

Cambridge  
International  
AS & A Level

**Cambridge Assessment International Education**  
Cambridge International Advanced Subsidiary and Advanced Level

---

**ACCOUNTING****9706/21**

Paper 2 Structured Questions

**May/June 2019**

MARK SCHEME

Maximum Mark: 90

---

**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 2019 series for most Cambridge IGCSE™, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

---

This document consists of **14** 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.

<p><b>GENERIC MARKING PRINCIPLE 1:</b></p> <p>Marks must be awarded in line with:</p> <ul style="list-style-type: none"> <li>the specific content of the mark scheme or the generic level descriptors for the question</li> <li>the specific skills defined in the mark scheme or in the generic level descriptors for the question</li> <li>the standard of response required by a candidate as exemplified by the standardisation scripts.</li> </ul>
<p><b>GENERIC MARKING PRINCIPLE 2:</b></p> <p>Marks awarded are always <b>whole marks</b> (not half marks, or other fractions).</p>
<p><b>GENERIC MARKING PRINCIPLE 3:</b></p> <p>Marks must be awarded <b>positively</b>:</p> <ul style="list-style-type: none"> <li>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</li> <li>marks are awarded when candidates clearly demonstrate what they know and can do</li> <li>marks are not deducted for errors</li> <li>marks are not deducted for omissions</li> <li>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.</li> </ul>
<p><b>GENERIC MARKING PRINCIPLE 4:</b></p> <p>Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.</p>

**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 will have up-to-date information of assets and liabilities / and will inform decision making (1)</p> <p>The business can more easily chase trade receivables and keep up to date with trade payables (1)</p> <p>The preparation of the financial statements is easier and more accurate / reducing the possibility of errors (1)</p> <p><b>Accept other valid points.</b></p>	3																		
1(b)(i)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">\$7000 – 2800</td> <td style="text-align: right;">\$</td> <td></td> </tr> <tr> <td>Depreciation for 6 months</td> <td style="text-align: right;">4200</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Net book value on disposal</td> <td style="text-align: right;"><u>(700)</u></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Part-exchange</td> <td style="text-align: right;">3500</td> <td></td> </tr> <tr> <td>Loss on disposal</td> <td style="text-align: right;"><u>3300</u></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>(200)</u></td> <td></td> </tr> </table>	\$7000 – 2800	\$		Depreciation for 6 months	4200	(1)	Net book value on disposal	<u>(700)</u>	(1)	Part-exchange	3500		Loss on disposal	<u>3300</u>	(1)		<u>(200)</u>		3
\$7000 – 2800	\$																			
Depreciation for 6 months	4200	(1)																		
Net book value on disposal	<u>(700)</u>	(1)																		
Part-exchange	3500																			
Loss on disposal	<u>3300</u>	(1)																		
	<u>(200)</u>																			
1(b)(ii)	<p>Total depreciation charge for motor vehicles for the year ended 30 April 2019</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Depreciation on vehicles disposed</td> <td style="text-align: right;">\$</td> <td style="text-align: right;">700</td> <td></td> </tr> <tr> <td>New vehicle 10 100 × 10%</td> <td></td> <td style="text-align: right;">1010</td> <td style="text-align: right;">(1) OF</td> </tr> <tr> <td>Remaining vehicles 18 000 × 20%</td> <td></td> <td style="text-align: right;"><u>3600</u></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Charge for the year</td> <td></td> <td style="text-align: right;"><u>5310</u></td> <td style="text-align: right;">(1) OF</td> </tr> </table>	Depreciation on vehicles disposed	\$	700		New vehicle 10 100 × 10%		1010	(1) OF	Remaining vehicles 18 000 × 20%		<u>3600</u>	(1)	Charge for the year		<u>5310</u>	(1) OF	4		
Depreciation on vehicles disposed	\$	700																		
New vehicle 10 100 × 10%		1010	(1) OF																	
Remaining vehicles 18 000 × 20%		<u>3600</u>	(1)																	
Charge for the year		<u>5310</u>	(1) OF																	



Question	Answer	Marks																												
1(c)	<p>Income statement for the year ended 30 April 2019</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Revenue <b>W1</b></td> <td style="text-align: right;">\$ 58 430 (1)</td> </tr> <tr> <td>Inventory on 1 May 2018</td> <td style="text-align: right;">6 750</td> </tr> <tr> <td>Purchases <b>W2</b></td> <td style="text-align: right;"><u>25 970</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>32 720</u></td> </tr> <tr> <td>Inventory on 30 April 2019</td> <td style="text-align: right;"><u>27 250 (1)</u></td> </tr> <tr> <td>Gross profit</td> <td style="text-align: right;">31 180</td> </tr> <tr> <td>Wages <b>W3</b></td> <td style="text-align: right;">11 500 (1)</td> </tr> <tr> <td>Rent <b>W4</b></td> <td style="text-align: right;">6 850 (1)</td> </tr> <tr> <td>General expenses</td> <td style="text-align: right;">2 300</td> </tr> <tr> <td>Provision for doubtful debts</td> <td style="text-align: right;">190 (1)</td> </tr> <tr> <td>Loss on sale of motor vehicle</td> <td style="text-align: right;">200 (1) <b>OF</b></td> </tr> <tr> <td>Depreciation on motor vehicles</td> <td style="text-align: right;">5 310 (1) <b>OF</b></td> </tr> <tr> <td>Depreciation on equipment <b>W5</b></td> <td style="text-align: right;"><u>2 900 (1)</u></td> </tr> <tr> <td>Profit for the year</td> <td style="text-align: right;"><u>1 930 (1) <b>OF</b></u></td> </tr> </table> <p>Workings: <b>W1</b> Revenue 57 900 + 3790 – 3260 = 58 430  <b>W2</b> Purchases 25 800 + 4560 – 4390 = 25 970  <b>W3</b> Wages 10 700 + 2300 – 1500 = 11 500  <b>W4</b> Rent 7 500 – 1600 + 950 = 6850  <b>W5</b> Depreciation equipment 20 500 – 17 600 = 2900</p>	Revenue <b>W1</b>	\$ 58 430 (1)	Inventory on 1 May 2018	6 750	Purchases <b>W2</b>	<u>25 970</u>		<u>32 720</u>	Inventory on 30 April 2019	<u>27 250 (1)</u>	Gross profit	31 180	Wages <b>W3</b>	11 500 (1)	Rent <b>W4</b>	6 850 (1)	General expenses	2 300	Provision for doubtful debts	190 (1)	Loss on sale of motor vehicle	200 (1) <b>OF</b>	Depreciation on motor vehicles	5 310 (1) <b>OF</b>	Depreciation on equipment <b>W5</b>	<u>2 900 (1)</u>	Profit for the year	<u>1 930 (1) <b>OF</b></u>	9
Revenue <b>W1</b>	\$ 58 430 (1)																													
Inventory on 1 May 2018	6 750																													
Purchases <b>W2</b>	<u>25 970</u>																													
	<u>32 720</u>																													
Inventory on 30 April 2019	<u>27 250 (1)</u>																													
Gross profit	31 180																													
Wages <b>W3</b>	11 500 (1)																													
Rent <b>W4</b>	6 850 (1)																													
General expenses	2 300																													
Provision for doubtful debts	190 (1)																													
Loss on sale of motor vehicle	200 (1) <b>OF</b>																													
Depreciation on motor vehicles	5 310 (1) <b>OF</b>																													
Depreciation on equipment <b>W5</b>	<u>2 900 (1)</u>																													
Profit for the year	<u>1 930 (1) <b>OF</b></u>																													
1(d)	<p>Application of concept of prudence (1)                      Application of matching concept (1)                      Profit may be overstated in the event of irrecoverable debts (1)                      Trade receivables / current assets may be overstated (1)  <b>Accept other valid points.</b></p>	4																												

Question	Answer	Marks
1(e)	<p>Loan <b>Max 3</b></p> <p>Annual interest will reduce/eliminate profit <b>(1)</b></p> <p>Does he want any security? <b>(1)</b></p> <p>Will he want capital repaid? <b>(1)</b></p> <p>However, it will clear the overdraft in the short-term. <b>(1)</b></p> <p><b>Accept other valid points.</b></p> <p>Becoming a partner <b>Max 3</b></p> <p>Will bring in expertise/new ideas <b>(1)</b></p> <p>May generate additional gross profit <b>(1)</b></p> <p>May be able to reduce wages which is the main expense <b>(1)</b></p> <p>There may be conflict between the three partners <b>(1)</b></p> <p>Possibly less profit for Ahmed and Raji <b>(1)</b></p> <p><b>Accept other valid points.</b></p> <p><b>1</b> for Advice</p>	7



Question	Answer	Marks																																
2(a)(i)	<p style="text-align: center;">Lawrence</p> <p style="text-align: center;">Corrected purchases ledger control account</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="width: 50%; text-align: right;">\$</td> </tr> <tr> <td>Discount received</td> <td style="text-align: right;">280 (1)</td> </tr> <tr> <td>Cash payment</td> <td style="text-align: right;">120 (1)</td> </tr> <tr> <td>Contra</td> <td style="text-align: right;">380</td> </tr> <tr> <td>Corrected balance c/d</td> <td style="text-align: right;"><u>17 330</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>18 110</u></td> </tr> <tr> <td></td> <td style="text-align: right;">Balance b/d</td> </tr> <tr> <td></td> <td style="text-align: right;">16 970</td> </tr> <tr> <td></td> <td style="text-align: right;">1070 (1)</td> </tr> <tr> <td></td> <td style="text-align: right;">70 (1)</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>18 110</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>17 330</u></td> </tr> </table>		\$	Discount received	280 (1)	Cash payment	120 (1)	Contra	380	Corrected balance c/d	<u>17 330</u>		<u>18 110</u>		Balance b/d		16 970		1070 (1)		70 (1)		<u>18 110</u>		<u>17 330</u>	<b>4</b>								
	\$																																	
Discount received	280 (1)																																	
Cash payment	120 (1)																																	
Contra	380																																	
Corrected balance c/d	<u>17 330</u>																																	
	<u>18 110</u>																																	
	Balance b/d																																	
	16 970																																	
	1070 (1)																																	
	70 (1)																																	
	<u>18 110</u>																																	
	<u>17 330</u>																																	
2(a)(ii)	<p style="text-align: center;">Lawrence</p> <p style="text-align: center;">Corrected sales ledger control account</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="width: 50%; text-align: right;">\$</td> </tr> <tr> <td>Balance b/d</td> <td style="text-align: right;">42 350</td> </tr> <tr> <td>Dishonoured cheque</td> <td style="text-align: right;">90 (1)</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>42 440</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>41 270</u></td> </tr> <tr> <td></td> <td style="text-align: right;">Sales return</td> </tr> <tr> <td></td> <td style="text-align: right;">460 (1)</td> </tr> <tr> <td></td> <td style="text-align: right;">Irrecoverable debt</td> </tr> <tr> <td></td> <td style="text-align: right;">190 (1)</td> </tr> <tr> <td></td> <td style="text-align: right;">Discount</td> </tr> <tr> <td></td> <td style="text-align: right;">140 (1)</td> </tr> <tr> <td></td> <td style="text-align: right;">Contra</td> </tr> <tr> <td></td> <td style="text-align: right;">380 (1)</td> </tr> <tr> <td></td> <td style="text-align: right;">Corrected balance c/d</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>41 270</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>42 440</u></td> </tr> </table>		\$	Balance b/d	42 350	Dishonoured cheque	90 (1)		<u>42 440</u>		<u>41 270</u>		Sales return		460 (1)		Irrecoverable debt		190 (1)		Discount		140 (1)		Contra		380 (1)		Corrected balance c/d		<u>41 270</u>		<u>42 440</u>	<b>5</b>
	\$																																	
Balance b/d	42 350																																	
Dishonoured cheque	90 (1)																																	
	<u>42 440</u>																																	
	<u>41 270</u>																																	
	Sales return																																	
	460 (1)																																	
	Irrecoverable debt																																	
	190 (1)																																	
	Discount																																	
	140 (1)																																	
	Contra																																	
	380 (1)																																	
	Corrected balance c/d																																	
	<u>41 270</u>																																	
	<u>42 440</u>																																	
2(b)	A transaction recorded in the wrong account of the same class (1) but using the correct amount and on the correct side. (1)	<b>2</b>																																
2(c)(i)	<p>Incorrect sales ledger balances could mean Lawrence not collecting the right amount from credit customers. (1) It may also risk resulting in irrecoverable debts. (1)</p> <p>Non-collection of debts would negatively impact cash balances. (1)</p> <p>May lead to incorrect financial statements (1)</p> <p style="text-align: center;"><b>Max 2</b></p> <p style="text-align: center;"><b>Accept other valid points.</b></p>	<b>2</b>																																

Question	Answer	Marks
2(c)(ii)	<p>Incorrect purchase ledger balances could mean possible disputes with suppliers affecting deliveries <b>(1)</b> and may result in credit facilities being withdrawn. <b>(1)</b></p> <p>May lead to overpaying suppliers <b>(1)</b></p> <p>May result in loss of opportunities of settlement discount. <b>(1)</b></p> <p><b>Max 2</b> <b>Accept other valid points.</b></p>	<b>2</b>

Question	Answer	Marks																																								
3(a)	\$44 500 – \$2000 <b>(1)</b> = \$42 500 <b>(1) OF</b>	<b>2</b>																																								
3(b)	<p>Statement of Changes in Equity for the year ended 30 September 2018</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 15%; text-align: right;">Ordinary shares</th> <th style="width: 15%; text-align: right;">Share premium</th> <th style="width: 15%; text-align: right;">Revaluation reserve</th> <th style="width: 25%; text-align: right;">Retained earnings</th> </tr> </thead> <tbody> <tr> <td>At 1 October 2017</td> <td style="text-align: right;">\$ 500 000</td> <td style="text-align: right;">\$ 175 000</td> <td style="text-align: right;">\$</td> <td style="text-align: right;">\$ 540 000</td> </tr> <tr> <td>Profit for the year</td> <td></td> <td></td> <td></td> <td style="text-align: right;">42 500 <b>(1) OF</b></td> </tr> <tr> <td>Rights issue <b>W1</b></td> <td style="text-align: right;">200 000 } <b>(3)</b></td> <td style="text-align: right;">120 000 } <b>(3)</b></td> <td></td> <td style="text-align: right;">(125 000) <b>(1)</b></td> </tr> <tr> <td>Bonus issue <b>W2</b></td> <td style="text-align: right;">420 000 <b>(1)</b></td> <td style="text-align: right;">(295 000) <b>(1)</b></td> <td></td> <td style="text-align: right;">(224 000) <b>(2)</b></td> </tr> <tr> <td>Dividends paid <b>W3</b></td> <td></td> <td></td> <td style="text-align: right;"><u>350 000</u> <b>(1)</b></td> <td></td> </tr> <tr> <td>Revaluation of buildings</td> <td></td> <td></td> <td style="text-align: right;"><u>350 000</u></td> <td></td> </tr> <tr> <td>At 30 September 2018</td> <td style="text-align: right;"><u>1 120 000</u></td> <td style="text-align: right;"><u>0</u></td> <td></td> <td style="text-align: right;"><u>233 500</u> <b>(1) OF</b></td> </tr> </tbody> </table>		Ordinary shares	Share premium	Revaluation reserve	Retained earnings	At 1 October 2017	\$ 500 000	\$ 175 000	\$	\$ 540 000	Profit for the year				42 500 <b>(1) OF</b>	Rights issue <b>W1</b>	200 000 } <b>(3)</b>	120 000 } <b>(3)</b>		(125 000) <b>(1)</b>	Bonus issue <b>W2</b>	420 000 <b>(1)</b>	(295 000) <b>(1)</b>		(224 000) <b>(2)</b>	Dividends paid <b>W3</b>			<u>350 000</u> <b>(1)</b>		Revaluation of buildings			<u>350 000</u>		At 30 September 2018	<u>1 120 000</u>	<u>0</u>		<u>233 500</u> <b>(1) OF</b>	<b>11</b>
	Ordinary shares	Share premium	Revaluation reserve	Retained earnings																																						
At 1 October 2017	\$ 500 000	\$ 175 000	\$	\$ 540 000																																						
Profit for the year				42 500 <b>(1) OF</b>																																						
Rights issue <b>W1</b>	200 000 } <b>(3)</b>	120 000 } <b>(3)</b>		(125 000) <b>(1)</b>																																						
Bonus issue <b>W2</b>	420 000 <b>(1)</b>	(295 000) <b>(1)</b>		(224 000) <b>(2)</b>																																						
Dividends paid <b>W3</b>			<u>350 000</u> <b>(1)</b>																																							
Revaluation of buildings			<u>350 000</u>																																							
At 30 September 2018	<u>1 120 000</u>	<u>0</u>		<u>233 500</u> <b>(1) OF</b>																																						



Question	Answer	Marks
3(b)	<p><b>W1</b> Rights issue:  <math>500\,000 \times 4 = \frac{2\,000\,000}{5 \times 2} = 800\,000</math> (1) <b>OF</b>  <math>800\,000 \times 0.25 = 200\,000</math> } (1) <b>OF both</b>  <math>800\,000 \times 0.15 = 120\,000</math> }</p> <p><b>W2</b> Bonus issue:  <math>2\,000\,000 + 800\,000 = 2\,800\,000</math>  <math>\frac{2\,800\,000}{5 \times 3} = 1\,880\,000</math> (1) <b>OF</b>  <math>1\,680\,000 \times 0.25 = 420\,000</math> (1) <b>OF</b></p> <p><b>W3</b> Dividends paid:  <math>2\,000\,000 + 800\,000 + 1\,680\,000 = 4\,480\,000</math>  <math>4\,480\,000 \times 0.05 = 224\,000</math> (1) <b>OF</b></p>	
3(c)	<p>Capital reserves:  Non distributable  Cannot be used to pay dividends  Created via changes in capital structure / non-trading activities  <b>Max 1</b>  <b>Accept other valid points.</b></p> <p>Revenue reserves:  Distributable  Can be used to pay dividends  Created via trading activities  <b>Max 1</b>  <b>Accept other valid points.</b></p>	2

Question	Answer	Marks
4(a)(i)	\$60 000 (1)	1
4(a)(ii)	\$40 000 (1)	1
4(a)(iii)	\$30 000 (1)	1
4(a)(iv)	\$20 000 (1)	1
<p>Workings:</p> <p>The graph displays four cost and revenue lines over a range of 0 to 60 thousand units. The vertical axis represents monetary values in thousands of dollars, ranging from 0 to 90. The horizontal axis represents units in thousands, ranging from 0 to 60. The Sales revenue line starts at the origin (0,0) and increases linearly to 90 at 60 units. The Total costs line starts at a fixed cost of 40 when units are zero and increases linearly to 90 at 60 units. The Fixed costs line is a horizontal dashed line at 40. The Variable costs line starts at the origin (0,0) and increases linearly to 50 at 60 units. Specific points are marked: (i) at 30 units on the Total costs line, (ii) at 40 on the Fixed costs line, (iii) at 60 on the Y-axis, and (iv) at 90 on the Y-axis.</p>		

Question	Answer	Marks																																																												
4(b)	<p>Budgeted profit Budgeted units 105 000</p> <table style="margin-left: 40px;"> <tr><td>Sales revenue</td><td style="text-align: right;">\$ 315 000</td></tr> <tr><td>Less direct labour</td><td style="text-align: right;">210 000</td></tr> <tr><td>Less direct materials</td><td style="text-align: right;"><u>52 500</u></td></tr> <tr><td>Contribution</td><td style="text-align: right;">52 500</td></tr> <tr><td>Less allocated fixed costs</td><td style="text-align: right;"><u>34 500</u></td></tr> <tr><td>Budgeted profit</td><td style="text-align: right;"><u>18 000 (1)</u></td></tr> </table> <p>Profit with changes</p> <table style="margin-left: 40px;"> <tr><td>Selling price</td><td style="text-align: right;">\$ per unit</td><td style="text-align: right;">or</td><td style="text-align: right;">\$</td></tr> <tr><td>Less direct labour</td><td style="text-align: right;"><math>\\$3 \times 1.05 =</math></td><td style="text-align: right;">3.15 (1)</td><td style="text-align: right;"><math>\times 105\,000</math> units</td></tr> <tr><td>Less direct materials</td><td style="text-align: right;"><math>\\$4 \times 1.05 = \\$4.20 \times 0.5</math> hour =</td><td style="text-align: right;">2.10 (1)</td><td style="text-align: right;"><math>\times 105\,000</math> units</td></tr> <tr><td>Contribution</td><td style="text-align: right;"><math>\\$2 \times 1.02 = \\$2.04 \times 0.25</math> kilos =</td><td style="text-align: right;"><u>0.51 (1)</u></td><td style="text-align: right;"><u><math>\times 105\,000</math> units</u></td></tr> <tr><td></td><td></td><td style="text-align: right;"><u>0.54</u></td><td style="text-align: right;"><u>53 550</u></td></tr> <tr><td></td><td></td><td></td><td style="text-align: right;"><u>56 700</u></td></tr> </table> <p><i>Alternate working for contribution per unit</i></p> <table style="margin-left: 40px;"> <tr><td>Selling price</td><td style="text-align: right;"><math>\frac{\\$315\,000}{105\,000} = \\$3.00 \times 1.05</math></td><td style="text-align: right;">3.15</td></tr> <tr><td>Less direct labour</td><td style="text-align: right;"><math>\frac{\\$210\,000}{105\,000} = \\$2 \times 1.05</math></td><td style="text-align: right;">2.10</td></tr> <tr><td>Less direct material</td><td style="text-align: right;"><math>\frac{\\$52\,500}{105\,000} = \\$0.5 \times 1.02</math></td><td style="text-align: right;"><u>0.51</u></td></tr> <tr><td>Contribution per unit</td><td></td><td style="text-align: right;"><u>0.54</u></td></tr> </table> <table style="margin-left: 40px;"> <tr><td>Total contribution</td><td style="text-align: right;">\$ 56 700</td><td style="text-align: right;"><b>(1) OF</b></td></tr> <tr><td>Less sales bonus</td><td style="text-align: right;"><math>\\$0.54 \times 105\,000</math> units =</td><td style="text-align: right;">1 575 * see working</td></tr> <tr><td>Less allocated fixed costs</td><td style="text-align: right;"><math>\\$34\,500 + 6000 =</math></td><td style="text-align: right;"><u>40 500 (1)</u></td></tr> <tr><td></td><td></td><td style="text-align: right;"><u>14 625 (1) OF</u></td></tr> </table> <p>* sales bonus <math>105\,000 - 80\,000 = 25\,000</math> units <math>\times \\$3.15 = \\$78\,750</math> (1) OF <math>\times 2\% = \\$1575</math> (1) OF Budgeted profit = \$18 000    New profit = –\$14 625    Change = \$3375 decrease (1) OF</p>	Sales revenue	\$ 315 000	Less direct labour	210 000	Less direct materials	<u>52 500</u>	Contribution	52 500	Less allocated fixed costs	<u>34 500</u>	Budgeted profit	<u>18 000 (1)</u>	Selling price	\$ per unit	or	\$	Less direct labour	$\$3 \times 1.05 =$	3.15 (1)	$\times 105\,000$ units	Less direct materials	$\$4 \times 1.05 = \$4.20 \times 0.5$ hour =	2.10 (1)	$\times 105\,000$ units	Contribution	$\$2 \times 1.02 = \$2.04 \times 0.25$ kilos =	<u>0.51 (1)</u>	<u><math>\times 105\,000</math> units</u>			<u>0.54</u>	<u>53 550</u>				<u>56 700</u>	Selling price	$\frac{\$315\,000}{105\,000} = \$3.00 \times 1.05$	3.15	Less direct labour	$\frac{\$210\,000}{105\,000} = \$2 \times 1.05$	2.10	Less direct material	$\frac{\$52\,500}{105\,000} = \$0.5 \times 1.02$	<u>0.51</u>	Contribution per unit		<u>0.54</u>	Total contribution	\$ 56 700	<b>(1) OF</b>	Less sales bonus	$\$0.54 \times 105\,000$ units =	1 575 * see working	Less allocated fixed costs	$\$34\,500 + 6000 =$	<u>40 500 (1)</u>			<u>14 625 (1) OF</u>	10
Sales revenue	\$ 315 000																																																													
Less direct labour	210 000																																																													
Less direct materials	<u>52 500</u>																																																													
Contribution	52 500																																																													
Less allocated fixed costs	<u>34 500</u>																																																													
Budgeted profit	<u>18 000 (1)</u>																																																													
Selling price	\$ per unit	or	\$																																																											
Less direct labour	$\$3 \times 1.05 =$	3.15 (1)	$\times 105\,000$ units																																																											
Less direct materials	$\$4 \times 1.05 = \$4.20 \times 0.5$ hour =	2.10 (1)	$\times 105\,000$ units																																																											
Contribution	$\$2 \times 1.02 = \$2.04 \times 0.25$ kilos =	<u>0.51 (1)</u>	<u><math>\times 105\,000</math> units</u>																																																											
		<u>0.54</u>	<u>53 550</u>																																																											
			<u>56 700</u>																																																											
Selling price	$\frac{\$315\,000}{105\,000} = \$3.00 \times 1.05$	3.15																																																												
Less direct labour	$\frac{\$210\,000}{105\,000} = \$2 \times 1.05$	2.10																																																												
Less direct material	$\frac{\$52\,500}{105\,000} = \$0.5 \times 1.02$	<u>0.51</u>																																																												
Contribution per unit		<u>0.54</u>																																																												
Total contribution	\$ 56 700	<b>(1) OF</b>																																																												
Less sales bonus	$\$0.54 \times 105\,000$ units =	1 575 * see working																																																												
Less allocated fixed costs	$\$34\,500 + 6000 =$	<u>40 500 (1)</u>																																																												
		<u>14 625 (1) OF</u>																																																												



Question	Answer	Marks																								
4(c)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="text-align: center;">budgeted</td> <td style="text-align: center;">new</td> <td></td> </tr> <tr> <td>Allocated fixed costs</td> <td style="text-align: right;">\$34 500</td> <td style="text-align: right;">\$40 500</td> <td style="text-align: right;"><b>(1) OF both</b></td> </tr> <tr> <td>Contribution per unit</td> <td style="text-align: right;">÷ 0.50</td> <td style="text-align: right;">÷ 0.54</td> <td style="text-align: right;"><b>(1) OF both</b></td> </tr> <tr> <td>Break-even units</td> <td style="text-align: right;">69 000</td> <td style="text-align: right;">75 000</td> <td></td> </tr> <tr> <td>Selling price per unit</td> <td style="text-align: right;">× \$3</td> <td style="text-align: right;">× \$3.15</td> <td style="text-align: right;"><b>(1) OF both</b></td> </tr> <tr> <td>Break-even</td> <td style="text-align: right;">\$207 000</td> <td style="text-align: right;">\$236 250</td> <td style="text-align: right;"><b>(1) OF both = increase of \$29 250 (1) OF</b></td> </tr> </table>		budgeted	new		Allocated fixed costs	\$34 500	\$40 500	<b>(1) OF both</b>	Contribution per unit	÷ 0.50	÷ 0.54	<b>(1) OF both</b>	Break-even units	69 000	75 000		Selling price per unit	× \$3	× \$3.15	<b>(1) OF both</b>	Break-even	\$207 000	\$236 250	<b>(1) OF both = increase of \$29 250 (1) OF</b>	<b>5</b>
	budgeted	new																								
Allocated fixed costs	\$34 500	\$40 500	<b>(1) OF both</b>																							
Contribution per unit	÷ 0.50	÷ 0.54	<b>(1) OF both</b>																							
Break-even units	69 000	75 000																								
Selling price per unit	× \$3	× \$3.15	<b>(1) OF both</b>																							
Break-even	\$207 000	\$236 250	<b>(1) OF both = increase of \$29 250 (1) OF</b>																							
4(d)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="text-align: right;">New</td> <td style="text-align: right;">105 000 – 75 000</td> <td style="text-align: right;">= 30 000 units</td> <td></td> </tr> <tr> <td>Margin of safety</td> <td style="text-align: right;">budgeted</td> <td style="text-align: right;">105 000 – 69 000</td> <td style="text-align: right;">= <u>36 000</u> units</td> <td style="text-align: right;">} <b>(1) OF both</b></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">decrease of 6000 units</td> <td style="text-align: right;">} <b>(1) OF</b></td> </tr> </table>		New	105 000 – 75 000	= 30 000 units		Margin of safety	budgeted	105 000 – 69 000	= <u>36 000</u> units	} <b>(1) OF both</b>				decrease of 6000 units	} <b>(1) OF</b>	<b>2</b>									
	New	105 000 – 75 000	= 30 000 units																							
Margin of safety	budgeted	105 000 – 69 000	= <u>36 000</u> units	} <b>(1) OF both</b>																						
			decrease of 6000 units	} <b>(1) OF</b>																						
4(e)	<p><i>Table to show analysis of results</i></p> <table border="1" style="width: 100%; border-collapse: collapse; margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: center;">Budgeted</th> <th style="text-align: center;">After changes</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Contribution</td> <td style="text-align: center;">\$52 500</td> <td style="text-align: center;">\$56 700</td> </tr> <tr> <td style="text-align: center;">Profit</td> <td style="text-align: center;">\$18 000</td> <td style="text-align: center;">\$14 625</td> </tr> <tr> <td style="text-align: center;">Break-even</td> <td style="text-align: center;">69 000 units</td> <td style="text-align: center;">75 000 units</td> </tr> <tr> <td style="text-align: center;">Break-even</td> <td style="text-align: center;">\$207 000</td> <td style="text-align: center;">\$236 250</td> </tr> <tr> <td style="text-align: center;">Margin of safety</td> <td style="text-align: center;">36 000 units</td> <td style="text-align: center;">30 000 units</td> </tr> </tbody> </table>		Budgeted	After changes	Contribution	\$52 500	\$56 700	Profit	\$18 000	\$14 625	Break-even	69 000 units	75 000 units	Break-even	\$207 000	\$236 250	Margin of safety	36 000 units	30 000 units	<b>5</b>						
	Budgeted	After changes																								
Contribution	\$52 500	\$56 700																								
Profit	\$18 000	\$14 625																								
Break-even	69 000 units	75 000 units																								
Break-even	\$207 000	\$236 250																								
Margin of safety	36 000 units	30 000 units																								

Question	Answer	Marks
4(e)	<p>Recommend: The changes are not worthwhile. <b>(1)</b></p> <p>Because:</p> <p>Although budgeted contribution is higher, the profit after the changes is lower <b>(1)</b>, due to allocated fixed costs increasing – advertising and sales bonus. <b>(1)</b></p> <p>The margin of safety is lower <b>(1)</b> which means there is less of a buffer / comfort zone before Wye starts to make a loss. <b>(1)</b></p> <p>The break-even point is higher <b>(1)</b> which increases the risk <b>(1)</b> of Wye not making enough sales to cover fixed costs. <b>(1)</b></p> <p><b>Accept other valid points.</b></p> <p><b>(1 mark) × any 4 reasons – Max 4</b></p>	
4(f)	<p>Possible answers:</p> <p>Identify underperforming products <b>(1)</b></p> <p>Ensure sufficiently skilled labour is available to meet production <b>(1)</b></p> <p>Ensure sufficient finance is available to continue operations and any planned investments <b>(1)</b></p> <p>Ensure the correct quality/cost of material / discounts can be obtained from suppliers <b>(1)</b></p> <p>Be able to adapt to changes in the future / provides alternatives if financial targets are not being met <b>(1)</b></p>	<b>4</b>

Question	Answer	Marks
4(f)	Price products competitively <b>(1)</b> Avoid 'firefighting' / avoid potential problems in the future <b>(1)</b> Assess any competition / markets for products <b>(1)</b> Estimate the likely future position of business – short term and long term <b>(1)</b> Identify areas of responsibility of managers <b>(1)</b> <b>(1 mark) × any 4 advantages</b> <b>Accept other valid points.</b>	