses could include:</p> <ul style="list-style-type: none"> less paper work and procedures (than bank loan) quicker to obtain loan (than bank loan) may not require collateral (vs. bank loan) <p>however:</p> <ul style="list-style-type: none"> still may have to pay interest still may have to repay the loan already has a loan from a member \$10 000; members may refuse to lend more <p>Accept other valid points. (2 marks) for explaining one reason for obtaining members' loan and (2 marks) for explaining one reason against members' loan. (1 mark) for decision.</p>	5										

Question	Answer	Marks
2(a)	<p>Trade receivables turnover = $\frac{137\,500}{994\,000} \times 365 = 51$ days (1)</p> <p>Inventory turnover ratio = $\frac{220\,000}{640\,000} \times 365 = 126$ days (1) OF</p> <p>Trade payables turnover = $\frac{52\,100}{680\,000} \times 365 = 28$ days (1)</p> <p>Working capital cycle = $51 + 126 - 28 = 149$ days (1) OF</p>	5
2(b)	<p>The company is receiving payments and making payments within the agreed period. (1)</p> <p>Payments are being made before receipt (1) so there will be an adverse effect on cash flow. (1)</p> <p>Inventory turnover ratio has worsened from the previous year. (1) OF</p> <p>Liquidity could be improved by reducing receivable days and inventory turnover ratio whilst increasing payables days. (1)</p> <p>Accept other valid points.</p>	5
2(c)	<p>The ratio has worsened from the previous year (1) because a greater proportion of the revenue is being used to fund the working capital cycle. (1)</p> <p>The increase in the closing inventory has contributed to this (1) and indicates greater inefficiency. (1)</p> <p>The fall in trade payables (1) and rise in trade receivables (1) have also had the same effect.</p> <p>Accept other valid points.</p>	6

Question	Answer	Marks
2(d)	<p>The gearing of F Limited is lower which indicates less risk (1) although both are low geared companies. (1)</p> <p>Earnings per share of C Limited is higher which is better (1) indicating greater profits for each share held. (1)</p> <p>Dividend cover of C Limited is higher which is better (1) indicating that there is a greater proportion of profits available for the payment of dividends. (1)</p> <p>Dividend per share of C Limited is higher which is better (1) showing that a higher dividend is paid for each share owned. (1)</p> <p>From the limited information available, I would advise Blair to invest in C Limited. (1)</p> <p>Accept other valid points.</p> <p>Award 1 mark for decision and max 2 marks for each ratio.</p>	9

Question	Answer	Marks															
3(a)	<p>The closing inventory is valued at:</p> <table style="margin-left: 40px;"> <tr> <td>unsold containers</td> <td style="text-align: right;">\$</td> <td></td> </tr> <tr> <td>$6 \times 7\,200$</td> <td></td> <td style="text-align: right;">43 200 (1)</td> </tr> <tr> <td>shipping expenses $\frac{1}{5} \times 11\,600$</td> <td></td> <td style="text-align: right;">2 320 (1)</td> </tr> <tr> <td>customs charges $\frac{1}{5} \times 7\,800$</td> <td></td> <td style="text-align: right;">1 560 (1)</td> </tr> <tr> <td>closing inventory valuation.</td> <td></td> <td style="text-align: right;"><u>47 080</u> (1) OF</td> </tr> </table>	unsold containers	\$		$6 \times 7\,200$		43 200 (1)	shipping expenses $\frac{1}{5} \times 11\,600$		2 320 (1)	customs charges $\frac{1}{5} \times 7\,800$		1 560 (1)	closing inventory valuation.		<u>47 080</u> (1) OF	4
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3(b)(i)	<p>Consignment account</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 30%; text-align: right;">Sales</td> <td style="width: 40%; text-align: right;">\$ 244 800 (1)</td> </tr> <tr> <td>Goods on consignment</td> <td style="text-align: right;">216 000 (1)</td> <td></td> </tr> <tr> <td>Shipping expenses</td> <td style="text-align: right;">11 600 (1)</td> <td></td> </tr> <tr> <td>Commission</td> <td style="text-align: right;">12 240 (1)</td> <td></td> </tr> <tr> <td>Customs charges</td> <td style="text-align: right;">7 800 (1)</td> <td></td> </tr> <tr> <td>Income statement</td> <td style="text-align: right;">44 240 (1) OF</td> <td style="text-align: right;">47 080</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>291 880</u></td> <td style="text-align: right;"><u>291 880</u></td> </tr> <tr> <td>Balance b/d</td> <td style="text-align: right;">47 080 (1) OF</td> <td></td> </tr> </table>		Sales	\$ 244 800 (1)	Goods on consignment	216 000 (1)		Shipping expenses	11 600 (1)		Commission	12 240 (1)		Customs charges	7 800 (1)		Income statement	44 240 (1) OF	47 080		<u>291 880</u>	<u>291 880</u>	Balance b/d	47 080 (1) OF		7
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3(b)(ii)	<p>Maureen account</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 30%; text-align: right;">Consignment a/c -sales</td> <td style="width: 40%; text-align: right;">\$ 244 800 (1)</td> </tr> <tr> <td>Consignment a/c -sales</td> <td style="text-align: right;">244 800 (1)</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>244 800</u></td> <td style="text-align: right;">12 240 (1) OF</td> </tr> <tr> <td>Balance b/d</td> <td style="text-align: right;">4 440 (1) OF</td> <td style="text-align: right;">220 320 (1)</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>4 440</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>244 800</u></td> </tr> </table>		Consignment a/c -sales	\$ 244 800 (1)	Consignment a/c -sales	244 800 (1)			<u>244 800</u>	12 240 (1) OF	Balance b/d	4 440 (1) OF	220 320 (1)			<u>4 440</u>			<u>244 800</u>	5						
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3(d)	The debit balance (1) on Maureen's account shows the amount payable by Maureen (trade receivable – the consignee) (1) to SH Limited (the consignor). (1)	3																								

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3(e)	<table border="1"> <tr> <td>Consignment</td> <td>Joint venture</td> </tr> <tr> <td>Long-term trading relation (1)</td> <td>Short-term, specific purpose (1)</td> </tr> <tr> <td>Profit usually commission (1)</td> <td>Joint venture total profit shared (1)</td> </tr> <tr> <td>Involves consignor and consignee (1)</td> <td>Involves co-venturers (1)</td> </tr> <tr> <td>Control exercised by consignor (1)</td> <td>Both parties have control over decisions (1)</td> </tr> </table> <p>Accept other valid points. Max 4</p>	Consignment	Joint venture	Long-term trading relation (1)	Short-term, specific purpose (1)	Profit usually commission (1)	Joint venture total profit shared (1)	Involves consignor and consignee (1)	Involves co-venturers (1)	Control exercised by consignor (1)	Both parties have control over decisions (1)	4
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4(a)(i)	No movement of funds is involved. (1)	1
4(a)(ii)	Revaluation of non-current asset. (1) Accept other valid points.	1

Question	Answer	Marks																																																												
4(b)	<p>T plc Schedule of non-current assets</p> <table border="1"> <thead> <tr> <th></th> <th>Land and buildings</th> <th>Machinery</th> <th>Fixtures and fittings</th> <th>Total</th> </tr> <tr> <th></th> <th>\$000</th> <th>\$000</th> <th>\$000</th> <th>\$000</th> </tr> </thead> <tbody> <tr> <td>Cost at 1 January 2018</td> <td>400</td> <td>214</td> <td>82</td> <td>696</td> </tr> <tr> <td>Purchases</td> <td></td> <td>262</td> <td>10</td> <td>272</td> </tr> <tr> <td>Disposals</td> <td></td> <td>(100)</td> <td></td> <td>(100)</td> </tr> <tr> <td>Cost at 31 December 2018</td> <td><u>400</u></td> <td><u>376</u></td> <td><u>92</u></td> <td><u>868</u></td> </tr> <tr> <td>Accumulated depreciation at 1 January 2018</td> <td>12</td> <td>112</td> <td>17</td> <td>141</td> </tr> <tr> <td>Charge for the year</td> <td>4</td> <td>84</td> <td>9</td> <td>97</td> </tr> <tr> <td>Eliminated on disposals</td> <td></td> <td>(70)</td> <td></td> <td>(70)</td> </tr> <tr> <td>Accumulated depreciation at 31 December 2018</td> <td><u>16</u></td> <td><u>126</u></td> <td><u>26</u></td> <td><u>168</u></td> </tr> <tr> <td>NBV at 31 December 2018</td> <td><u>384</u></td> <td><u>250</u></td> <td><u>66</u></td> <td><u>700</u></td> </tr> <tr> <td>NBV at 1 January 2018</td> <td><u>388</u></td> <td><u>102</u></td> <td><u>65</u></td> <td><u>555</u></td> </tr> </tbody> </table> <p>* depreciation eliminated = 100 + 12 – 42 = 70 (2) for correct answer in correct column (1) for other answer based on 100 in correct column</p>		Land and buildings	Machinery	Fixtures and fittings	Total		\$000	\$000	\$000	\$000	Cost at 1 January 2018	400	214	82	696	Purchases		262	10	272	Disposals		(100)		(100)	Cost at 31 December 2018	<u>400</u>	<u>376</u>	<u>92</u>	<u>868</u>	Accumulated depreciation at 1 January 2018	12	112	17	141	Charge for the year	4	84	9	97	Eliminated on disposals		(70)		(70)	Accumulated depreciation at 31 December 2018	<u>16</u>	<u>126</u>	<u>26</u>	<u>168</u>	NBV at 31 December 2018	<u>384</u>	<u>250</u>	<u>66</u>	<u>700</u>	NBV at 1 January 2018	<u>388</u>	<u>102</u>	<u>65</u>	<u>555</u>	9
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Question	Answer	Marks
4(d)	<p>The directors should continue with the statement of cash flows. (1)</p> <p>A statement of cash flows is a requirement of IAS 1. (1) It shows how cash has been acquired and applied. (1) It is a link between two statements of financial position. (1)</p> <p>A cash budget is a management tool. (1) It deals with the future, not historical data. (1) If published, it could be of use to competitors. (1)</p> <p>Accept other valid points. (1) for decision + (Max 2) for comments on statement of cash flows at (1) mark each and (Max 2) for comments on cash budgets.</p>	5

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5(b)	Cost driver is the factor that causes the change (1) in the cost of an activity. (1)	2																												

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5(c)	<p>Advantages</p> <p>ABC provides more reliable information for product costing, i.e. it is based on activity cost driver. (1)</p> <p>ABC facilitates pricing decision. (1)</p> <p>Disadvantages</p> <p>It is time consuming to implement ABC. (1)</p> <p>Determining the cost driver may be difficult. (1)</p> <p>Measuring the quantity of each cost driver consumed may be difficult. (1)</p> <p>It is costly because it may be necessary to employ a specialist to implement the ABC system. (1)</p> <p>Accept other valid points.</p> <p>Max 2 for advantages, Max 3 for disadvantages</p>	5

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6(a)(iv)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%;"></td> <td style="width: 15%; text-align: right;">Labour efficiency</td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> </tr> <tr> <td style="text-align: right;">standard</td> <td style="text-align: right;">5900 units</td> <td style="text-align: right;">× 1.5 hours</td> <td></td> <td style="text-align: right;">8 850</td> <td></td> </tr> <tr> <td style="text-align: right;">actual</td> <td></td> <td></td> <td></td> <td style="text-align: right;">9 500</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="border-top: 1px solid black; text-align: right;">650</td> <td style="text-align: right;">hours</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">×</td> <td style="text-align: right;">\$4.50</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="border-top: 1px solid black; text-align: right;">\$2 925</td> <td style="text-align: right;">A (1)</td> </tr> </table>		Labour efficiency					standard	5900 units	× 1.5 hours		8 850		actual				9 500						650	hours				×	\$4.50						\$2 925	A (1)	2
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	1 mark for calculation plus 1 mark for direction																																					

Question	Answer	Marks
6(b)	<p>Material price variance – adverse</p> <p>Unexpected price increase.</p> <p>Loss of previous discount from supplier.</p> <p>Better quality materials purchased.</p> <p>(1 mark) × any 1 reason OF</p> <p>Material usage variance – favourable</p> <p>Less wastage due to better quality material.</p> <p>Less wastage due to better skilled/experienced workforce.</p> <p>(1 mark) × any 1 reason OF</p> <p>Labour rate – favourable</p> <p>A planned pay increase was not given.</p> <p>Use of lower skilled labour.</p> <p>Greater supply of labour.</p> <p>(1 mark) × any 1 reason OF</p>	4

Question	Answer	Marks																
6(b)	Labour efficiency - adverse Use of lower quality material. Use of lower skilled labour. More idle time than budgeted. Poor supervision (1 mark) × any 1 reason OF Accept other valid points.																	
6(c)(i)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="text-align: right;">Fixed overhead expenditure</td> </tr> <tr> <td style="width: 30%;">standard</td> <td style="text-align: right;">6500 units × 1.5 hours × \$5</td> </tr> <tr> <td>actual</td> <td style="text-align: right;">\$ 48750</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">52100</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">\$3350 (1) A (1)</td> </tr> </table>	Fixed overhead expenditure		standard	6500 units × 1.5 hours × \$5	actual	\$ 48750		52100		\$3350 (1) A (1)	2						
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6(c)(ii)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="text-align: right;">Fixed overhead volume</td> </tr> <tr> <td style="width: 30%;">standard</td> <td style="text-align: right;">6500</td> </tr> <tr> <td>actual</td> <td style="text-align: right;">5900</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">600 units</td> </tr> <tr> <td>Standard OAR</td> <td style="text-align: right;">1.5 hours × \$5</td> </tr> <tr> <td></td> <td style="text-align: right;">×</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">\$7.50</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">\$4500 (1) A (1)</td> </tr> </table>	Fixed overhead volume		standard	6500	actual	5900		600 units	Standard OAR	1.5 hours × \$5		×		\$7.50		\$4500 (1) A (1)	2
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Question	Answer	Marks
6(d)	<p>The fixed overhead volume variance is the difference between the actual and budgeted production and can be broken down further (to show what caused this difference) into the fixed overhead efficiency (1) and fixed overhead capacity. (1)</p> <p>If Jack calculated the fixed overhead efficiency he would know how much of the volume variance was due to the efficiency of his workforce. (1) As the volume variance was adverse for Jack this could mean the workforce worked more slowly than expected (1) due to lack of skills, poor material quality. (1)</p> <p>If Jack calculated the fixed overhead capacity he would know how much of the volume variance was due to number of hours worked. (1) As the volume variance was adverse for Jack this could mean the workforce worked fewer hours than expected (1) due to strikes, machine breakdown or shortage of labour. (1)</p> <p>Accept other valid points.</p> <p>Max 5</p>	5

Question	Answer	Marks
6(e)	<p>Advantages</p> <ul style="list-style-type: none"> Acting as a control device in variance analysis (1) Assisting in budget setting (1) Evaluating managers performance (1) Predicting future costs to aid decision making (1) Providing targets to motivate staff (1) Suggesting ways to improve efficiency (1) Enabling more accurate inventory valuation (1) <p>Disadvantages</p> <ul style="list-style-type: none"> Time consuming to collect data (1) Standards based on estimates (1) Unrealistic standards can demotivate staff (1) Factors causing variances are outside his control (1) <p>Max 2 marks for advantages and Max 2 marks for disadvantages Accept other valid points.</p>	4