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**ACCOUNTING**

**9706/31**

Paper 3 Structured Questions

**October/November 2017**

MARK SCHEME

Maximum Mark: 150

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**Published**

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This document consists of **14** printed pages.

| <b>Question</b> | <b>Answer</b>  | <b>Marks</b> |
|-----------------|--|--------------|
| 1(a)            | Responses could include: <ul style="list-style-type: none"><li>• Better control of manufacturing cost.</li><li>• Transferred price is compared with market price.</li><li>• Manufacturing department is a profit centre.</li><li>• Better way to measure the performance of the manufacturing department.</li></ul> <b>1 mark</b> for each valid point, max 3. | <b>3</b>     |

| Question   | Answer   | Marks     |        |    |  |                                    |  |        |  |           |  |         |  |                  |  |        |     |  |  |         |  |                                    |  |        |  |                                |  |         |        |                 |  |         |  |              |  |         |  |            |  |           |        |                |  |         |  |                   |  |         |  |                                   |    |       |     |      |    |         |     |                |    |         |     |                     |    |        |     |  |  |           |  |                          |        |  |  |                          |         |         |     |                    |  |           |  |                   |  |         |        |  |  |           |        |    |
|--|--|-----------|--------|----|--|------------------------------------|--|--------|--|-----------|--|---------|--|------------------|--|--------|-----|--|--|---------|--|------------------------------------|--|--------|--|--------------------------------|--|---------|--------|-----------------|--|---------|--|--------------|--|---------|--|------------|--|-----------|--------|----------------|--|---------|--|-------------------|--|---------|--|-----------------------------------|----|-------|-----|------|----|---------|-----|----------------|----|---------|-----|---------------------|----|--------|-----|--|--|-----------|--|--------------------------|--------|--|--|--------------------------|---------|---------|-----|--------------------|--|-----------|--|-------------------|--|---------|--------|--|--|-----------|--------|----|
| 1(b)   | <p style="text-align: center;">Ted Manufacturing account for year ended 31 December 2016</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 10%; text-align: center;">\$</th> <th style="width: 10%; text-align: center;">\$</th> <th style="width: 20%;"></th> </tr> </thead> <tbody> <tr> <td>Opening inventory of raw materials</td> <td></td> <td style="text-align: right;">52 000</td> <td></td> </tr> <tr> <td>Purchases</td> <td></td> <td style="text-align: right;">484 000</td> <td></td> </tr> <tr> <td>Carriage inwards</td> <td></td> <td style="text-align: right;">21 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">557 000</td> <td></td> </tr> <tr> <td>Closing inventory of raw materials</td> <td></td> <td style="text-align: right;">67 000</td> <td></td> </tr> <tr> <td>Cost of raw materials consumed</td> <td></td> <td style="text-align: right; border-top: 1px solid black;">490 000</td> <td style="text-align: right;">(1) OF</td> </tr> <tr> <td>Direct expenses</td> <td></td> <td style="text-align: right;">120 000</td> <td></td> </tr> <tr> <td>Direct wages</td> <td></td> <td style="text-align: right;">626 000</td> <td></td> </tr> <tr> <td>Prime cost</td> <td></td> <td style="text-align: right; border-top: 1px solid black;">1 236 000</td> <td style="text-align: right;">(1) OF</td> </tr> <tr> <td>Indirect wages</td> <td></td> <td style="text-align: right;">132 000</td> <td></td> </tr> <tr> <td>Factory overheads</td> <td></td> <td style="text-align: right;">510 900</td> <td></td> </tr> <tr> <td>Depreciation of factory machinery</td> <td style="text-align: right;">W1</td> <td style="text-align: right;">8 100</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Rent</td> <td style="text-align: right;">W2</td> <td style="text-align: right;">360 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Heat and light</td> <td style="text-align: right;">W3</td> <td style="text-align: right;">133 500</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Insurance and rates</td> <td style="text-align: right;">W4</td> <td style="text-align: right;">64 500</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">2 445 000</td> <td></td> </tr> <tr> <td>Opening work in progress</td> <td style="text-align: right;">97 000</td> <td></td> <td></td> </tr> <tr> <td>Closing work in progress</td> <td style="text-align: right; border-bottom: 1px solid black;">102 000</td> <td style="text-align: right; border-bottom: 1px solid black;">(5 000)</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Cost of production</td> <td></td> <td style="text-align: right;">2 440 000</td> <td></td> </tr> <tr> <td>Add : 20% mark-up</td> <td></td> <td style="text-align: right;">488 000</td> <td style="text-align: right;">(1) OF</td> </tr> <tr> <td>Transferred to the trading section of Income Statement</td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">2 928 000</td> <td style="text-align: right;">(1) OF</td> </tr> </tbody> </table> <p style="margin-top: 20px;"> <b>W1</b> Depreciation of factory machinery <math>(\\$330\,000 - \\$276\,000) \times 15\% = \\$8100</math><br/> <b>W2</b> Rent <math>(\\$440\,000 + \\$40\,000) \times 3/4 = \\$360\,000</math><br/> <b>W3</b> Heat and light <math>\\$178\,000 \times 3/4 = \\$133\,500</math><br/> <b>W4</b> Insurance and rates <math>(\\$92\,000 - \\$6000) \times 3/4 = \\$64\,500</math> </p> |           | \$     | \$ |  | Opening inventory of raw materials |  | 52 000 |  | Purchases |  | 484 000 |  | Carriage inwards |  | 21 000 | (1) |  |  | 557 000 |  | Closing inventory of raw materials |  | 67 000 |  | Cost of raw materials consumed |  | 490 000 | (1) OF | Direct expenses |  | 120 000 |  | Direct wages |  | 626 000 |  | Prime cost |  | 1 236 000 | (1) OF | Indirect wages |  | 132 000 |  | Factory overheads |  | 510 900 |  | Depreciation of factory machinery | W1 | 8 100 | (1) | Rent | W2 | 360 000 | (1) | Heat and light | W3 | 133 500 | (1) | Insurance and rates | W4 | 64 500 | (1) |  |  | 2 445 000 |  | Opening work in progress | 97 000 |  |  | Closing work in progress | 102 000 | (5 000) | (1) | Cost of production |  | 2 440 000 |  | Add : 20% mark-up |  | 488 000 | (1) OF | Transferred to the trading section of Income Statement |  | 2 928 000 | (1) OF | 10 |
|  | \$   | \$        |        |    |  |                                    |  |        |  |           |  |         |  |                  |  |        |     |  |  |         |  |                                    |  |        |  |                                |  |         |        |                 |  |         |  |              |  |         |  |            |  |           |        |                |  |         |  |                   |  |         |  |                                   |    |       |     |      |    |         |     |                |    |         |     |                     |    |        |     |  |  |           |  |                          |        |  |  |                          |         |         |     |                    |  |           |  |                   |  |         |        |  |  |           |        |    |
| Opening inventory of raw materials                     |  | 52 000    |        |    |  |                                    |  |        |  |           |  |         |  |                  |  |        |     |  |  |         |  |                                    |  |        |  |                                |  |         |        |                 |  |         |  |              |  |         |  |            |  |           |        |                |  |         |  |                   |  |         |  |                                   |    |       |     |      |    |         |     |                |    |         |     |                     |    |        |     |  |  |           |  |                          |        |  |  |                          |         |         |     |                    |  |           |  |                   |  |         |        |  |  |           |        |    |
| Purchases  |  | 484 000   |        |    |  |                                    |  |        |  |           |  |         |  |                  |  |        |     |  |  |         |  |                                    |  |        |  |                                |  |         |        |                 |  |         |  |              |  |         |  |            |  |           |        |                |  |         |  |                   |  |         |  |                                   |    |       |     |      |    |         |     |                |    |         |     |                     |    |        |     |  |  |           |  |                          |        |  |  |                          |         |         |     |                    |  |           |  |                   |  |         |        |  |  |           |        |    |
| Carriage inwards                                       |  | 21 000    | (1)    |    |  |                                    |  |        |  |           |  |         |  |                  |  |        |     |  |  |         |  |                                    |  |        |  |                                |  |         |        |                 |  |         |  |              |  |         |  |            |  |           |        |                |  |         |  |                   |  |         |  |                                   |    |       |     |      |    |         |     |                |    |         |     |                     |    |        |     |  |  |           |  |                          |        |  |  |                          |         |         |     |                    |  |           |  |                   |  |         |        |  |  |           |        |    |
|  |  | 557 000   |        |    |  |                                    |  |        |  |           |  |         |  |                  |  |        |     |  |  |         |  |                                    |  |        |  |                                |  |         |        |                 |  |         |  |              |  |         |  |            |  |           |        |                |  |         |  |                   |  |         |  |                                   |    |       |     |      |    |         |     |                |    |         |     |                     |    |        |     |  |  |           |  |                          |        |  |  |                          |         |         |     |                    |  |           |  |                   |  |         |        |  |  |           |        |    |
| Closing inventory of raw materials                     |  | 67 000    |        |    |  |                                    |  |        |  |           |  |         |  |                  |  |        |     |  |  |         |  |                                    |  |        |  |                                |  |         |        |                 |  |         |  |              |  |         |  |            |  |           |        |                |  |         |  |                   |  |         |  |                                   |    |       |     |      |    |         |     |                |    |         |     |                     |    |        |     |  |  |           |  |                          |        |  |  |                          |         |         |     |                    |  |           |  |                   |  |         |        |  |  |           |        |    |
| Cost of raw materials consumed                         |  | 490 000   | (1) OF |    |  |                                    |  |        |  |           |  |         |  |                  |  |        |     |  |  |         |  |                                    |  |        |  |                                |  |         |        |                 |  |         |  |              |  |         |  |            |  |           |        |                |  |         |  |                   |  |         |  |                                   |    |       |     |      |    |         |     |                |    |         |     |                     |    |        |     |  |  |           |  |                          |        |  |  |                          |         |         |     |                    |  |           |  |                   |  |         |        |  |  |           |        |    |
| Direct expenses  |  | 120 000   |        |    |  |                                    |  |        |  |           |  |         |  |                  |  |        |     |  |  |         |  |                                    |  |        |  |                                |  |         |        |                 |  |         |  |              |  |         |  |            |  |           |        |                |  |         |  |                   |  |         |  |                                   |    |       |     |      |    |         |     |                |    |         |     |                     |    |        |     |  |  |           |  |                          |        |  |  |                          |         |         |     |                    |  |           |  |                   |  |         |        |  |  |           |        |    |
| Direct wages   |  | 626 000   |        |    |  |                                    |  |        |  |           |  |         |  |                  |  |        |     |  |  |         |  |                                    |  |        |  |                                |  |         |        |                 |  |         |  |              |  |         |  |            |  |           |        |                |  |         |  |                   |  |         |  |                                   |    |       |     |      |    |         |     |                |    |         |     |                     |    |        |     |  |  |           |  |                          |        |  |  |                          |         |         |     |                    |  |           |  |                   |  |         |        |  |  |           |        |    |
| Prime cost   |  | 1 236 000 | (1) OF |    |  |                                    |  |        |  |           |  |         |  |                  |  |        |     |  |  |         |  |                                    |  |        |  |                                |  |         |        |                 |  |         |  |              |  |         |  |            |  |           |        |                |  |         |  |                   |  |         |  |                                   |    |       |     |      |    |         |     |                |    |         |     |                     |    |        |     |  |  |           |  |                          |        |  |  |                          |         |         |     |                    |  |           |  |                   |  |         |        |  |  |           |        |    |
| Indirect wages   |  | 132 000   |        |    |  |                                    |  |        |  |           |  |         |  |                  |  |        |     |  |  |         |  |                                    |  |        |  |                                |  |         |        |                 |  |         |  |              |  |         |  |            |  |           |        |                |  |         |  |                   |  |         |  |                                   |    |       |     |      |    |         |     |                |    |         |     |                     |    |        |     |  |  |           |  |                          |        |  |  |                          |         |         |     |                    |  |           |  |                   |  |         |        |  |  |           |        |    |
| Factory overheads                                      |  | 510 900   |        |    |  |                                    |  |        |  |           |  |         |  |                  |  |        |     |  |  |         |  |                                    |  |        |  |                                |  |         |        |                 |  |         |  |              |  |         |  |            |  |           |        |                |  |         |  |                   |  |         |  |                                   |    |       |     |      |    |         |     |                |    |         |     |                     |    |        |     |  |  |           |  |                          |        |  |  |                          |         |         |     |                    |  |           |  |                   |  |         |        |  |  |           |        |    |
| Depreciation of factory machinery                      | W1   | 8 100     | (1)    |    |  |                                    |  |        |  |           |  |         |  |                  |  |        |     |  |  |         |  |                                    |  |        |  |                                |  |         |        |                 |  |         |  |              |  |         |  |            |  |           |        |                |  |         |  |                   |  |         |  |                                   |    |       |     |      |    |         |     |                |    |         |     |                     |    |        |     |  |  |           |  |                          |        |  |  |                          |         |         |     |                    |  |           |  |                   |  |         |        |  |  |           |        |    |
| Rent   | W2   | 360 000   | (1)    |    |  |                                    |  |        |  |           |  |         |  |                  |  |        |     |  |  |         |  |                                    |  |        |  |                                |  |         |        |                 |  |         |  |              |  |         |  |            |  |           |        |                |  |         |  |                   |  |         |  |                                   |    |       |     |      |    |         |     |                |    |         |     |                     |    |        |     |  |  |           |  |                          |        |  |  |                          |         |         |     |                    |  |           |  |                   |  |         |        |  |  |           |        |    |
| Heat and light   | W3   | 133 500   | (1)    |    |  |                                    |  |        |  |           |  |         |  |                  |  |        |     |  |  |         |  |                                    |  |        |  |                                |  |         |        |                 |  |         |  |              |  |         |  |            |  |           |        |                |  |         |  |                   |  |         |  |                                   |    |       |     |      |    |         |     |                |    |         |     |                     |    |        |     |  |  |           |  |                          |        |  |  |                          |         |         |     |                    |  |           |  |                   |  |         |        |  |  |           |        |    |
| Insurance and rates                                    | W4   | 64 500    | (1)    |    |  |                                    |  |        |  |           |  |         |  |                  |  |        |     |  |  |         |  |                                    |  |        |  |                                |  |         |        |                 |  |         |  |              |  |         |  |            |  |           |        |                |  |         |  |                   |  |         |  |                                   |    |       |     |      |    |         |     |                |    |         |     |                     |    |        |     |  |  |           |  |                          |        |  |  |                          |         |         |     |                    |  |           |  |                   |  |         |        |  |  |           |        |    |
|  |  | 2 445 000 |        |    |  |                                    |  |        |  |           |  |         |  |                  |  |        |     |  |  |         |  |                                    |  |        |  |                                |  |         |        |                 |  |         |  |              |  |         |  |            |  |           |        |                |  |         |  |                   |  |         |  |                                   |    |       |     |      |    |         |     |                |    |         |     |                     |    |        |     |  |  |           |  |                          |        |  |  |                          |         |         |     |                    |  |           |  |                   |  |         |        |  |  |           |        |    |
| Opening work in progress                               | 97 000   |           |        |    |  |                                    |  |        |  |           |  |         |  |                  |  |        |     |  |  |         |  |                                    |  |        |  |                                |  |         |        |                 |  |         |  |              |  |         |  |            |  |           |        |                |  |         |  |                   |  |         |  |                                   |    |       |     |      |    |         |     |                |    |         |     |                     |    |        |     |  |  |           |  |                          |        |  |  |                          |         |         |     |                    |  |           |  |                   |  |         |        |  |  |           |        |    |
| Closing work in progress                               | 102 000  | (5 000)   | (1)    |    |  |                                    |  |        |  |           |  |         |  |                  |  |        |     |  |  |         |  |                                    |  |        |  |                                |  |         |        |                 |  |         |  |              |  |         |  |            |  |           |        |                |  |         |  |                   |  |         |  |                                   |    |       |     |      |    |         |     |                |    |         |     |                     |    |        |     |  |  |           |  |                          |        |  |  |                          |         |         |     |                    |  |           |  |                   |  |         |        |  |  |           |        |    |
| Cost of production                                     |  | 2 440 000 |        |    |  |                                    |  |        |  |           |  |         |  |                  |  |        |     |  |  |         |  |                                    |  |        |  |                                |  |         |        |                 |  |         |  |              |  |         |  |            |  |           |        |                |  |         |  |                   |  |         |  |                                   |    |       |     |      |    |         |     |                |    |         |     |                     |    |        |     |  |  |           |  |                          |        |  |  |                          |         |         |     |                    |  |           |  |                   |  |         |        |  |  |           |        |    |
| Add : 20% mark-up                                      |  | 488 000   | (1) OF |    |  |                                    |  |        |  |           |  |         |  |                  |  |        |     |  |  |         |  |                                    |  |        |  |                                |  |         |        |                 |  |         |  |              |  |         |  |            |  |           |        |                |  |         |  |                   |  |         |  |                                   |    |       |     |      |    |         |     |                |    |         |     |                     |    |        |     |  |  |           |  |                          |        |  |  |                          |         |         |     |                    |  |           |  |                   |  |         |        |  |  |           |        |    |
| Transferred to the trading section of Income Statement |  | 2 928 000 | (1) OF |    |  |                                    |  |        |  |           |  |         |  |                  |  |        |     |  |  |         |  |                                    |  |        |  |                                |  |         |        |                 |  |         |  |              |  |         |  |            |  |           |        |                |  |         |  |                   |  |         |  |                                   |    |       |     |      |    |         |     |                |    |         |     |                     |    |        |     |  |  |           |  |                          |        |  |  |                          |         |         |     |                    |  |           |  |                   |  |         |        |  |  |           |        |    |

| Question                                      | Answer   | Marks                   |                |    |                          |               |                       |                                     |             |  |                                |                         |  |  |           |  |   |                    |  |                    |  |                  |              |  |                         |          |
|---|--|-------------------------|----------------|----|--------------------------|---------------|-----------------------|-------------------------------------|-------------|--|--------------------------------|-------------------------|--|--|-----------|--|---|--------------------|--|--------------------|--|------------------|--------------|--|-------------------------|----------|
| 1(c)  | <p style="text-align: center;">Ted Income Statement (trading section) for the year ended 31 December 2016</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: right;">\$</th> <th style="width: 20%; text-align: right;">\$</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td></td> <td style="text-align: right;">4 268 000</td> </tr> <tr> <td>Opening inventory of finished goods</td> <td style="text-align: right;">146 400 (1)</td> <td></td> </tr> <tr> <td>Cost of production transferred</td> <td style="text-align: right;"><u>2 928 000 (1) OF</u></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">3 074 400</td> <td></td> </tr> <tr> <td>Closing inventory of finished goods <b>W1</b></td> <td style="text-align: right;"><u>241 440 (3)</u></td> <td></td> </tr> <tr> <td>Cost of goods sold</td> <td></td> <td style="text-align: right;"><u>2 832 960</u></td> </tr> <tr> <td>Gross profit</td> <td></td> <td style="text-align: right;"><u>1 435 040 (1) OF</u></td> </tr> </tbody> </table> <p><b>W1</b> Opening inventory      \$122 000 × 120% (1) = \$146 400<br/> Closing inventory<br/> Unrealised profit      \$122 000 × 20% + \$15 840 (1) = \$40 240 (1)<br/> \$40 240 × 120/20 = \$241 440 (1)OF</p> |                         | \$             | \$ | Revenue                  |               | 4 268 000             | Opening inventory of finished goods | 146 400 (1) |  | Cost of production transferred | <u>2 928 000 (1) OF</u> |  |  | 3 074 400 |  | Closing inventory of finished goods <b>W1</b> | <u>241 440 (3)</u> |  | Cost of goods sold |  | <u>2 832 960</u> | Gross profit |  | <u>1 435 040 (1) OF</u> | <b>6</b> |
|   | \$   | \$                      |                |    |                          |               |                       |                                     |             |  |                                |                         |  |  |           |  |   |                    |  |                    |  |                  |              |  |                         |          |
| Revenue                                       |  | 4 268 000               |                |    |                          |               |                       |                                     |             |  |                                |                         |  |  |           |  |   |                    |  |                    |  |                  |              |  |                         |          |
| Opening inventory of finished goods           | 146 400 (1)  |                         |                |    |                          |               |                       |                                     |             |  |                                |                         |  |  |           |  |   |                    |  |                    |  |                  |              |  |                         |          |
| Cost of production transferred                | <u>2 928 000 (1) OF</u>  |                         |                |    |                          |               |                       |                                     |             |  |                                |                         |  |  |           |  |   |                    |  |                    |  |                  |              |  |                         |          |
|   | 3 074 400  |                         |                |    |                          |               |                       |                                     |             |  |                                |                         |  |  |           |  |   |                    |  |                    |  |                  |              |  |                         |          |
| Closing inventory of finished goods <b>W1</b> | <u>241 440 (3)</u>   |                         |                |    |                          |               |                       |                                     |             |  |                                |                         |  |  |           |  |   |                    |  |                    |  |                  |              |  |                         |          |
| Cost of goods sold                            |  | <u>2 832 960</u>        |                |    |                          |               |                       |                                     |             |  |                                |                         |  |  |           |  |   |                    |  |                    |  |                  |              |  |                         |          |
| Gross profit                                  |  | <u>1 435 040 (1) OF</u> |                |    |                          |               |                       |                                     |             |  |                                |                         |  |  |           |  |   |                    |  |                    |  |                  |              |  |                         |          |
| 1(d)  | <table style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="width: 60%;">Finished goods</td> <td style="width: 20%; text-align: right;">241 440 (1) OF</td> <td style="width: 20%;"></td> </tr> <tr> <td>Less : Unrealised profit</td> <td style="text-align: right;"><u>40 240</u></td> <td style="text-align: right;"><u>201 200 (1) OF</u></td> </tr> </tbody> </table>   | Finished goods          | 241 440 (1) OF |    | Less : Unrealised profit | <u>40 240</u> | <u>201 200 (1) OF</u> | <b>2</b>                            |             |  |                                |                         |  |  |           |  |   |                    |  |                    |  |                  |              |  |                         |          |
| Finished goods                                | 241 440 (1) OF   |                         |                |    |                          |               |                       |                                     |             |  |                                |                         |  |  |           |  |   |                    |  |                    |  |                  |              |  |                         |          |
| Less : Unrealised profit                      | <u>40 240</u>  | <u>201 200 (1) OF</u>   |                |    |                          |               |                       |                                     |             |  |                                |                         |  |  |           |  |   |                    |  |                    |  |                  |              |  |                         |          |
| 1(e)  | <p>Responses could include:</p> <p>Ted should consider accepting the extra order (1) as his production unit cost \$30.50 is higher than the unit cost \$28 demanded by the external supplier. (1)<br/> Unit production cost is \$2 440 000 (OF) / 80 000 = \$30.50 (1)</p> <p>Accepting the order can also maintain the goodwill with the customer. (1)<br/> However, he should also consider whether the product quality can be maintained. (1)</p> <p><b>1 mark</b> for the decision and <b>max 3 marks</b> for relevant points.</p>   | <b>4</b>                |                |    |                          |               |                       |                                     |             |  |                                |                         |  |  |           |  |   |                    |  |                    |  |                  |              |  |                         |          |

| Question                 | Answer  | Marks                    |    |    |  |       |  |       |  |                         |     |  |  |                     |                  |  |  |                          |              |              |  |  |  |       |  |                  |  |                         |  |             |  |                          |  |          |
|--------------------------|---|--------------------------|----|----|--|-------|--|-------|--|-------------------------|-----|--|--|---------------------|------------------|--|--|--------------------------|--------------|--------------|--|--|--|-------|--|------------------|--|-------------------------|--|-------------|--|--------------------------|--|----------|
| 2(a)                     | <p>The capital of a sole trader is his own investment <b>(1)</b> The accumulated fund is the surplus funds gained by the club from the members. <b>(1)</b><br/>           The capital is increased by profits. <b>(1)</b> The fund is increased by surpluses. <b>(1)</b><br/>           Capital is reduced by losses or drawings. <b>(1)</b> The fund is decreased by deficits. <b>(1)</b></p> <p><b>Max 2</b></p>  | <b>2</b>                 |    |    |  |       |  |       |  |                         |     |  |  |                     |                  |  |  |                          |              |              |  |  |  |       |  |                  |  |                         |  |             |  |                          |  |          |
| 2(b)                     | <p style="text-align: center;">The EF Tennis Club shop income statement for the year ended 31 December<br/>2016</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;"></td> <td style="width: 20%; text-align: right;">\$</td> <td style="width: 20%; text-align: right;">\$</td> <td style="width: 20%;"></td> </tr> <tr> <td>Sales</td> <td></td> <td style="text-align: right;">8 960</td> <td></td> </tr> <tr> <td>Inventory at 1 Jan 2016</td> <td style="text-align: right;">975</td> <td></td> <td></td> </tr> <tr> <td>Purchases <b>W1</b></td> <td style="text-align: right;">5 960 <b>(2)</b></td> <td></td> <td></td> </tr> <tr> <td>Inventory at 31 Dec 2016</td> <td style="text-align: right;"><u>(826)</u></td> <td style="text-align: right;"><u>6 109</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">2 851</td> <td></td> </tr> <tr> <td>Shop staff wages</td> <td></td> <td style="text-align: right;"><u>2 200</u> <b>(1)</b></td> <td></td> </tr> <tr> <td>Shop profit</td> <td></td> <td style="text-align: right;"><u>651</u> <b>(1) OF</b></td> <td></td> </tr> </table> <p><b>W1</b> Purchases 5720 – 1210 <b>(1)</b> + 1450 <b>(1)</b> = 5960</p> |                          | \$ | \$ |  | Sales |  | 8 960 |  | Inventory at 1 Jan 2016 | 975 |  |  | Purchases <b>W1</b> | 5 960 <b>(2)</b> |  |  | Inventory at 31 Dec 2016 | <u>(826)</u> | <u>6 109</u> |  |  |  | 2 851 |  | Shop staff wages |  | <u>2 200</u> <b>(1)</b> |  | Shop profit |  | <u>651</u> <b>(1) OF</b> |  | <b>4</b> |
|                          | \$  | \$                       |    |    |  |       |  |       |  |                         |     |  |  |                     |                  |  |  |                          |              |              |  |  |  |       |  |                  |  |                         |  |             |  |                          |  |          |
| Sales                    |   | 8 960                    |    |    |  |       |  |       |  |                         |     |  |  |                     |                  |  |  |                          |              |              |  |  |  |       |  |                  |  |                         |  |             |  |                          |  |          |
| Inventory at 1 Jan 2016  | 975   |                          |    |    |  |       |  |       |  |                         |     |  |  |                     |                  |  |  |                          |              |              |  |  |  |       |  |                  |  |                         |  |             |  |                          |  |          |
| Purchases <b>W1</b>      | 5 960 <b>(2)</b>  |                          |    |    |  |       |  |       |  |                         |     |  |  |                     |                  |  |  |                          |              |              |  |  |  |       |  |                  |  |                         |  |             |  |                          |  |          |
| Inventory at 31 Dec 2016 | <u>(826)</u>  | <u>6 109</u>             |    |    |  |       |  |       |  |                         |     |  |  |                     |                  |  |  |                          |              |              |  |  |  |       |  |                  |  |                         |  |             |  |                          |  |          |
|                          |   | 2 851                    |    |    |  |       |  |       |  |                         |     |  |  |                     |                  |  |  |                          |              |              |  |  |  |       |  |                  |  |                         |  |             |  |                          |  |          |
| Shop staff wages         |   | <u>2 200</u> <b>(1)</b>  |    |    |  |       |  |       |  |                         |     |  |  |                     |                  |  |  |                          |              |              |  |  |  |       |  |                  |  |                         |  |             |  |                          |  |          |
| Shop profit              |   | <u>651</u> <b>(1) OF</b> |    |    |  |       |  |       |  |                         |     |  |  |                     |                  |  |  |                          |              |              |  |  |  |       |  |                  |  |                         |  |             |  |                          |  |          |

| Question                 | Answer   | Marks               |    |    |                         |                |  |             |                   |                |                          |           |  |                          |        |       |                        |               |           |          |       |                     |                    |       |  |                |        |  |                        |                          |         |                      |  |                     |         |       |  |  |  |       |  |   |
|--------------------------|--|---------------------|----|----|-------------------------|----------------|--|-------------|-------------------|----------------|--------------------------|-----------|--|--------------------------|--------|-------|------------------------|---------------|-----------|----------|-------|---------------------|--------------------|-------|--|----------------|--------|--|------------------------|--------------------------|---------|----------------------|--|---------------------|---------|-------|--|--|--|-------|--|---|
| 2(c)                     | <p style="text-align: center;">EF Tennis Club<br/>Income and expenditure account for the year ended 31 December 2016</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: right;">\$</th> <th style="width: 20%; text-align: right;">\$</th> </tr> </thead> <tbody> <tr> <td>Subscriptions <b>W1</b></td> <td style="text-align: right;">3 610 (4)</td> <td></td> </tr> <tr> <td>Shop profit</td> <td style="text-align: right;">651 (1) <b>OF</b></td> <td></td> </tr> <tr> <td>Caterer's rent <b>W2</b></td> <td style="text-align: right;">2 400 (1)</td> <td></td> </tr> <tr> <td>Match ticket sales</td> <td style="text-align: right; border-top: 1px solid black;">2 740</td> <td style="text-align: right;">9 401</td> </tr> <tr> <td>Depreciation <b>W3</b></td> <td style="text-align: right;">1 426 (1)</td> <td></td> </tr> <tr> <td>Printing</td> <td style="text-align: right;">3 765</td> <td></td> </tr> <tr> <td>Groundsmen's wages</td> <td style="text-align: right;">4 210</td> <td></td> </tr> <tr> <td>Bad debts</td> <td style="text-align: right;">54 (1)</td> <td></td> </tr> <tr> <td>Loss on sale of equip.</td> <td style="text-align: right; border-top: 1px solid black;">149 (1)</td> <td style="text-align: right; border-top: 1px solid black;">9 595</td> </tr> <tr> <td>Deficit for the year</td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">(194) (1) <b>OF</b></td> </tr> </tbody> </table> <p><b>W1</b> Subscriptions    <math>3600 + 180(1) + 90(1) - 260(1) = 3610</math> (1) <b>OF</b><br/> <b>W2</b> Rent             <math>2600 - 200</math><br/> <b>W3</b> Depreciation    <math>14760 + 1400 - 1900 = 14260 \times 10\%</math></p> |                     | \$ | \$ | Subscriptions <b>W1</b> | 3 610 (4)      |  | Shop profit | 651 (1) <b>OF</b> |                | Caterer's rent <b>W2</b> | 2 400 (1) |  | Match ticket sales       | 2 740  | 9 401 | Depreciation <b>W3</b> | 1 426 (1)     |           | Printing | 3 765 |                     | Groundsmen's wages | 4 210 |  | Bad debts      | 54 (1) |  | Loss on sale of equip. | 149 (1)                  | 9 595   | Deficit for the year |  | (194) (1) <b>OF</b> | 10      |       |  |  |  |       |  |   |
|                          | \$   | \$                  |    |    |                         |                |  |             |                   |                |                          |           |  |                          |        |       |                        |               |           |          |       |                     |                    |       |  |                |        |  |                        |                          |         |                      |  |                     |         |       |  |  |  |       |  |   |
| Subscriptions <b>W1</b>  | 3 610 (4)  |                     |    |    |                         |                |  |             |                   |                |                          |           |  |                          |        |       |                        |               |           |          |       |                     |                    |       |  |                |        |  |                        |                          |         |                      |  |                     |         |       |  |  |  |       |  |   |
| Shop profit              | 651 (1) <b>OF</b>  |                     |    |    |                         |                |  |             |                   |                |                          |           |  |                          |        |       |                        |               |           |          |       |                     |                    |       |  |                |        |  |                        |                          |         |                      |  |                     |         |       |  |  |  |       |  |   |
| Caterer's rent <b>W2</b> | 2 400 (1)  |                     |    |    |                         |                |  |             |                   |                |                          |           |  |                          |        |       |                        |               |           |          |       |                     |                    |       |  |                |        |  |                        |                          |         |                      |  |                     |         |       |  |  |  |       |  |   |
| Match ticket sales       | 2 740  | 9 401               |    |    |                         |                |  |             |                   |                |                          |           |  |                          |        |       |                        |               |           |          |       |                     |                    |       |  |                |        |  |                        |                          |         |                      |  |                     |         |       |  |  |  |       |  |   |
| Depreciation <b>W3</b>   | 1 426 (1)  |                     |    |    |                         |                |  |             |                   |                |                          |           |  |                          |        |       |                        |               |           |          |       |                     |                    |       |  |                |        |  |                        |                          |         |                      |  |                     |         |       |  |  |  |       |  |   |
| Printing                 | 3 765  |                     |    |    |                         |                |  |             |                   |                |                          |           |  |                          |        |       |                        |               |           |          |       |                     |                    |       |  |                |        |  |                        |                          |         |                      |  |                     |         |       |  |  |  |       |  |   |
| Groundsmen's wages       | 4 210  |                     |    |    |                         |                |  |             |                   |                |                          |           |  |                          |        |       |                        |               |           |          |       |                     |                    |       |  |                |        |  |                        |                          |         |                      |  |                     |         |       |  |  |  |       |  |   |
| Bad debts                | 54 (1)   |                     |    |    |                         |                |  |             |                   |                |                          |           |  |                          |        |       |                        |               |           |          |       |                     |                    |       |  |                |        |  |                        |                          |         |                      |  |                     |         |       |  |  |  |       |  |   |
| Loss on sale of equip.   | 149 (1)  | 9 595               |    |    |                         |                |  |             |                   |                |                          |           |  |                          |        |       |                        |               |           |          |       |                     |                    |       |  |                |        |  |                        |                          |         |                      |  |                     |         |       |  |  |  |       |  |   |
| Deficit for the year     |  | (194) (1) <b>OF</b> |    |    |                         |                |  |             |                   |                |                          |           |  |                          |        |       |                        |               |           |          |       |                     |                    |       |  |                |        |  |                        |                          |         |                      |  |                     |         |       |  |  |  |       |  |   |
| 2(d)                     | <p style="text-align: center;">Statement of Financial Position (Extract) at 31 December 2016</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: right;">\$</th> <th style="width: 20%; text-align: right;">\$</th> <th style="width: 20%; text-align: right;">\$</th> </tr> </thead> <tbody> <tr> <td>Current assets</td> <td></td> <td></td> <td></td> </tr> <tr> <td>  Shop inventory</td> <td style="text-align: right;">826</td> <td></td> <td></td> </tr> <tr> <td>  Subscriptions in arrears</td> <td style="text-align: right;">90 (1)</td> <td></td> <td></td> </tr> <tr> <td>  Bank and cash</td> <td style="text-align: right; border-top: 1px solid black;">8 911 (1)</td> <td style="text-align: right;">9 827</td> <td></td> </tr> <tr> <td>Current liabilities</td> <td></td> <td></td> <td></td> </tr> <tr> <td>  Trade payables</td> <td style="text-align: right;">1 450</td> <td></td> <td></td> </tr> <tr> <td>  Subscriptions in advance</td> <td style="text-align: right;">260 (1)</td> <td></td> <td></td> </tr> <tr> <td>  Rents in advance</td> <td style="text-align: right; border-top: 1px solid black;">200 (1)</td> <td style="text-align: right; border-top: 1px solid black;">1 910</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">7 917</td> <td></td> </tr> </tbody> </table>   |                     | \$ | \$ | \$                      | Current assets |  |             |                   | Shop inventory | 826                      |           |  | Subscriptions in arrears | 90 (1) |       |                        | Bank and cash | 8 911 (1) | 9 827    |       | Current liabilities |                    |       |  | Trade payables | 1 450  |  |                        | Subscriptions in advance | 260 (1) |                      |  | Rents in advance    | 200 (1) | 1 910 |  |  |  | 7 917 |  | 4 |
|                          | \$   | \$                  | \$ |    |                         |                |  |             |                   |                |                          |           |  |                          |        |       |                        |               |           |          |       |                     |                    |       |  |                |        |  |                        |                          |         |                      |  |                     |         |       |  |  |  |       |  |   |
| Current assets           |  |                     |    |    |                         |                |  |             |                   |                |                          |           |  |                          |        |       |                        |               |           |          |       |                     |                    |       |  |                |        |  |                        |                          |         |                      |  |                     |         |       |  |  |  |       |  |   |
| Shop inventory           | 826  |                     |    |    |                         |                |  |             |                   |                |                          |           |  |                          |        |       |                        |               |           |          |       |                     |                    |       |  |                |        |  |                        |                          |         |                      |  |                     |         |       |  |  |  |       |  |   |
| Subscriptions in arrears | 90 (1)   |                     |    |    |                         |                |  |             |                   |                |                          |           |  |                          |        |       |                        |               |           |          |       |                     |                    |       |  |                |        |  |                        |                          |         |                      |  |                     |         |       |  |  |  |       |  |   |
| Bank and cash            | 8 911 (1)  | 9 827               |    |    |                         |                |  |             |                   |                |                          |           |  |                          |        |       |                        |               |           |          |       |                     |                    |       |  |                |        |  |                        |                          |         |                      |  |                     |         |       |  |  |  |       |  |   |
| Current liabilities      |  |                     |    |    |                         |                |  |             |                   |                |                          |           |  |                          |        |       |                        |               |           |          |       |                     |                    |       |  |                |        |  |                        |                          |         |                      |  |                     |         |       |  |  |  |       |  |   |
| Trade payables           | 1 450  |                     |    |    |                         |                |  |             |                   |                |                          |           |  |                          |        |       |                        |               |           |          |       |                     |                    |       |  |                |        |  |                        |                          |         |                      |  |                     |         |       |  |  |  |       |  |   |
| Subscriptions in advance | 260 (1)  |                     |    |    |                         |                |  |             |                   |                |                          |           |  |                          |        |       |                        |               |           |          |       |                     |                    |       |  |                |        |  |                        |                          |         |                      |  |                     |         |       |  |  |  |       |  |   |
| Rents in advance         | 200 (1)  | 1 910               |    |    |                         |                |  |             |                   |                |                          |           |  |                          |        |       |                        |               |           |          |       |                     |                    |       |  |                |        |  |                        |                          |         |                      |  |                     |         |       |  |  |  |       |  |   |
|                          |  | 7 917               |    |    |                         |                |  |             |                   |                |                          |           |  |                          |        |       |                        |               |           |          |       |                     |                    |       |  |                |        |  |                        |                          |         |                      |  |                     |         |       |  |  |  |       |  |   |

| <b>Question</b> | <b>Answer</b>  | <b>Marks</b> |
|-----------------|--|--------------|
| 2(e)            | <p>Yes (1)</p> <p>The donation was for a specific purpose (1) and so should not be paid into the current account (1) in case it is not used for that purpose.</p> <p>It is for future use (1) and so can be used to earn interest in the interval. (1)</p> <p>It will ensure that the members appreciate the amount of funds available for current running costs (1) and what are reserved for a special purpose. (1)</p> <p>Any payments made for the purpose of expanding the facilities will be paid from this account (1) and so ensuring members know about any ongoing developments. (1)</p> <p><b>Decision (1), Justification Max 4</b></p> | <b>5</b>     |

| Question  | Answer  | Marks    |
|-----------|---|----------|
| 3(a)      | Provides comparison with previous years. (1)<br>Provides comparison with competitors. (1)<br>Highlights issues of performance that can be investigated. (1)<br><b>Max 2</b>   | <b>2</b> |
| 3(b)(i)   | $\frac{550\,000 - 12\,000}{900\,000} = \$0.60$ (1)  | <b>5</b> |
| 3(b)(ii)  | $\frac{1.75}{0.60} = 2.92 \text{ or } 2.93 \text{ (times)}$ (1) <b>OF</b>   |          |
| 3(b)(iii) | $\frac{0.08}{1.75} \times 100\% = 4.57\%$ (1)   |          |
| 3(b)(iv)  | $\frac{550\,000 - 12\,000}{72\,000} = 7.47 \text{ times}$ (1)<br>All answers to 2 decimal places (1) <b>OF</b>  |          |
| 3(c)      | $\frac{500\,000 - 12\,000}{600\,000} = \$0.81$ (1)<br><br>$\frac{1.50}{0.81} = 1.85 \text{ (times)}$ (1)<br><br>$\frac{0.10}{1.50} \times 100\% = 6.67\%$ (1)<br><br>$\frac{500\,000 - 12\,000}{600\,000} = 8.13 \text{ times}$ (1) | <b>4</b> |



| Question | Answer  | Marks |
|----------|---|-------|
| 3(d)(i)  | <p>There has been a fall of 26.25% in the EPS. (1)<br/>This indicates a poorer outcome for the shareholder. (1)<br/>As the profit has risen the fall is due to the share issue. (1)</p> <p>There has been a rise of 57.84% in the PE ratio. (1)<br/>This is a positive result. (1)<br/>This is due to the increase in price combined with the fall in earnings per share. (1)</p> <p>There has been a fall of 31.48% in the dividend yield. (1)<br/>This is a negative outcome. (1)<br/>This is due to the decreased dividend paid and increased market price. (1)</p> <p>There has been a fall of 8.13% in the dividend cover. (1)<br/>This is a negative result. (1)<br/>This is due to the increased total dividend not being matched by the available profits. (1)</p> <p>Overall the trend is not good (1) but as the price earnings ratio did improve - this indicates confidence. (1)<br/>There are only 2 years results to analyse – more would be beneficial. (1)<br/>Also beneficial to analyse alongside another similar company. (1)<br/>There may be other factors which have affected the results. (1)</p> <p><b>Max. 2 for each ratio – 1 for rise/fall – 1 for better/worse and/or explanation.</b><br/><b>Max. 2 for other comments.</b><br/><b>Max. 8</b></p> | 8     |
| 3(d)(ii) | <p>The issue of the debentures will increase the gearing. (1)<br/>A greater proportion of profits will be paid to these holders lowering availability to Bevin. (1)<br/>Bevin may not receive dividends in years of low profits. (1)<br/>The market value, however, has risen and this may continue. (1)<br/>Interest payment and capital repayment on the debenture has to be paid regardless of the level of profits. (1) This could affect possible dividend payment to Bevin. (1)<br/>Bevin should not invest (1) without further information. (1)</p> <p><b>Max. 5 + 1 decision.</b></p>   | 6     |

| Question                   | Answer   | Marks                      |                |                           |                |                           |                |             |                |              |       |              |             |              |             |        |              |             |            |              |         |         |      |        |         |  |                |                |             |                |                |  |  |             |                |                |         |                |         |         |          |  |  |                |  |         |  |  |  |             |               |  |  |  |             |                |          |
|----------------------------|--|----------------------------|----------------|---------------------------|----------------|---------------------------|----------------|-------------|----------------|--------------|-------|--------------|-------------|--------------|-------------|--------|--------------|-------------|------------|--------------|---------|---------|------|--------|---------|--|----------------|----------------|-------------|----------------|----------------|--|--|-------------|----------------|----------------|---------|----------------|---------|---------|----------|--|--|----------------|--|---------|--|--|--|-------------|---------------|--|--|--|-------------|----------------|----------|
| 4(a)                       | The account which records the introduction <b>(1)</b> or withdrawal <b>(1)</b> of funds/assets of a person into the business.  | <b>2</b>                   |                |                           |                |                           |                |             |                |              |       |              |             |              |             |        |              |             |            |              |         |         |      |        |         |  |                |                |             |                |                |  |  |             |                |                |         |                |         |         |          |  |  |                |  |         |  |  |  |             |               |  |  |  |             |                |          |
| 4(b)                       | <table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="4" style="text-align: center;">Capital account – Armfield</td> <td colspan="4" style="text-align: center;">Capital account – Bonetti</td> </tr> <tr> <td>Cash</td> <td style="text-align: right;">4 000</td> <td rowspan="2" style="vertical-align: middle;">} <b>(1)</b></td> <td>Balance b/d</td> <td style="text-align: right;">100 000</td> <td>Cash</td> <td style="text-align: right;">5 000</td> <td rowspan="2" style="vertical-align: middle;">} <b>(1)</b></td> <td>Balance b/d</td> <td style="text-align: right;">150 000</td> <td rowspan="2" style="vertical-align: middle;">} <b>(1)</b></td> </tr> <tr> <td>Reveal</td> <td style="text-align: right;">7 000</td> <td></td> <td></td> <td>Reveal</td> <td></td> <td></td> <td style="text-align: right;">8 000</td> </tr> <tr> <td>Balance c/d</td> <td style="text-align: right;"><u>89 000</u></td> <td rowspan="2" style="vertical-align: middle;"><b>(1) OF</b></td> <td></td> <td></td> <td>Balance c/d</td> <td style="text-align: right;"><u>153 000</u></td> <td rowspan="2" style="vertical-align: middle;"><b>*(1) OF</b></td> <td></td> <td style="text-align: right;"><u>158 000</u></td> </tr> <tr> <td></td> <td style="text-align: right;">100 000</td> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>158 000</u></td> <td></td> <td style="text-align: right;">158 000</td> </tr> <tr> <td></td> <td></td> <td></td> <td>Balance b/d</td> <td style="text-align: right;"><u>89 000</u></td> <td></td> <td></td> <td></td> <td>Balance b/d</td> <td style="text-align: right;"><u>153 000</u></td> </tr> </table> <p>* Transfer to new partnership capital accounts</p> | Capital account – Armfield |                |                           |                | Capital account – Bonetti |                |             |                | Cash         | 4 000 | } <b>(1)</b> | Balance b/d | 100 000      | Cash        | 5 000  | } <b>(1)</b> | Balance b/d | 150 000    | } <b>(1)</b> | Reveal  | 7 000   |      |        | Reveal  |  |                | 8 000          | Balance c/d | <u>89 000</u>  | <b>(1) OF</b>  |  |  | Balance c/d | <u>153 000</u> | <b>*(1) OF</b> |         | <u>158 000</u> |         | 100 000 |          |  |  | <u>158 000</u> |  | 158 000 |  |  |  | Balance b/d | <u>89 000</u> |  |  |  | Balance b/d | <u>153 000</u> | <b>6</b> |
| Capital account – Armfield |  |                            |                | Capital account – Bonetti |                |                           |                |             |                |              |       |              |             |              |             |        |              |             |            |              |         |         |      |        |         |  |                |                |             |                |                |  |  |             |                |                |         |                |         |         |          |  |  |                |  |         |  |  |  |             |               |  |  |  |             |                |          |
| Cash                       | 4 000  | } <b>(1)</b>               | Balance b/d    | 100 000                   | Cash           | 5 000                     | } <b>(1)</b>   | Balance b/d | 150 000        | } <b>(1)</b> |       |              |             |              |             |        |              |             |            |              |         |         |      |        |         |  |                |                |             |                |                |  |  |             |                |                |         |                |         |         |          |  |  |                |  |         |  |  |  |             |               |  |  |  |             |                |          |
| Reveal                     | 7 000  |                            |                |                           | Reveal         |                           |                |             | 8 000          |              |       |              |             |              |             |        |              |             |            |              |         |         |      |        |         |  |                |                |             |                |                |  |  |             |                |                |         |                |         |         |          |  |  |                |  |         |  |  |  |             |               |  |  |  |             |                |          |
| Balance c/d                | <u>89 000</u>  | <b>(1) OF</b>              |                |                           | Balance c/d    | <u>153 000</u>            | <b>*(1) OF</b> |             | <u>158 000</u> |              |       |              |             |              |             |        |              |             |            |              |         |         |      |        |         |  |                |                |             |                |                |  |  |             |                |                |         |                |         |         |          |  |  |                |  |         |  |  |  |             |               |  |  |  |             |                |          |
|                            | 100 000  |                            |                |                           |                | <u>158 000</u>            |                |             | 158 000        |              |       |              |             |              |             |        |              |             |            |              |         |         |      |        |         |  |                |                |             |                |                |  |  |             |                |                |         |                |         |         |          |  |  |                |  |         |  |  |  |             |               |  |  |  |             |                |          |
|                            |  |                            | Balance b/d    | <u>89 000</u>             |                |                           |                | Balance b/d | <u>153 000</u> |              |       |              |             |              |             |        |              |             |            |              |         |         |      |        |         |  |                |                |             |                |                |  |  |             |                |                |         |                |         |         |          |  |  |                |  |         |  |  |  |             |               |  |  |  |             |                |          |
| 4(c)                       | <p style="text-align: center;">Partnership Capital accounts</p> <table style="width: 100%; border-collapse: collapse; margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">Details</th> <th style="text-align: center;">Armfield<br/>\$</th> <th style="text-align: center;">Bonetti<br/>\$</th> <th></th> <th style="text-align: center;">Details</th> <th style="text-align: center;">Armfield<br/>\$</th> <th></th> <th style="text-align: center;">Bonetti<br/>\$</th> <th></th> </tr> </thead> <tbody> <tr> <td>Cash</td> <td></td> <td style="text-align: right;">28 000</td> <td rowspan="3" style="vertical-align: middle;"><b>(1)of</b></td> <td>Balance b/d</td> <td style="text-align: right;">89 000</td> <td rowspan="3" style="vertical-align: middle;"><b>(1)of</b></td> <td style="text-align: right;">153 000</td> <td rowspan="3" style="vertical-align: middle;"><b>(1)</b></td> </tr> <tr> <td>Balance c/d</td> <td style="text-align: right;">125 000</td> <td style="text-align: right;">125 000</td> <td>Cash</td> <td style="text-align: right;">36 000</td> <td style="text-align: right;">153 000</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>125 000</u></td> <td style="text-align: right;"><u>153 000</u></td> <td></td> <td style="text-align: right;"><u>125 000</u></td> <td style="text-align: right;"><u>153 000</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td>Balance b/d</td> <td style="text-align: right;">125 000</td> <td></td> <td style="text-align: right;">125 000</td> <td></td> </tr> </tbody> </table>   | Details                    | Armfield<br>\$ | Bonetti<br>\$             |                | Details                   | Armfield<br>\$ |             | Bonetti<br>\$  |              | Cash  |              | 28 000      | <b>(1)of</b> | Balance b/d | 89 000 | <b>(1)of</b> | 153 000     | <b>(1)</b> | Balance c/d  | 125 000 | 125 000 | Cash | 36 000 | 153 000 |  | <u>125 000</u> | <u>153 000</u> |             | <u>125 000</u> | <u>153 000</u> |  |  |             |                | Balance b/d    | 125 000 |                | 125 000 |         | <b>3</b> |  |  |                |  |         |  |  |  |             |               |  |  |  |             |                |          |
| Details                    | Armfield<br>\$   | Bonetti<br>\$              |                | Details                   | Armfield<br>\$ |                           | Bonetti<br>\$  |             |                |              |       |              |             |              |             |        |              |             |            |              |         |         |      |        |         |  |                |                |             |                |                |  |  |             |                |                |         |                |         |         |          |  |  |                |  |         |  |  |  |             |               |  |  |  |             |                |          |
| Cash                       |  | 28 000                     | <b>(1)of</b>   | Balance b/d               | 89 000         | <b>(1)of</b>              | 153 000        | <b>(1)</b>  |                |              |       |              |             |              |             |        |              |             |            |              |         |         |      |        |         |  |                |                |             |                |                |  |  |             |                |                |         |                |         |         |          |  |  |                |  |         |  |  |  |             |               |  |  |  |             |                |          |
| Balance c/d                | 125 000  | 125 000                    |                | Cash                      | 36 000         |                           | 153 000        |             |                |              |       |              |             |              |             |        |              |             |            |              |         |         |      |        |         |  |                |                |             |                |                |  |  |             |                |                |         |                |         |         |          |  |  |                |  |         |  |  |  |             |               |  |  |  |             |                |          |
|                            | <u>125 000</u>   | <u>153 000</u>             |                |                           | <u>125 000</u> |                           | <u>153 000</u> |             |                |              |       |              |             |              |             |        |              |             |            |              |         |         |      |        |         |  |                |                |             |                |                |  |  |             |                |                |         |                |         |         |          |  |  |                |  |         |  |  |  |             |               |  |  |  |             |                |          |
|                            |  |                            |                | Balance b/d               | 125 000        |                           | 125 000        |             |                |              |       |              |             |              |             |        |              |             |            |              |         |         |      |        |         |  |                |                |             |                |                |  |  |             |                |                |         |                |         |         |          |  |  |                |  |         |  |  |  |             |               |  |  |  |             |                |          |

| Question                  | Answer  | Marks    |         |     |    |  |                    |  |  |         |     |                |  |  |  |  |             |        |      |  |  |                   |        |   |  |  |                           |       |        |        |  |              |  |  |         |  |                   |  |  |  |  |          |         |  |  |  |         |         |          |         |  |                     |  |  |        |     |                |  |  |         |  |   |
|---------------------------|---|----------|---------|-----|----|--|--------------------|--|--|---------|-----|----------------|--|--|--|--|-------------|--------|------|--|--|-------------------|--------|---|--|--|---------------------------|-------|--------|--------|--|--------------|--|--|---------|--|-------------------|--|--|--|--|----------|---------|--|--|--|---------|---------|----------|---------|--|---------------------|--|--|--------|-----|----------------|--|--|---------|--|---|
| 4(d)                      | <p style="text-align: center;">Armfield and Bonetti<br/>Statement of Financial Position at 1 January 2017</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: center;">\$</td> <td></td> <td style="text-align: center;">\$</td> <td></td> </tr> <tr> <td>Non-current assets</td> <td></td> <td></td> <td style="text-align: right;">225 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Current assets</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Inventories</td> <td style="text-align: right;">18 000</td> <td style="text-align: right;">}(1)</td> <td></td> <td></td> </tr> <tr> <td>Trade receivables</td> <td style="text-align: right;">13 000</td> <td style="text-align: right;">}</td> <td></td> <td></td> </tr> <tr> <td>Cash and cash equivalents</td> <td style="text-align: right; border-bottom: 1px solid black;">8 000</td> <td style="text-align: right;">(1) OF</td> <td style="text-align: right; border-bottom: 1px solid black;">39 000</td> <td></td> </tr> <tr> <td>Total assets</td> <td></td> <td></td> <td style="text-align: right; border-bottom: 3px double black;">264 000</td> <td></td> </tr> <tr> <td>Capital accounts:</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>    Armfield</td> <td style="text-align: right;">125 000</td> <td></td> <td></td> <td></td> </tr> <tr> <td>    Bonetti</td> <td style="text-align: right; border-bottom: 1px solid black;">125 000</td> <td style="text-align: right;">(1) both</td> <td style="text-align: right; border-bottom: 1px solid black;">250 000</td> <td></td> </tr> <tr> <td>Current liabilities</td> <td></td> <td></td> <td style="text-align: right; border-bottom: 1px solid black;">14 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Trade payables</td> <td></td> <td></td> <td style="text-align: right; border-bottom: 3px double black;">264 000</td> <td></td> </tr> </table> |          | \$      |     | \$ |  | Non-current assets |  |  | 225 000 | (1) | Current assets |  |  |  |  | Inventories | 18 000 | }(1) |  |  | Trade receivables | 13 000 | } |  |  | Cash and cash equivalents | 8 000 | (1) OF | 39 000 |  | Total assets |  |  | 264 000 |  | Capital accounts: |  |  |  |  | Armfield | 125 000 |  |  |  | Bonetti | 125 000 | (1) both | 250 000 |  | Current liabilities |  |  | 14 000 | (1) | Trade payables |  |  | 264 000 |  | 5 |
|                           | \$  |          | \$      |     |    |  |                    |  |  |         |     |                |  |  |  |  |             |        |      |  |  |                   |        |   |  |  |                           |       |        |        |  |              |  |  |         |  |                   |  |  |  |  |          |         |  |  |  |         |         |          |         |  |                     |  |  |        |     |                |  |  |         |  |   |
| Non-current assets        |   |          | 225 000 | (1) |    |  |                    |  |  |         |     |                |  |  |  |  |             |        |      |  |  |                   |        |   |  |  |                           |       |        |        |  |              |  |  |         |  |                   |  |  |  |  |          |         |  |  |  |         |         |          |         |  |                     |  |  |        |     |                |  |  |         |  |   |
| Current assets            |   |          |         |     |    |  |                    |  |  |         |     |                |  |  |  |  |             |        |      |  |  |                   |        |   |  |  |                           |       |        |        |  |              |  |  |         |  |                   |  |  |  |  |          |         |  |  |  |         |         |          |         |  |                     |  |  |        |     |                |  |  |         |  |   |
| Inventories               | 18 000  | }(1)     |         |     |    |  |                    |  |  |         |     |                |  |  |  |  |             |        |      |  |  |                   |        |   |  |  |                           |       |        |        |  |              |  |  |         |  |                   |  |  |  |  |          |         |  |  |  |         |         |          |         |  |                     |  |  |        |     |                |  |  |         |  |   |
| Trade receivables         | 13 000  | }        |         |     |    |  |                    |  |  |         |     |                |  |  |  |  |             |        |      |  |  |                   |        |   |  |  |                           |       |        |        |  |              |  |  |         |  |                   |  |  |  |  |          |         |  |  |  |         |         |          |         |  |                     |  |  |        |     |                |  |  |         |  |   |
| Cash and cash equivalents | 8 000   | (1) OF   | 39 000  |     |    |  |                    |  |  |         |     |                |  |  |  |  |             |        |      |  |  |                   |        |   |  |  |                           |       |        |        |  |              |  |  |         |  |                   |  |  |  |  |          |         |  |  |  |         |         |          |         |  |                     |  |  |        |     |                |  |  |         |  |   |
| Total assets              |   |          | 264 000 |     |    |  |                    |  |  |         |     |                |  |  |  |  |             |        |      |  |  |                   |        |   |  |  |                           |       |        |        |  |              |  |  |         |  |                   |  |  |  |  |          |         |  |  |  |         |         |          |         |  |                     |  |  |        |     |                |  |  |         |  |   |
| Capital accounts:         |   |          |         |     |    |  |                    |  |  |         |     |                |  |  |  |  |             |        |      |  |  |                   |        |   |  |  |                           |       |        |        |  |              |  |  |         |  |                   |  |  |  |  |          |         |  |  |  |         |         |          |         |  |                     |  |  |        |     |                |  |  |         |  |   |
| Armfield                  | 125 000   |          |         |     |    |  |                    |  |  |         |     |                |  |  |  |  |             |        |      |  |  |                   |        |   |  |  |                           |       |        |        |  |              |  |  |         |  |                   |  |  |  |  |          |         |  |  |  |         |         |          |         |  |                     |  |  |        |     |                |  |  |         |  |   |
| Bonetti                   | 125 000   | (1) both | 250 000 |     |    |  |                    |  |  |         |     |                |  |  |  |  |             |        |      |  |  |                   |        |   |  |  |                           |       |        |        |  |              |  |  |         |  |                   |  |  |  |  |          |         |  |  |  |         |         |          |         |  |                     |  |  |        |     |                |  |  |         |  |   |
| Current liabilities       |   |          | 14 000  | (1) |    |  |                    |  |  |         |     |                |  |  |  |  |             |        |      |  |  |                   |        |   |  |  |                           |       |        |        |  |              |  |  |         |  |                   |  |  |  |  |          |         |  |  |  |         |         |          |         |  |                     |  |  |        |     |                |  |  |         |  |   |
| Trade payables            |   |          | 264 000 |     |    |  |                    |  |  |         |     |                |  |  |  |  |             |        |      |  |  |                   |        |   |  |  |                           |       |        |        |  |              |  |  |         |  |                   |  |  |  |  |          |         |  |  |  |         |         |          |         |  |                     |  |  |        |     |                |  |  |         |  |   |
| 4(e)                      | <p>Based purely on profitability, Armfield benefits by \$20 000 (1) – Bonetti is worse off by \$20 000. (1)<br/> Only one year's results available, so difficult to form opinion. (1)<br/> Disadvantages include sharing of profits, possible disagreements and therefore delays to decision making process. (1)<br/> Advantages include more capital, more expertise. (1)</p>  | 5        |         |     |    |  |                    |  |  |         |     |                |  |  |  |  |             |        |      |  |  |                   |        |   |  |  |                           |       |        |        |  |              |  |  |         |  |                   |  |  |  |  |          |         |  |  |  |         |         |          |         |  |                     |  |  |        |     |                |  |  |         |  |   |
| 4(f)                      | <p>There would be limited liability / separate legal entity. (1) Possibility of raising more capital. (1)<br/> Ownership is transferable. (1)<br/> More legal formalities. (1) Greater expense to maintain. (1)<br/> Since the partners are close to retirement it is advisable to incorporate. (1)</p> <p><b>Max 2 advantages x 2 marks each (1 mark for identifying, 1 mark for development.)</b></p>   | 4        |         |     |    |  |                    |  |  |         |     |                |  |  |  |  |             |        |      |  |  |                   |        |   |  |  |                           |       |        |        |  |              |  |  |         |  |                   |  |  |  |  |          |         |  |  |  |         |         |          |         |  |                     |  |  |        |     |                |  |  |         |  |   |

| Question  | Answer  | Marks    |
|-----------|---|----------|
| 5(a)(i)   | Direct Material costs – quantity discounts <b>(1)</b> / savings on carriage inwards <b>(1)</b>  | <b>4</b> |
| 5(a)(ii)  | Direct labour – more hours worked leading to overtime rates <b>(1)</b> / shortage of labour leading to higher wage rates. <b>(1)</b>  |          |
| 5(b)(i)   | $(90 - 20.4 - 30) - 33$ <b>(1)</b> = \$6.60 <b>(1)</b><br>× 1000 units = \$6600 <b>(1of)</b>  | <b>3</b> |
| 5(b)(ii)  | $(80 - 20.08 - 36) - 22$ <b>(1)</b> = \$1.92 <b>(1)</b><br>1500 units = \$2880 <b>(1of)</b>   | <b>3</b> |
| 5(b)(iii) | 6600 – 2880 = \$3720 decrease <b>(1)</b>  | <b>1</b> |
| 5(c)(i)   | 15 000 A <b>(2)</b> = $(90 - 80) \times 1500$   | <b>8</b> |
| 5(c)(ii)  | 45 000 F <b>(2)</b> = $(500 \times 90)(1500 - 1000) \times 90$  |          |
| 5(c)(iii) | 480 F <b>(2)</b> = $(5.10 - 5.02) = 0.08 \times (4 \times 1500)$  |          |
| 5(c)(iv)  | 9000 A <b>(2)</b> = $(10 - 12) \times (3 \times 1500)$<br><br><b>Where two marks are given, one is for amount and one for direction.</b>  |          |
| 5(d)      | Variance analysis reconciles between a flexed budget and actual, <b>(1)</b> not between a master budget and actual. <b>(1)</b> Only the sales volume variance takes into account the differences from the master budget. <b>(1)</b> | <b>3</b> |
| 5(e)      | Profit decreases <b>(1)OF</b><br>Other reservations <b>(1)</b><br><br><b>Decision (1)OF + Max 2 for justification</b>   | <b>3</b> |

| Question | Answer           |                      |                      |                | Marks    |
|----------|------------------|----------------------|----------------------|----------------|----------|
| 6(a)     |                  | Product A<br>\$      | Product B<br>\$      | Total<br>\$    | <b>3</b> |
|          | Sales value      | 240 000 (1)          | 360 000 (1)          | 600 000        |          |
|          | Overheads        | 120 000              | 180 000 (1) for both | 300 000        |          |
| 6(b)     |                  | Product A<br>\$      | Product B<br>\$      |                | <b>5</b> |
|          | Direct cost      | (3.2 + 1.8)<br>5     | (4.9 + 2.1)<br>7     | (1) for both   |          |
|          | Overheads        | (120 / 20)<br>6      | (180 / 18)<br>10     | (1)OF          |          |
|          | Total            | 11                   | 17                   |                |          |
|          | Selling price    | 12                   | 20                   |                |          |
|          | Profit           | 1 (1)OF              | 3 (1)OF              |                |          |
| 6(c)     |                  | A<br>\$              | B<br>\$              | Total<br>\$    | <b>5</b> |
|          | Delivery (100+)  | 510                  | 690                  | (1) for both   |          |
|          | Delivery (small) | 13 280               | 8 920                | (1) for both   |          |
|          |                  | 13 790               | 9 610                |                |          |
|          | Order processing | 17 025               | 11 725               | (1) for both   |          |
|          |                  | 30 185               | 21 335               |                |          |
|          | Other overheads  | 130 447              | 117 403              | (1)OF for both |          |
|          | Total            | 161 262              | 138 738              | (1)OF for both |          |
|          |                  |                      |                      | 52 150         |          |
|          |                  |                      |                      | 247 850        |          |
|          |                  |                      |                      | 300 000        |          |
| 6(d)     |                  | A<br>\$              | B<br>\$              |                | <b>5</b> |
|          | Direct cost      | 5                    | 7                    | (1) for both   |          |
|          | Overheads        | (161.2 / 20)<br>8.06 | (138.7 / 18)<br>7.71 | (1)OF          |          |
|          | Total            | 13.06                | 14.71                |                |          |
|          | Selling price    | 12.00                | 20.00                |                |          |
|          | Profit           | (1.06) (1)OF         | 5.29 (1)OF           |                |          |

| Question | Answer  | Marks    |
|----------|---|----------|
| 6(e)     | <p>Profit per unit for A is now negative <b>(1)</b> although A still has a positive contribution towards fixed costs. <b>(1)</b> Profit per unit for B has increased. <b>(1)</b></p> <p>The directors should consider increasing the selling price of A. <b>(1)</b> Perhaps delivery charges could be charged separately as an addition to the unit price. <b>(1)</b></p> <p>Advantage/disadvantage of change of method. <b>(1)</b><br/>Motivation/behavioural aspects. <b>(1)</b></p> <p><b>[1 mark for decision + 1 max method + 1 max non-financial + 2 max for comparison A versus B]</b></p> | <b>5</b> |
| 6(f)     | <p>Cost driver – the separate activities of each department. <b>(1)</b><br/>Cost pool – an account collecting the cost of each activity. <b>(1)</b></p>   | <b>2</b> |