Cambridge Assessment
International Education

Cambridge International AS & A Level

ACCOUNTING **9706/32**

Paper 3 Structured Questions **October/November 2022**

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 October/November 2022 series for most Cambridge IGCSE™, Cambridge International A and AS Level components and some Cambridge O Level components.

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.

Social Science-Specific Marking Principles
(for point-based marking)

1 Components using point-based marking:

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

a DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)
b DO credit alternative answers/examples which are not written in the mark scheme if they are correct
c DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).
d DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)
e DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities
f DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).
g DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 **Calculation questions:**

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

4 **Annotation:**

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

ANNOTATIONS

The following annotations are used in marking this paper and should be used by examiners.

Annotation	Use or meaning
✓	Correct and relevant point made in answering the question.
×	Incorrect point or error made.
LNK	Two statements are linked.
REP	Repeat
A	An extraneous figure
N0	No working shown
AE	Attempts evaluation
R1	Required item 1
R2	Required item 2
OF	Own figure
EVAL	Evaluation
NAQ	Not answered question
BOD	Benefit of the doubt given.
SEEN	Noted but no credit given
Highlight	Highlight
Off page Comment	Off page comment

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(a)(i)</td><td>(3 900 +400) (1) – (800 +1 650 +420) (1) = $1 430 (1)OF</td><td>3</td></tr>
<tr><td>1(a)(ii)</td><td>Ajlal 1 000 + 550 (1) - 400 (1) + 715 (1of) = $1 865 (1)OF
Daneen 1 200 + 715 = $1 915 (1)OF</td><td>5</td></tr>
<tr><td>1(b)</td><td>Joint venture bank account
<table>
<tr><td></td><td>$</td><td></td><td></td><td>$</td><td></td></tr>
<tr><td>Ajlal</td><td>1 000</td><td>}</td><td>Joint venture a/c</td><td>800</td><td>}</td></tr>
<tr><td>Daneen</td><td>1 200</td><td>}(1)</td><td>Joint venture a/c</td><td>420</td><td>}(1)</td></tr>
<tr><td>Joint venture a/c (sales)</td><td>3 900</td><td>(1)</td><td>Joint venture a/c</td><td>1 100</td><td>(1)</td></tr>
<tr><td></td><td></td><td></td><td>Ajlal</td><td>1 865</td><td>(1)OF</td></tr>
<tr><td></td><td></td><td></td><td>Daneen</td><td>1 915</td><td>(1)OF</td></tr>
<tr><td></td><td>6 100</td><td></td><td></td><td>6 100</td><td></td></tr>
</table>
</td><td>6</td></tr>
<tr><td>1(c)</td><td>The equal split of profit mirrors the equal split of hours (1) but Ajlal spent additional time making the chocolates (1).
Daneen put in more cash at the start ($1200 v $1000) (1) but Ajlal put in more cash in total as she paid for ingredients ($1550 against $1200) (1).
But Ajlal had the added benefit of finding out how well her chocolates would sell (1).

Accept other valid responses.
Max 3</td><td>3</td></tr>
</table>

Question	Answer	Marks
1(d)	Operating alone – Ajlal would not have to share the profit **(1)** but the profit would be lower because of the assistant’s wages **(1)**. Ajlal would bear all the risk alone **(1)** and have to find all the capital herself **(1)**. She now has both funds and fittings from the running of the previous stall **(1)**. Repeating the joint venture – The risk is shared **(1)** and additional capital is available to help with set up costs **(1)**. A party to a joint venture may be more reliable than an employee as they have a stake in the profit **(1)**. **Accept other valid responses** **Max 3 for comments Decision 1 mark**	**4**
1(e)	A large limited company requires an audit **(1)** as it is a statutory requirement **(1)** but other businesses or organisations may choose to have an audit **(1)**. **Max 2** **Accept other valid responses**	**2**
1(f)	Proper books of account have been maintained **(1)**. The financial statements are in accordance with the books of account **(1)**. The financial statements give a true and fair view / are free from material errors and mis-statements **(1)**. The financial statements comply with legislation and standards **(1)**. **Max 2** **Accept other valid responses**	**2**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(a)(i)</td><td>Sarah
DB plc
<table>
<tr><th></th><th>$</th><th></th><th></th><th>$</th><th></th></tr>
<tr><td>Realisation (purchase consideration)</td><td>240 000</td><td>(1)</td><td>Bank</td><td>30 000</td><td>(1)</td></tr>
<tr><td></td><td></td><td></td><td>Capital (shares)</td><td>210 000</td><td>(1)</td></tr>
<tr><td></td><td>240 000</td><td></td><td></td><td>240 000</td><td></td></tr>
</table></td><td>3</td></tr>
<tr><td>2(a)(ii)</td><td>Bank
<table>
<tr><th></th><th>$</th><th></th><th></th><th>$</th><th></th></tr>
<tr><td>Balance b/d</td><td>12 000</td><td>(1)</td><td>Loan</td><td>20 000</td><td>(1)</td></tr>
<tr><td>DB plc</td><td>30 000</td><td>(1)</td><td>Capital</td><td>22 000</td><td>(1)</td></tr>
<tr><td></td><td>42 000</td><td></td><td></td><td>42 000</td><td></td></tr>
</table></td><td>4</td></tr>
</table>

Question	Answer	Marks
2(a)(iii)	Capital	**4**

	$			$	
Bank	22 000	**(1) OF**	Balance b/d	123 000	**(1)**
DB plc (shares)	210 000	**(1)**	Realisation (profit)	109 000	**(1) W1**
	232 000			232 000	

W1 (240 – (120 + 17 + 15 – 21))

Question	Answer	Marks
2(b)	DB plc Statement of financial position at 31 October 2021 $ Non-current assets - tangible 925 000 **(1)** - intangible (goodwill) 29 000 **(1)** 954 000 Current assets Inventory 115 000 **(1)** Trade receivables 91 000 **(1)** Total current assets 206 000 Total assets 1 160 000 Equity Ordinary shares of $1 each 550 000 **(1)** Share premium 60 000 **(1)** Retained earnings 464 000 Total equity 1 074 000 Current liabilities Trade payables 80 000 Bank 6 000 **(1)** Total current liabilities 86 000 Total equity and liabilities 1 160 000	**7**
2(c)	The dividend on her shares is $8 100 per annum **(1)**. The interest would be $10 800 per annum **(1)**. However, interest rates and/or dividends might change in the future **(1)**. If Sarah needs short term income then it would be better to sell the shares **(1)**. But selling costs would be incurred if the shares were sold **(1)**. As Sarah has a substantial shareholding she may find it difficult to find a buyer for her shares. **(1)** The company may be retaining a high proportion of its profit to fund further expansion/more business purchases so dividends may not increase **(1)**. However, in the longer term there could be more capital gains as the share price could continue to increase **(1)**. **Accept other valid responses** **Max (4) marks for comments Decision (1)**	**5**

Question	Answer	Marks
2(d)	Stewardship means that directors act as stewards on behalf of owners/shareholders **(1)** This means that the directors must ensure that the business purchase is in the best interests of the shareholders **(1)**.	**2**

Question	Answer	Marks
3(a)	PS plc Draft income statement for the year ended 31 March 2022 $ Revenue (cos x 1.6) 558 400 **(1)OF** Cost of sales 349 000 **(1)** Gross profit 209 400 Expenses (rev x .25) 139 600 **(1)OF** Profit from operations 69 800 Finance cost (rev x .03) 16 752 **(1)OF** Profit for the year 53 048	**4**
3(b)	Item 4 (legal action) **(1)**. This is a contingent liability/IAS37 **(1)**. It is less than 50% likely to be paid/only possible not probable **(1)**. Item 8 (inventory fire) **(1)**. This is a non-adjusting event/IAS10 **(1)**. It does not affect conditions at the date of the statement of financial position/is material/affects the capacity of the business **(1)**.	**6**
3(c)	A contingent asset is a potential economic benefit the realisation of which depends on events beyond the control of the business **(1)**. Example – anticipated damages receivable from a lawsuit **(1)**. **Accept other examples.**	**2**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(d)</td><td>
<table>
<tr><td></td><td>$</td><td></td></tr>
<tr><td>Draft profit for the year</td><td>53 048</td><td></td></tr>
<tr><td>1 uninsured amount</td><td>(2 000)</td><td>(1)</td></tr>
<tr><td>2 impairment</td><td>(5 000)</td><td>(1)</td></tr>
<tr><td>3 irrecoverable debt</td><td>(1 000)</td><td>(1)</td></tr>
<tr><td>5 sale or return (7 200) (1) + 4 500 (1)</td><td>(2 700)</td><td></td></tr>
<tr><td>7 amortization</td><td><u>(1 200)</u></td><td>(1)</td></tr>
<tr><td>Revised profit for the year</td><td><u>41 148</u></td><td>(1)OF</td></tr>
</table>
</td><td>7</td></tr>
<tr><td>3(e)</td><td>
<table>
<tr><td></td><td>Debit
$</td><td>Credit
$</td></tr>
<tr><td>Premises</td><td>180 000 (1)</td><td></td></tr>
<tr><td>Revaluation reserve</td><td></td><td>180 000 (1)</td></tr>
<tr><td colspan="3">Revaluation of premises on 31 March 2022 (1)</td></tr>
</table>
</td><td>3</td></tr>
<tr><td>3(f)</td><td>
<table>
<tr><td></td><td>$</td><td></td></tr>
<tr><td>Draft trade receivables</td><td>81 900</td><td></td></tr>
<tr><td>3 irrecoverable debt</td><td>(1 000)</td><td>(1)</td></tr>
<tr><td>5 sale or return</td><td><u>(7 200)</u></td><td>(1)</td></tr>
<tr><td>Revised trade receivables</td><td><u>73 700</u></td><td>(1)OF</td></tr>
</table>
</td><td>3</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(a)</td><td>AZ Limited
Provision for unrealised profit account
<table>
<tr><th></th><th>$</th><th></th><th></th><th>$</th><th></th></tr>
<tr><td>Balance c/d W2</td><td>7 140</td><td>(2)</td><td>Balance b/d W1</td><td>4 000</td><td>(2)</td></tr>
<tr><td></td><td></td><td></td><td>Income statement</td><td>3 140</td><td>(1)OF</td></tr>
<tr><td></td><td>7 140</td><td></td><td></td><td>7 140</td><td></td></tr>
<tr><td>Income statement</td><td>2 040</td><td>(1)OF</td><td>Balance b/d</td><td>7 140</td><td></td></tr>
<tr><td>Balance c/d W3</td><td>5 100</td><td>(2)</td><td></td><td></td><td></td></tr>
<tr><td></td><td>7 140</td><td></td><td></td><td>7 140</td><td></td></tr>
</table>
W1 20 000 (1) × 20% = 4 000 (1)OF
W2 35 700 (1) × 20% = 7 140 (1)OF
W3 20 400 (1) × 25% = 5 100 (1)OF</td><td>8</td></tr>
<tr><td>4(b)</td><td>
<table>
<tr><th>Description</th><th>Amount
$</th><th>Position</th></tr>
<tr><td>Cost of production at transfer price (1)</td><td>956 250 (1)</td><td>Within cost of sales in trading section (1)</td></tr>
<tr><td>Factory profit (1)</td><td>191 250 (1)</td><td>Added to gross profit (1)</td></tr>
<tr><td>Decrease in provision for unrealised profit (1)</td><td>2 040 (1)OF</td><td>Added to gross profit (1)</td></tr>
</table></td><td>9</td></tr>
<tr><td>4(c)</td><td>Any two factory costs for (1) mark each, e.g. factory rent, factory insurance</td><td>2</td></tr>
</table>

Question	Answer	Marks
4(d)	The rate of factory profit will not affect the total profit for the year **(1)**. A higher rate of factory profit will increase the staff bonus **(1)** but will reduce the profit **(1)**. However, staff will want to earn their bonuses and will be motivated to be more productive **(1)**. In 2020 the transfer price including factory profit is $50.40 **(1)** but the buying in price is $44 so the rate of factory profit is not suitable **(1)** In 2021 the transfer price including factory profit is $53.13 **(1)** but the buying in price is $41.65 so the rate of factory profit is again not suitable **(1)** Cost of manufacture has risen **(1)** whilst for competitors it has fallen **(1)** indicating that the factory has become less efficient **(1)** and so bonuses are not reasonable **(1)**. **Max 6** **Accept other valid responses.**	**6**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>5(a)</td><td>
Labour wages budget
<table>
<tr><th></th><th>June</th><th>July</th><th>August</th><th></th></tr>
<tr><td>Production units</td><td>5 500</td><td>4 500</td><td>4 200</td><td></td></tr>
<tr><td>Hours of work</td><td>8 250</td><td>6 750</td><td>6 300</td><td></td></tr>
<tr><td>Basic pay</td><td>$65 000</td><td>$71 500</td><td>$69 300</td><td>(1) for row</td></tr>
<tr><td>Overtime pay</td><td>$21 000 (1)</td><td>$3 300 (1)</td><td>0</td><td></td></tr>
<tr><td>Cost</td><td>$86 000</td><td>$74 800</td><td>$69 300</td><td>(1)OF for row</td></tr>
</table>
OR
<table>
<tr><th></th><th>June</th><th>July</th><th>August</th><th></th></tr>
<tr><td>Production units</td><td>5 500</td><td>4 500</td><td>4 200</td><td></td></tr>
<tr><td>Hours of work</td><td>8 250</td><td>6 750</td><td>6 300</td><td></td></tr>
<tr><td>Basic pay</td><td>$82 500</td><td>$74 250</td><td>$69 300</td><td>(1) for row</td></tr>
<tr><td>Overtime premium</td><td>$3 500 (1)</td><td>$550 (1)</td><td>0</td><td></td></tr>
<tr><td>Cost</td><td>$86 000</td><td>$74 800</td><td>$69 300</td><td>(1)OF for row</td></tr>
</table>
</td><td>4</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>5(b)</td><td>Cash budget (extracts)
<table>
<tr><th></th><th>June
$</th><th>July
$</th><th>August
$</th><th></th></tr>
<tr><td>Receipts</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Cash sales</td><td>38 500 (1)</td><td>31 500 (1)</td><td>27 300</td><td>(1)</td></tr>
<tr><td>One month</td><td>59 375 (1)</td><td>73 150 (1)</td><td>59 850</td><td>(1)</td></tr>
<tr><td>Two months</td><td>25 000 (1)</td><td>31 250 (1)</td><td>38 500</td><td>(1)</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Payments</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Basic pay</td><td>65 000</td><td>71 500</td><td>69 300</td><td>(1) for row</td></tr>
<tr><td>Overtime pay (in arrears)</td><td>12 000 (1)</td><td>21 000 (1)</td><td>3 300</td><td>(1)</td></tr>
</table>
</td><td>13</td></tr>
<tr><td>5(c)</td><td>To identify cash shortages (1)
To identify cash surpluses (1)</td><td>2</td></tr>
<tr><td>5(d)</td><td>This would simplify the setting of the selling price (1).
This would avoid the profit per unit falling in months when overtime is payable (1).
When production increases the costs also increase resulting in an increased selling price (1).
This may make customers unwilling to pay (1). Would these prices be comparable to those of competitors? (1)
A slightly lower profit per unit is already more than compensated for by the increase in the volume of sales (1).

Accept other valid responses.
Decision (1) and comments max. 3</td><td>4</td></tr>
</table>

Question	Answer	Marks
5(e)	Master budget **(1)** Budgeted income statement **(1)** Budgeted statement of financial position **(1)** **Max 2**	**2**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>6(a)</td><td>ABC is considered more accurate/realistic (1) because it accounts for how overheads are allocated based on activities/cost drivers (1).
Accept other valid responses.</td><td>2</td></tr>
<tr><td>6(b)</td><td>
<table>
<tr><td>Per unit</td><td>Product A
$</td><td></td><td>Product B
$</td><td></td></tr>
<tr><td>Direct material</td><td>21.60</td><td>}(1)</td><td>24.00</td><td>}(1)</td></tr>
<tr><td>Direct labour</td><td>21.00</td><td>}</td><td>31.50</td><td>}</td></tr>
<tr><td>Machine servicing</td><td>2.49</td><td>(1)</td><td>2.21</td><td>(1)</td></tr>
<tr><td>Order processing</td><td>0.96</td><td>(1)</td><td>1.10</td><td>(1)</td></tr>
<tr><td>Quality inspections</td><td>1.59</td><td>(1)</td><td>1.96</td><td>(1)</td></tr>
<tr><td>Rent</td><td>9.60</td><td>(1)</td><td>7.47</td><td>(1)</td></tr>
<tr><td></td><td>57.24</td><td></td><td>68.24</td><td></td></tr>
<tr><td>Mark up</td><td>28.62</td><td></td><td>34.12</td><td>(1)OF both</td></tr>
<tr><td>Selling price</td><td>85.86</td><td></td><td>102.36</td><td>(1)OF both</td></tr>
</table>
</td><td>12</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>6(b)</td><td>Alternative presentation
<table>
<tr><td>In total</td><td>Product A
$</td><td></td><td>Product B
$</td><td></td></tr>
<tr><td>Direct material</td><td>32 400</td><td>}(1)</td><td>108 000</td><td>}(1)</td></tr>
<tr><td>Direct labour</td><td>31 500</td><td>}</td><td>141 750</td><td>}</td></tr>
<tr><td>Machine servicing</td><td>3 736</td><td>(1)</td><td>9 964</td><td>(1)</td></tr>
<tr><td>Order processing</td><td>1 440</td><td>(1)</td><td>4 960</td><td>(1)</td></tr>
<tr><td>Quality inspections</td><td>2 380</td><td>(1)</td><td>8 820</td><td>(1)</td></tr>
<tr><td>Rent</td><td>14 400</td><td>(1)</td><td>33 600</td><td>(1)</td></tr>
<tr><td></td><td>85 856</td><td></td><td>307 094</td><td></td></tr>
<tr><td>Mark up</td><td>42 928</td><td></td><td>153 547</td><td>(1)OF both</td></tr>
<tr><td>Revenue</td><td>128 784</td><td></td><td>460 641</td><td></td></tr>
<tr><td>÷1500/4500</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Unit selling price</td><td>85.86</td><td></td><td>102.36</td><td>(1)OF both</td></tr>
</table>
</td><td></td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>6(c)</td><td>
<table>
<tr><td></td><td></td><td></td></tr>
<tr><td>Per unit</td><td>Product B
$</td><td></td></tr>
<tr><td>Direct material</td><td>22.00</td><td>}</td></tr>
<tr><td>Direct labour</td><td>34.50</td><td>}(1)</td></tr>
<tr><td>Production overheads (52 560/9 000)</td><td>5.84</td><td>(1)</td></tr>
<tr><td>Rent (33 600/9 000)</td><td>3.73</td><td>(1of)</td></tr>
<tr><td></td><td>66.07</td><td></td></tr>
<tr><td>Mark up</td><td>33.04</td><td></td></tr>
<tr><td>Selling price</td><td>99.11</td><td>(1of)</td></tr>
</table>
</td><td>4</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>6(c)</td><td>Alternative presentation
<table>
<tr><td>In total</td><td>Product B
$</td><td></td></tr>
<tr><td>Direct material</td><td>198 000</td><td>}</td></tr>
<tr><td>Direct labour</td><td>310 500</td><td>}(1)</td></tr>
<tr><td>Production overheads</td><td>52 560</td><td>(1)</td></tr>
<tr><td>Rent</td><td>33 600</td><td>(1of)</td></tr>
<tr><td></td><td>594 660</td><td></td></tr>
<tr><td>Mark up</td><td>297 330</td><td></td></tr>
<tr><td>Revenue</td><td>891 990</td><td></td></tr>
<tr><td>÷ 9000</td><td></td><td></td></tr>
<tr><td>Selling price</td><td>99.11</td><td>(1of)</td></tr>
</table>
Note – final OF mark requires inclusion of correct mark up</td><td></td></tr>
</table>

Question	Answer	Marks
6(d)	The increase in production would decrease unit costs **(1)** and decrease selling price by very slightly more than the desired $3 **(1)** which is not a lot in comparison to the existing mark up of $34.12. **(1)** The directors could just decide to reduce the rate/amount of mark up **(1).** The mark up decreases anyway by $1.08 from this policy **(1)OF**. The directors cannot be sure the company will be able to sell all the extra units **(1)**. It could be left with a large inventory of finished goods **(1)**. The strategy is risky **(1)**. It may not be possible to increase production so substantially without investing in extra machines or renting extra factory space **(1)**. Additional workers may not be available at short notice **(1)**. Product quality may be negatively affected. **(1)** There would be knock-on effects with Product A as well **(1)**. As labour costs would increase for all factory workers, direct labour for Product A would increase by $2 per unit, resulting in an increase in selling price of $3 per unit **(1)**. So this policy may merely move the problem from one product to another **(1)**. **Decision (1) and comments max. (6)** **Accept other valid responses.**	**7**