

Cambridge
International
AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING

9706/31

Paper 3 Structured Questions

May/June 2018

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.

Cambridge International is publishing the mark schemes for the May/June 2018 series for most Cambridge IGCSE™, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

IGCSE™ is a registered trademark.

This document consists of **18** 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>It allows management to assess the performance of the factory. (1)</p> <p>It allows for better cost control (1) as cost can be identified with specific cost centre. (1)</p> <p>It allows for comparison between the cost of manufacturing a product in-house rather than buying it from an outside supplier. (1)</p> <p>Factory manager can be rewarded for their specific performance which will motivate. (1)</p> <p>Accept other valid points.</p> <p>Max 4</p>	4																																
1(b)	<p>Manufacturing account for JH Limited for year ended 31 October 2017</p> <table style="margin-left: 40px;"> <tr> <td>Prime cost</td> <td style="text-align: right;">\$</td> <td style="text-align: right;">270 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Factory overheads</td> <td></td> <td style="text-align: right;">509 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>779 000</u></td> <td></td> </tr> <tr> <td>Opening work in progress</td> <td></td> <td style="text-align: right;">28 000</td> <td style="text-align: right;">(1) both</td> </tr> <tr> <td>Closing work in progress</td> <td></td> <td style="text-align: right;"><u>(32 000)</u></td> <td></td> </tr> <tr> <td>Cost of production of manufactured</td> <td></td> <td style="text-align: right;">775 000</td> <td></td> </tr> <tr> <td>Factory profit (20%)</td> <td></td> <td style="text-align: right;">155 000</td> <td style="text-align: right;">(1) OF with label</td> </tr> <tr> <td>Transfer price</td> <td></td> <td style="text-align: right;"><u>930 000</u></td> <td style="text-align: right;">(1) OF with label</td> </tr> </table> <p>W1 270 000 + 18 000</p> <p>W2 461 000 + (60 000 + 3 000 + 1 000) · 75%</p>	Prime cost	\$	270 000	(1)	Factory overheads		509 000	(1)			<u>779 000</u>		Opening work in progress		28 000	(1) both	Closing work in progress		<u>(32 000)</u>		Cost of production of manufactured		775 000		Factory profit (20%)		155 000	(1) OF with label	Transfer price		<u>930 000</u>	(1) OF with label	5
Prime cost	\$	270 000	(1)																															
Factory overheads		509 000	(1)																															
		<u>779 000</u>																																
Opening work in progress		28 000	(1) both																															
Closing work in progress		<u>(32 000)</u>																																
Cost of production of manufactured		775 000																																
Factory profit (20%)		155 000	(1) OF with label																															
Transfer price		<u>930 000</u>	(1) OF with label																															

Question	Answer	Marks																																																
1(c)	<p style="text-align: center;">Income statement for JH Limited for year ended 31 October 2017</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;"></td> <td style="width: 20%; text-align: right;">\$</td> <td style="width: 20%; text-align: right;">\$</td> </tr> <tr> <td>Revenue</td> <td></td> <td></td> </tr> <tr> <td>Opening inventory of finished goods</td> <td style="text-align: right;">108 000</td> <td style="text-align: right;">1 860 000</td> </tr> <tr> <td>Transfer price</td> <td style="text-align: right;">930 000</td> <td></td> </tr> <tr> <td>Closing inventory of finished goods</td> <td style="text-align: right;"><u>96 000</u></td> <td></td> </tr> <tr> <td>Cost of goods sold</td> <td></td> <td style="text-align: right;"><u>942 000</u> (1) OF</td> </tr> <tr> <td>Gross profit</td> <td></td> <td style="text-align: right;">918 000 (1) OF</td> </tr> <tr> <td>Factory profit</td> <td style="text-align: right;">155 000</td> <td style="text-align: right;">(1) OF</td> </tr> <tr> <td>Decrease in provision for unrealized profit</td> <td style="text-align: right;"><u>2 000</u></td> <td style="text-align: right;">(1) with correct direction</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>157 000</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>1 075 000</u></td> </tr> <tr> <td>Distribution costs</td> <td></td> <td style="text-align: right;">198 000 (1)</td> </tr> <tr> <td>Administration expenses</td> <td></td> <td style="text-align: right;">368 000 (1)</td> </tr> <tr> <td>Operating profit</td> <td></td> <td style="text-align: right;"><u>509 000</u> (1) OF with label</td> </tr> <tr> <td>Finance charges</td> <td></td> <td style="text-align: right;"><u>28 000</u> (1)</td> </tr> <tr> <td>Profit of the year</td> <td></td> <td style="text-align: right;"><u>481 000</u> (1) OF with label</td> </tr> </table>		\$	\$	Revenue			Opening inventory of finished goods	108 000	1 860 000	Transfer price	930 000		Closing inventory of finished goods	<u>96 000</u>		Cost of goods sold		<u>942 000</u> (1) OF	Gross profit		918 000 (1) OF	Factory profit	155 000	(1) OF	Decrease in provision for unrealized profit	<u>2 000</u>	(1) with correct direction			<u>157 000</u>			<u>1 075 000</u>	Distribution costs		198 000 (1)	Administration expenses		368 000 (1)	Operating profit		<u>509 000</u> (1) OF with label	Finance charges		<u>28 000</u> (1)	Profit of the year		<u>481 000</u> (1) OF with label	9
	\$	\$																																																
Revenue																																																		
Opening inventory of finished goods	108 000	1 860 000																																																
Transfer price	930 000																																																	
Closing inventory of finished goods	<u>96 000</u>																																																	
Cost of goods sold		<u>942 000</u> (1) OF																																																
Gross profit		918 000 (1) OF																																																
Factory profit	155 000	(1) OF																																																
Decrease in provision for unrealized profit	<u>2 000</u>	(1) with correct direction																																																
		<u>157 000</u>																																																
		<u>1 075 000</u>																																																
Distribution costs		198 000 (1)																																																
Administration expenses		368 000 (1)																																																
Operating profit		<u>509 000</u> (1) OF with label																																																
Finance charges		<u>28 000</u> (1)																																																
Profit of the year		<u>481 000</u> (1) OF with label																																																

Question	Answer	Marks
1(d)	<p>Production cost / transfer price \$ original \$ adjusted</p> <p>Gross profit 930 000 968 750</p> <p>Profit for the year 918 000 879 250</p> <p> 481 000 481 000</p> <p>Yes they can increase the percentage (1) as:</p> <p>No effect on final profit for the year (1)</p> <p>The increase in percentage will increase the transfer price (1)</p> <p>Gross profit will be affected (1)</p> <p>No they should not increase the percentage (1) as:</p> <p>As selling price is based on production cost plus a mark-up, an increase in production cost will increase the selling price too (1). This may make the product uncompetitive reducing the levels of sales (1) and eventually profit (1) but depends on the increase in price by the competitors (1). It also depends on the price elasticity of demand of the product (1). The market may not accept an increase in price so by not increasing the mark-up they may gain customers (1).</p> <p>Accept other valid points.</p> <p>(1) decision</p> <p>Max 2 marks for calculations</p> <p>Max 4 marks for analysis</p>	7

Question	Answer										Marks
2(a)	<p>They provide additional information at the end of the financial year within the financial statements (1)</p> <p>They provide further explanations of specific items within the financial statements. (1)</p> <p>They explain the accounting methods and principles used to prepare the financial information within the financial statements. (1) e.g. the policy on depreciation.</p> <p>Accept other valid points.</p> <p>Max 3 marks</p>										3
2(b)	Ordinary shares	\$000	2 000		Share premium	\$000	Revaluation Reserve	General reserve	Retained earnings		15
	\$000	2 000		\$000	400	100	1 500	*****	(1) row		
Interim dividend paid							(200)		(1)W1		
Share issue	1 000	(1)	200	(1)					W2		
Rights issue	1 200	(2)	150	(1)					W3		
Bonus issue	1 680	(1) OF	(650)	(1)	(400)	(100)	(530)	(1) W4	(1) W5		
Profit for the year							363		(1) both		
Transfer to general reserve						47	(47)				
At 31 December 2016	5 880		0		0	47	1 086		(1) OF row		

Question	Answer	Marks
2(b)	<p>W1 $0.20 \cdot 1\,000\,000 = \\$200\,000$ (1)</p> <p>W2 $\\$2 \cdot 500\,000 = 1\,000\,000$ (1) $\\$0.40 \cdot 500\,000 = 200\,000$ (1)</p> <p>W3 $\frac{3\,000\,000}{2} = 1\,500\,000$ shares $\cdot \frac{2}{5}$ (1) = 600 000 shares issued $\cdot \\$2.25 = \\$1\,350\,000$ cash $\\$1\,200\,000$ (1) shares and $\\$150\,000$ (1) share premium</p> <p>W4 $\frac{4\,200\,000}{2} = 2\,100\,000$ shares $\cdot \frac{4}{10} = 840\,000 \cdot \\$2 = 1\,680\,000$</p> <p>W5 $520\,000 - (64\,000 - 93\,000) = \\$363\,000$ (1)</p>	
2(c)	<p>The directors did act in the best interests of the shareholders (1) because:</p> <p>No interest is being paid on a loan. (1)</p> <p>This saves \$68 000 over 5 years which would have adversely affected both the cash flow (1) and the profitability of the business.(1) The drop in profitability may affect shareholder confidence and the market price of the shares. (1)</p> <p>The loan would increase the gearing (1)</p> <p>The capital repayment would also reduce the cash flow (1) and the potential for future dividend payments due to lack of cash. (1)</p> <p>Instead the shareholders could receive extra dividends. (1) This equates on the share issue and rights issue of an extra \$0.06 approximately per share (1)</p> <p>The company may not have had enough cash or profit to pay the extra dividend. (1)</p> <p>$\frac{4\,200\,000}{2} = 2\,100\,000$ shares $\cdot 0.50 = \\$1\,050\,000$ dividend (1)</p>	7

Question	Answer	Marks
2(c)	<p>The directors did not act in the interests of the shareholders (1) because:</p> <p>There has been a drop in the market price of each share of \$0.30. (1) With $\frac{5880000}{2}$ shares = 2 940 000 shares (1) .</p> <p>\$0.30 = \$882 000 (1)</p> <p>Although the market value may increase this may take time (1)</p> <p>Potential shareholders may question why a loan or a debenture was not taken out to finance the purchase of the factory instead of two share issues. (1)</p> <p>There is no future effects on cash flow (1) or profitability (1) except for the dividend payments (1)</p> <p>The money saved by making a bonus issue instead of paying extra dividends can be used on other areas within the business (1)</p> <p>The shareholders can sell these shares at a future date once the market price increases.</p> <p>$\frac{1680000}{2} = 840\ 000$ shares · \$2.10 = \$1 764 000 (1) which is greater than the dividend suggested by the shareholder (1)</p> <p>Accept other valid points.</p> <p>(1) decision and 0–6 marks for comments on either side.</p>	

Question	Answer	Marks														
3(a)	express an opinion (1) on true and fair view (1) of the financial statements of a limited company	2														
3(b)	<p>Accounting treatments</p> <p>1 Cost on training programme should be treated as expenses because it is held regularly (1)</p> <p>it is difficult to establish a direct relationship between training programme and future benefits from efficiency; i.e. efficiency can be caused by other reasons such as advance in technology (1)</p> <p>accrual concept is applied – $\frac{2}{6}$ of the total costs are expensed (1)</p> <p>\$30 000 is regarded prepayment, i.e. \$70 000 is paid and only \$40 000 has been expensed. (1)</p> <p>2 The inventory value needs to be reduced (1) to take into account the fact that the damaged items can only be sold at a price below their usual selling price. (1) This will affect the profit for the year (1) and the value of inventory in current assets. (1)</p> <p>3 marks for each to a max of 5 marks</p>	5														
3(c)	<p>Profit for 2017</p> <p>Add: amortisation</p> <p>Less: Training expenses $(\\$70\,000 + \\$50\,000) \cdot \frac{2}{6}$ (1)</p> <p>Less: Obsolete inventory $\\$12\,000 - (\\$12\,000 \cdot 1.25 \cdot 50\%)$ (1)</p> <p>Add: Licence fee $\\$60\,000 \cdot \frac{30}{36}$ (1) prepaid</p> <p>Revised profit</p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: right;">\$</td> <td></td> </tr> <tr> <td style="text-align: right;">98 000</td> <td></td> </tr> <tr> <td style="text-align: right;">4 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td style="text-align: right;">(40 000)</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td style="text-align: right;">(4 500)</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td style="text-align: right;">50 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td style="text-align: right;"><u>107 500</u></td> <td style="text-align: right;">(1) OF</td> </tr> </table>	\$		98 000		4 000	(1)	(40 000)	(1)	(4 500)	(1)	50 000	(1)	<u>107 500</u>	(1) OF	8
\$																
98 000																
4 000	(1)															
(40 000)	(1)															
(4 500)	(1)															
50 000	(1)															
<u>107 500</u>	(1) OF															

Question	Answer	Marks
3(d)(i)	$\text{Software license } (\$60\,000 \cdot \frac{30}{36}) (1) \quad 50\,000 \quad (1)$	2
3(d)(ii)	Inventory (\$146 000 – \$4 500) 141 500 (1)	1
3(d)(iii)	Retained earnings (\$215 000 + \$107 500) 322 500 (1) OF	1
3(d)(iv)	Other payables (\$75 000 – \$50 000) 25 000 (1)	1
3(e)	<p>Buying computer software:</p> <p>non-current assets increased as computer software is treated as non-current assets subject to depreciation throughout the estimated useful life of the software.</p> <p>Profit will be reduced by depreciation.</p> <p>more cash outlay as the computer software is acquired</p> <p>computer software can be obsolete after three years</p> <p>Acquiring the right to use a computer software for three years:</p> <p>company does not pay for the outright purchase of the asset and therefore lesser cash outflow</p> <p>profit will be reduced by amortisation over a period of 3 years.</p> <p>more flexible due to advanced technology</p> <p>Accept other valid points. (2 marks) for discussing buying the computer software and (2 marks) for discussing acquiring a right to use for three years. (1 mark) for decision.</p>	5



Question	Answer	Marks																																																																																					
4(a)	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%; text-align: center;">club</td> <td style="text-align: center;">limited company operating as a service business</td> </tr> <tr> <td style="text-align: center;">seeks to provide service to members</td> <td style="text-align: center;">seeks to make profit</td> </tr> <tr> <td style="text-align: center;">has members</td> <td style="text-align: center;">has shareholders</td> </tr> <tr> <td style="text-align: center;">retains any surplus to improve services to members</td> <td style="text-align: center;">may distribute any profit to reward investors</td> </tr> </table> <p style="text-align: center;">Accept other valid points.</p> <p>Any two differences for (2) marks each. Must be a comparison.</p>	club	limited company operating as a service business	seeks to provide service to members	seeks to make profit	has members	has shareholders	retains any surplus to improve services to members	may distribute any profit to reward investors	4																																																																													
club	limited company operating as a service business																																																																																						
seeks to provide service to members	seeks to make profit																																																																																						
has members	has shareholders																																																																																						
retains any surplus to improve services to members	may distribute any profit to reward investors																																																																																						
4(b)	<p style="text-align: center;">Income and Expenditure Account for the year ended 31 December 2017</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;"></td> <td style="width: 10%; text-align: center;">\$</td> <td style="width: 10%;"></td> <td style="width: 10%; text-align: right;">\$</td> <td style="width: 20%;"></td> </tr> <tr> <td>Income</td> <td></td> <td></td> <td style="text-align: right;">26 300</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Subscriptions</td> <td></td> <td></td> <td style="text-align: right;">2 600</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Profit on meals</td> <td></td> <td></td> <td style="text-align: right;">28 900</td> <td></td> </tr> <tr> <td colspan="5"> </td> </tr> <tr> <td>Less expenditure</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Loss on trips</td> <td style="text-align: center;">W1</td> <td style="text-align: right;">8 500</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Irrecoverable debts</td> <td></td> <td style="text-align: right;">250</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Depreciation</td> <td></td> <td style="text-align: right;">1 530</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Other running costs</td> <td></td> <td style="text-align: right;">18 300</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Surplus</td> <td style="text-align: center;">W2</td> <td></td> <td style="text-align: right;">28 580</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">320</td> <td style="text-align: right;">(1) OF</td> </tr> <tr> <td colspan="5"> </td> </tr> <tr> <td>W1 Cost of trips</td> <td></td> <td></td> <td style="text-align: right;">\$1 000 · 2 · 12 = 24 000</td> <td></td> </tr> <tr> <td>Less: Income</td> <td></td> <td></td> <td style="text-align: right;">620 · \$25 = 15 500</td> <td></td> </tr> <tr> <td>Loss on trips</td> <td></td> <td></td> <td style="text-align: right;">= 8 500</td> <td></td> </tr> <tr> <td>W2 18 100 + 200</td> <td></td> <td></td> <td></td> <td></td> </tr> </table>		\$		\$		Income			26 300	(1)	Subscriptions			2 600	(1)	Profit on meals			28 900							Less expenditure					Loss on trips	W1	8 500		(1)	Irrecoverable debts		250		(1)	Depreciation		1 530		(1)	Other running costs		18 300		(1)	Surplus	W2		28 580					320	(1) OF						W1 Cost of trips			\$1 000 · 2 · 12 = 24 000		Less: Income			620 · \$25 = 15 500		Loss on trips			= 8 500		W2 18 100 + 200					7
	\$		\$																																																																																				
Income			26 300	(1)																																																																																			
Subscriptions			2 600	(1)																																																																																			
Profit on meals			28 900																																																																																				
Less expenditure																																																																																							
Loss on trips	W1	8 500		(1)																																																																																			
Irrecoverable debts		250		(1)																																																																																			
Depreciation		1 530		(1)																																																																																			
Other running costs		18 300		(1)																																																																																			
Surplus	W2		28 580																																																																																				
			320	(1) OF																																																																																			
W1 Cost of trips			\$1 000 · 2 · 12 = 24 000																																																																																				
Less: Income			620 · \$25 = 15 500																																																																																				
Loss on trips			= 8 500																																																																																				
W2 18 100 + 200																																																																																							

Question	Answer	Marks																																																																																																																																				
4(c)	<p style="text-align: center;">Statement of Financial Position at 31 December 2017</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;"></td> <td style="width: 10%; text-align: center;">\$</td> <td style="width: 10%; text-align: center;">\$</td> <td style="width: 10%; text-align: center;">\$</td> <td style="width: 10%; text-align: center;">NBV</td> <td style="width: 10%;"></td> </tr> <tr> <td>Non-current assets</td> <td>Cost</td> <td>Acc dep</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Premises</td> <td style="text-align: right;">100 000</td> <td></td> <td style="text-align: right;">100 000</td> <td></td> <td style="text-align: right;">}</td> </tr> <tr> <td>Fixtures and fittings</td> <td style="text-align: right;">15 300</td> <td style="text-align: right;">3 930</td> <td style="text-align: right;">11 370</td> <td></td> <td style="text-align: right;">} (1)</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">115 300</td> <td style="text-align: right; border-top: 1px solid black;">3 930</td> <td style="text-align: right; border-top: 1px solid black;">111 370</td> <td></td> <td></td> </tr> <tr> <td colspan="6"> </td> </tr> <tr> <td>Current assets</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Inventory</td> <td></td> <td></td> <td style="text-align: right;">250</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Subscriptions in arrears</td> <td></td> <td></td> <td style="text-align: right;">600</td> <td></td> <td></td> </tr> <tr> <td>Bank W1</td> <td></td> <td></td> <td style="text-align: right;">3 200</td> <td></td> <td style="text-align: right;">(5)</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">4 050</td> <td></td> <td></td> </tr> <tr> <td>Total assets</td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">115 420</td> <td></td> <td></td> </tr> <tr> <td colspan="6"> </td> </tr> <tr> <td>Accumulated fund at 1 January 2017</td> <td></td> <td></td> <td style="text-align: right;">114 850</td> <td></td> <td style="text-align: right;">}</td> </tr> <tr> <td>Surplus for the year</td> <td></td> <td></td> <td style="text-align: right;">320</td> <td></td> <td style="text-align: right;">} (1) OF</td> </tr> <tr> <td>Accumulated fund at 31 December 2017</td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">115 170</td> <td></td> <td></td> </tr> <tr> <td colspan="6"> </td> </tr> <tr> <td>Current liabilities</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Other payables</td> <td></td> <td></td> <td style="text-align: right;">200</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Subscriptions in advance</td> <td></td> <td></td> <td style="text-align: right;">50</td> <td></td> <td style="text-align: right;">(1) for both subs</td> </tr> <tr> <td>Total liabilities</td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">250</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">115 420</td> <td></td> <td></td> </tr> </table>		\$	\$	\$	NBV		Non-current assets	Cost	Acc dep				Premises	100 000		100 000		}	Fixtures and fittings	15 300	3 930	11 370		} (1)		115 300	3 930	111 370									Current assets						Inventory			250		(1)	Subscriptions in arrears			600			Bank W1			3 200		(5)				4 050			Total assets			115 420									Accumulated fund at 1 January 2017			114 850		}	Surplus for the year			320		} (1) OF	Accumulated fund at 31 December 2017			115 170									Current liabilities						Other payables			200		(1)	Subscriptions in advance			50		(1) for both subs	Total liabilities			250						115 420			10
	\$	\$	\$	NBV																																																																																																																																		
Non-current assets	Cost	Acc dep																																																																																																																																				
Premises	100 000		100 000		}																																																																																																																																	
Fixtures and fittings	15 300	3 930	11 370		} (1)																																																																																																																																	
	115 300	3 930	111 370																																																																																																																																			
Current assets																																																																																																																																						
Inventory			250		(1)																																																																																																																																	
Subscriptions in arrears			600																																																																																																																																			
Bank W1			3 200		(5)																																																																																																																																	
			4 050																																																																																																																																			
Total assets			115 420																																																																																																																																			
Accumulated fund at 1 January 2017			114 850		}																																																																																																																																	
Surplus for the year			320		} (1) OF																																																																																																																																	
Accumulated fund at 31 December 2017			115 170																																																																																																																																			
Current liabilities																																																																																																																																						
Other payables			200		(1)																																																																																																																																	
Subscriptions in advance			50		(1) for both subs																																																																																																																																	
Total liabilities			250																																																																																																																																			
			115 420																																																																																																																																			

Question	Answer	Marks																					
4(c)	<p>Accept alternative presentation</p> <p>W1 Calculation of bank balance</p> <table style="margin-left: 40px;"> <tr> <td>Opening balance</td> <td style="text-align: right;">\$ 4 700</td> <td style="text-align: right;">}</td> </tr> <tr> <td>Subscriptions received</td> <td style="text-align: right;">25 800</td> <td style="text-align: right;">} (1)</td> </tr> <tr> <td>Meals (21 500 – 18 900)</td> <td style="text-align: right;">2 600</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Trips (15 500 – 24 000)</td> <td style="text-align: right;">(8 500)</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Other running costs</td> <td style="text-align: right;">(18 100)</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Fixtures and fittings</td> <td style="text-align: right;">(3 300)</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Closing balance</td> <td style="text-align: right;"><u>3 200</u></td> <td style="text-align: right;">}</td> </tr> </table>	Opening balance	\$ 4 700	}	Subscriptions received	25 800	} (1)	Meals (21 500 – 18 900)	2 600	(1)	Trips (15 500 – 24 000)	(8 500)	(1)	Other running costs	(18 100)	(1)	Fixtures and fittings	(3 300)	(1)	Closing balance	<u>3 200</u>	}	
Opening balance	\$ 4 700	}																					
Subscriptions received	25 800	} (1)																					
Meals (21 500 – 18 900)	2 600	(1)																					
Trips (15 500 – 24 000)	(8 500)	(1)																					
Other running costs	(18 100)	(1)																					
Fixtures and fittings	(3 300)	(1)																					
Closing balance	<u>3 200</u>	}																					
4(d)	<p>Take up of places on each trips is already low (1) being $\frac{620}{1200}$ seats or little more than 50%. (1)</p> <p>An increase in price could further depress demand. (1)</p> <p>Analysis of ticket sales should be carried out (1) to establish which trip are most popular (1) in terms of time of year (1) or destinations. (1)</p> <p>Promotions such as a discount for booking on three trips or more could be offered. (1)</p> <p>Accept other valid points. (1) for decision + Max 3 for comments at (1) mark each</p>	4																					

Question	Answer	Marks																														
5(a)	<p>Advantages:</p> <p>Compels management to plan for the future. (1) Aids coordination (1) and encourages communication (1). Promotes responsibility accounting. (1) May motivate employees. (1) Use of variances to appraise performance (1) with possible subsequent remedial action. (1)</p> <p>Max 3</p> <p>Disadvantages:</p> <p>Not all staff may accept the budget. (1) Time consuming (1) Specialist staff required which may increase cost (1)</p> <p>Max 2 Accept other valid points.</p>	5																														
5(b)	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: right;">Jan</th> <th style="text-align: right;">Feb</th> <th style="text-align: right;">Mar</th> <th style="text-align: right;">Apr</th> </tr> </thead> <tbody> <tr> <td>Sales</td> <td style="text-align: right;">3 500</td> <td style="text-align: right;">4 000</td> <td style="text-align: right;">4 750</td> <td style="text-align: right;">3 750</td> </tr> <tr> <td>Closing inventory</td> <td style="text-align: right;"><u>400</u> (1)</td> <td style="text-align: right;"><u>450</u> (1)</td> <td style="text-align: right;"><u>375</u> (1)</td> <td style="text-align: right;"><u>425</u> (1)</td> </tr> <tr> <td>Opening inventory</td> <td style="text-align: right;"><u>3 900</u></td> <td style="text-align: right;"><u>4 450</u></td> <td style="text-align: right;"><u>5 125</u></td> <td style="text-align: right;"><u>4 175</u></td> </tr> <tr> <td>Production</td> <td style="text-align: right;"><u>(350)</u> (1)</td> <td style="text-align: right;"><u>(400)</u></td> <td style="text-align: right;"><u>(450)</u></td> <td style="text-align: right;"><u>(375)</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>3 550</u></td> <td style="text-align: right;"><u>4 050</u></td> <td style="text-align: right;"><u>4 675</u></td> <td style="text-align: right;"><u>3 800</u> (1 for all)</td> </tr> </tbody> </table>		Jan	Feb	Mar	Apr	Sales	3 500	4 000	4 750	3 750	Closing inventory	<u>400</u> (1)	<u>450</u> (1)	<u>375</u> (1)	<u>425</u> (1)	Opening inventory	<u>3 900</u>	<u>4 450</u>	<u>5 125</u>	<u>4 175</u>	Production	<u>(350)</u> (1)	<u>(400)</u>	<u>(450)</u>	<u>(375)</u>		<u>3 550</u>	<u>4 050</u>	<u>4 675</u>	<u>3 800</u> (1 for all)	6
	Jan	Feb	Mar	Apr																												
Sales	3 500	4 000	4 750	3 750																												
Closing inventory	<u>400</u> (1)	<u>450</u> (1)	<u>375</u> (1)	<u>425</u> (1)																												
Opening inventory	<u>3 900</u>	<u>4 450</u>	<u>5 125</u>	<u>4 175</u>																												
Production	<u>(350)</u> (1)	<u>(400)</u>	<u>(450)</u>	<u>(375)</u>																												
	<u>3 550</u>	<u>4 050</u>	<u>4 675</u>	<u>3 800</u> (1 for all)																												

Question	Answer	Marks																																																							
5(c)	<table border="0"> <thead> <tr> <th></th> <th>Jan</th> <th>Feb</th> <th>Mar</th> <th>Apr</th> </tr> </thead> <tbody> <tr> <td>Units</td> <td>3 550</td> <td>4 050</td> <td>4 675</td> <td>3 800</td> </tr> <tr> <td>Direct materials</td> <td>3</td> <td>3</td> <td>3</td> <td>3</td> </tr> <tr> <td>Closing Inventory</td> <td>10 650</td> <td>12 150</td> <td>14 025</td> <td>11 400</td> </tr> <tr> <td>Opening Inventory</td> <td>200</td> <td>220</td> <td>242</td> <td>242</td> </tr> <tr> <td>Budgeted purchases (kilos)</td> <td>10 850</td> <td>12 370</td> <td>14 267</td> <td>11 642</td> </tr> <tr> <td>Cost (\$)</td> <td>200</td> <td>200</td> <td>220</td> <td>242</td> </tr> <tr> <td>Budgeted purchases (\$)</td> <td>10 650</td> <td>12 170</td> <td>14 047</td> <td>11 400</td> </tr> <tr> <td></td> <td>2</td> <td>2</td> <td>2</td> <td>2</td> </tr> <tr> <td></td> <td>21 300</td> <td>24 340</td> <td>28 094</td> <td>22 800</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td>(1) OF</td> </tr> </tbody> </table>		Jan	Feb	Mar	Apr	Units	3 550	4 050	4 675	3 800	Direct materials	3	3	3	3	Closing Inventory	10 650	12 150	14 025	11 400	Opening Inventory	200	220	242	242	Budgeted purchases (kilos)	10 850	12 370	14 267	11 642	Cost (\$)	200	200	220	242	Budgeted purchases (\$)	10 650	12 170	14 047	11 400		2	2	2	2		21 300	24 340	28 094	22 800					(1) OF	6
	Jan	Feb	Mar	Apr																																																					
Units	3 550	4 050	4 675	3 800																																																					
Direct materials	3	3	3	3																																																					
Closing Inventory	10 650	12 150	14 025	11 400																																																					
Opening Inventory	200	220	242	242																																																					
Budgeted purchases (kilos)	10 850	12 370	14 267	11 642																																																					
Cost (\$)	200	200	220	242																																																					
Budgeted purchases (\$)	10 650	12 170	14 047	11 400																																																					
	2	2	2	2																																																					
	21 300	24 340	28 094	22 800																																																					
				(1) OF																																																					
5(d)	<p>Closing inventory would now be 475 . 10 = \$4 750 (1) Difference would be \$4 750 – \$4 500 (1) = \$250 The holding cost would increase (1) by \$250 (1) OF</p>	4																																																							
5(e)	<p>Advantages:</p> <p>The directors may receive a return on investment above market rate of the loan. Maybe able to convert loan to shares in the future.</p> <p>Disadvantages:</p> <p>Risk of not receiving repayment. May not be sufficient funds to pay the directors market rate of interest on the loan.</p> <p>Max. 2 for advantages + Max 2 for disadvantages Accept other valid points.</p>	4																																																							

Question	Answer	Marks																														
6(a)(i)	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="text-align: center; width: 20%;">Alpha \$</th> <th style="text-align: center; width: 20%;">Omega \$</th> </tr> </thead> <tbody> <tr> <td>Direct materials</td> <td style="text-align: right;">2 000 000</td> <td style="text-align: right;">968 000</td> </tr> <tr> <td>Direct labour</td> <td style="text-align: right;">480 000</td> <td style="text-align: right;">48 000</td> </tr> <tr> <td>Overheads</td> <td style="text-align: right;">330 000</td> <td style="text-align: right;">66 000 (1)</td> </tr> <tr> <td>Total production costs</td> <td style="text-align: right; border-top: 1px solid black;">2 810 000 (1)</td> <td style="text-align: right; border-top: 1px solid black;">1 082 000 (1)</td> </tr> </tbody> </table>		Alpha \$	Omega \$	Direct materials	2 000 000	968 000	Direct labour	480 000	48 000	Overheads	330 000	66 000 (1)	Total production costs	2 810 000 (1)	1 082 000 (1)	3															
	Alpha \$	Omega \$																														
Direct materials	2 000 000	968 000																														
Direct labour	480 000	48 000																														
Overheads	330 000	66 000 (1)																														
Total production costs	2 810 000 (1)	1 082 000 (1)																														
6(a)(ii)	Cost per unit \$140.5 \$135.25 (1)	1																														
6(b)	<table style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="width: 30%;">Cost per unit</td> <td style="text-align: right; width: 10%;">\$</td> <td style="text-align: right; width: 10%;">135.25</td> <td style="width: 50%;"></td> </tr> <tr> <td>Add 50%</td> <td style="text-align: right;">140.50</td> <td style="text-align: right;">67.63</td> <td style="text-align: right;">(1) OF both</td> </tr> <tr> <td>SP per unit</td> <td style="text-align: right; border-top: 1px solid black;">210.75</td> <td style="text-align: right; border-top: 1px solid black;">202.88</td> <td style="text-align: right; border-top: 1px solid black;">(1) OF both</td> </tr> </tbody> </table>	Cost per unit	\$	135.25		Add 50%	140.50	67.63	(1) OF both	SP per unit	210.75	202.88	(1) OF both	2																		
Cost per unit	\$	135.25																														
Add 50%	140.50	67.63	(1) OF both																													
SP per unit	210.75	202.88	(1) OF both																													
6(c)	<p>It is not possible to attribute all costs to activities. (1)</p> <p>It takes additional costs (1) as usually specialist employees are required (1) or extensive training may be required. (1)</p> <p>It is expensive to develop, implement and maintain. (1)</p> <p>2 . 1 mark for any two valid disadvantages Accept other valid points.</p>	2																														
6(d)	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="text-align: center; width: 20%;">Overhead \$</th> <th style="text-align: center; width: 20%;">Alpha \$</th> <th style="text-align: center; width: 20%;">Omega \$</th> <th style="text-align: center; width: 10%;">Total</th> </tr> </thead> <tbody> <tr> <td>Machine set-up</td> <td style="text-align: right;">90 000</td> <td style="text-align: right;">54 000</td> <td style="text-align: right;">36 000</td> <td></td> </tr> <tr> <td>Materials handling</td> <td style="text-align: right;">80 000</td> <td style="text-align: right;">24 000</td> <td style="text-align: right;">56 000 (1)</td> <td></td> </tr> <tr> <td>Machine maintenance</td> <td style="text-align: right;">46 000</td> <td style="text-align: right;">26 000</td> <td style="text-align: right;">20 000</td> <td></td> </tr> <tr> <td>Product inspection</td> <td style="text-align: right;">180 000</td> <td style="text-align: right;">120 000</td> <td style="text-align: right;">60 000 (1)</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">396 000</td> <td style="text-align: right; border-top: 1px solid black;">224 000 (1) OF</td> <td style="text-align: right; border-top: 1px solid black;">172 000 (1) OF</td> <td></td> </tr> </tbody> </table>		Overhead \$	Alpha \$	Omega \$	Total	Machine set-up	90 000	54 000	36 000		Materials handling	80 000	24 000	56 000 (1)		Machine maintenance	46 000	26 000	20 000		Product inspection	180 000	120 000	60 000 (1)			396 000	224 000 (1) OF	172 000 (1) OF		4
	Overhead \$	Alpha \$	Omega \$	Total																												
Machine set-up	90 000	54 000	36 000																													
Materials handling	80 000	24 000	56 000 (1)																													
Machine maintenance	46 000	26 000	20 000																													
Product inspection	180 000	120 000	60 000 (1)																													
	396 000	224 000 (1) OF	172 000 (1) OF																													

Question	Answer	Marks																																																
6(e)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="width: 50%; text-align: right;">Alpha</td> <td style="width: 50%;"></td> <td style="width: 50%; text-align: right;">Omega</td> </tr> <tr> <td></td> <td style="text-align: right;">\$</td> <td></td> <td style="text-align: right;">\$</td> </tr> <tr> <td>Materials</td> <td style="text-align: right;">2 000 000</td> <td></td> <td style="text-align: right;">968 000</td> </tr> <tr> <td>Labour</td> <td style="text-align: right;">480 000</td> <td></td> <td style="text-align: right;">48 000</td> </tr> <tr> <td>Overheads</td> <td style="text-align: right;">224 000</td> <td></td> <td style="text-align: right;">172 000</td> </tr> <tr> <td>Total cost</td> <td style="text-align: right;">2 704 000</td> <td></td> <td style="text-align: right;">1 188 000</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">(1) both OF</td> </tr> <tr> <td>Cost per unit</td> <td style="text-align: right;">135.20</td> <td></td> <td style="text-align: right;">148.50</td> </tr> <tr> <td>Add 50%</td> <td style="text-align: right;">67.60</td> <td></td> <td style="text-align: right;">74.25</td> </tr> <tr> <td>SP per unit</td> <td style="text-align: right;">202.80</td> <td></td> <td style="text-align: right;">222.75</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">(1) both OF</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">(1) both OF</td> </tr> </table>		Alpha		Omega		\$		\$	Materials	2 000 000		968 000	Labour	480 000		48 000	Overheads	224 000		172 000	Total cost	2 704 000		1 188 000				(1) both OF	Cost per unit	135.20		148.50	Add 50%	67.60		74.25	SP per unit	202.80		222.75				(1) both OF				(1) both OF	3
	Alpha		Omega																																															
	\$		\$																																															
Materials	2 000 000		968 000																																															
Labour	480 000		48 000																																															
Overheads	224 000		172 000																																															
Total cost	2 704 000		1 188 000																																															
			(1) both OF																																															
Cost per unit	135.20		148.50																																															
Add 50%	67.60		74.25																																															
SP per unit	202.80		222.75																																															
			(1) both OF																																															
			(1) both OF																																															
6(f)	<p>As ABC provides more realistic figures (1) the selling prices will reflect a more realistic figure based on costs. (1)</p> <p>Using the old method Alpha showed a very high portion of overheads (1) and so its costs were too high (1) and a true figure is not reflected in the selling price (1)</p> <p>Omega bears a disproportionately low amount of overheads (1) and so is underpriced (1)</p> <p>Costs in the old method are set simply using only one basis. (1) The setting of the costs using ABC will enable the company to carefully investigate the basis (1) and will result in improved production methods as well as better pricing. (1)</p> <p>3 x 2 marks each (1 mark for stating the reason and 1 mark for development)</p> <p>Accept other valid points.</p>	6																																																
6(g)(i)	<p>Alpha profit $\\$135.20 \cdot 60\% = 81.12 \cdot 20\,000 = \\$1\,622\,400$ (1)</p> <p>Omega profit $\\$148.50 \cdot 30\% = 44.55 \cdot 8\,000 = \\$356\,400$ (1)</p>	2																																																
6(g)(ii)	<p>The actual total profit will rise from \$1 946 000 to \$1 978 800 an increase of \$32 800 (1)</p> <p>The price of Alpha will fall and Omega will rise bringing them both nearer to their previous price (1)</p> <p>Fixes higher prices for the product which is higher in demand and needs specialist workforce (1) which is justified and lower price for Omega which does not need specialist workforce as the rate of labour is lower (1)</p> <p>Accept other valid points.</p>	2																																																