

# Example Candidate Responses

Cambridge  
International  
AS & A Level

## Cambridge International AS and A Level Accounting

9706

Paper 2 – Structured Questions

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## Introduction

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The main aim of this booklet is to exemplify standards for those teaching Cambridge International AS and A Level Accounting (9706), and to show how different levels of candidates' performance (high, middle and low) relate to the subject's curriculum and assessment objectives.

In this booklet candidate responses have been chosen to exemplify a range of answers. Each response is accompanied by a brief commentary explaining the strengths and weaknesses of the answers.

For each question, each response is annotated with a clear explanation of where and why marks were awarded or omitted. This, in turn, is followed by examiner comments on how the answer could have been improved. In this way it is possible for you to understand what candidates have done to gain their marks and what they will have to do to improve their answers. At the end there is a list of common mistakes candidates made in their answers for each question.

This document provides illustrative examples of candidate work. These help teachers to assess the standard required to achieve marks, beyond the guidance of the mark scheme. Some question types where the answer is clear from the mark scheme, such as short answers and multiple choice, have therefore been omitted.

The questions, mark schemes and pre-release material used here are available to download as a zip file from Teacher Support as the Example Candidate Responses Files. These files are:

<b>Question Paper 22, June 2016</b>	
Question paper	9706_s16_qp_22.pdf
Mark scheme	9706_s16_ms_22.pdf
<b>Question Paper 32, November 2016</b>	
Question paper	9706_w16_qp_32.pdf
Mark scheme	9706_w16_ms_32.pdf

Past papers, Examiner Reports and other teacher support materials are available on Teacher Support at <https://teachers.cie.org.uk>

## How to use this booklet

Example candidate response – high	Examiner comments
<p>Q5) Inventory are goods, raw materials that required in the process of production. <b>1</b></p> <p>any forms of finished materials etc. <b>1</b></p> <p>Low level of inventory will many small delivery reputation cost of <b>2</b></p> <p>small deliveries prevent business taking advantage of economies of scale. Thus the average cost will increase so profitability of business will be reduced. Also, if there is foreseen increase in demand, less inventory for customer satisfaction lead to <b>3</b></p>	<p><b>1</b> It is useful, although not always necessary, to start off with a clear d</p> <p><b>2</b></p> <p><b>3</b></p> <p><b>Examiner comments</b> are alongside the answers, linked to specific part of the answer. These explain where and why marks were awarded. This helps you to interpret the standard of Cambridge exams and helps your learners to refine their exam technique.</p>

**Answers** by real candidates in exam conditions. These show you the types of answers for each level. Discuss and analyse the answers with your learners in the classroom to improve their skills.

### How the candidate could have improved their answer

The second cost of customer satisfaction is not as well benefited from acknowledging that products will be unavailable hence leading to disappointment.

In addition, three benefits have been explained. Presumably rather than foreseen but the candidate has explained so in answer.

This explains how the candidate could have improved their answer and helps you to interpret the standard of Cambridge exams and helps your learners to refine exam technique.

### Common mistakes candidates made in this question

**(a)** Not being able to move beyond Level 2 due to not understanding of these two types of expenditure and the effect of this on the two expenditures and again the effect of this on the

**(b)** Confusion over what classes as an internal source of sales revenue or debentures.

This lists the common mistakes candidates made in answering each question. This will help your learners to avoid these mistakes at the exam and give them the best chance of achieving a high mark.

## Assessment at a glance

For Cambridge International AS & A Level Accounting, candidates:

- take Papers 1 and 2 only (for the Cambridge International AS Level qualification)

or

- follow a staged assessment route by taking Papers 1 and 2 (for the Cambridge International AS Level qualification) in one series, then Paper 3 (for the Cambridge International A Level qualification) in a later series

or

- take Papers 1, 2 and 3 in the same examination series, leading to the full Cambridge International A Level.

All components are externally assessed.

Component	Weighting	
	AS Level	A Level
<b>Paper 1 Multiple Choice</b> <span style="float: right;"><b>1 hour</b></span> 30 multiple choice questions based on the AS Level syllabus content 30 marks	<b>30%</b>	<b>15%</b>
<b>Paper 2 Structured Questions</b> <span style="float: right;"><b>1 hour 30 minutes</b></span> Four structured questions on the AS Level syllabus content Question 1 on financial accounting (30 marks) Questions 2 and 3 on financial accounting (2 × 15 marks) Question 4 on cost and management accounting (30 marks) Total 90 marks	<b>70%</b>	<b>35%</b>
<b>Paper 3 Structured Questions</b> <span style="float: right;"><b>3 hours</b></span> Paper 3 tests the additional content for the A Level, but also requires a knowledge and understanding of the AS Level content. Section A: Four structured questions on financial accounting (4 × 25 marks) Section B: Two structured questions on cost and management accounting (2 × 25 marks) Total 150 marks	–	<b>50%</b>

Teachers are reminded that the latest syllabus is available on our public website at [www.cie.org.uk](http://www.cie.org.uk) and Teacher Support at <https://teachers.cie.org.uk>

# Paper 2 – Structured Questions

## Question 1

Example candidate response – high	Examiner comments																																																
<p>1 Jing is a sole trader. He does not maintain full accounting records. All sales and purchases are on credit.</p> <p>He provided the following information for the year ended 30 April 2015.</p> <table border="0" style="width: 100%;"> <tr><td colspan="2" style="text-align: right;">\$</td></tr> <tr><td>Cheques received from credit customers</td><td style="text-align: right;">96 300</td></tr> <tr><td>Cheques paid to credit suppliers</td><td style="text-align: right;">73 540</td></tr> <tr><td>Rent paid</td><td style="text-align: right;">5 500</td></tr> <tr><td>Electricity paid</td><td style="text-align: right;">345</td></tr> <tr><td>Carriage inwards</td><td style="text-align: right;">630</td></tr> <tr><td>Carriage outwards</td><td style="text-align: right;">950</td></tr> <tr><td>Other operating expenses</td><td style="text-align: right;">95</td></tr> <tr><td>Irrecoverable debts written off</td><td style="text-align: right;">200</td></tr> <tr><td>Purchases returns</td><td style="text-align: right;">2 480</td></tr> </table> <p>Jing had the following assets and liabilities.</p> <table border="0" style="width: 100%;"> <tr> <td></td> <td style="text-align: center;">At 30 April 2014</td> <td style="text-align: center;">At 30 April 2015</td> </tr> <tr> <td></td> <td style="text-align: center;">\$</td> <td style="text-align: center;">\$</td> </tr> <tr> <td>Equipment</td> <td style="text-align: center;">?</td> <td style="text-align: center;">?</td> </tr> <tr> <td>Inventory</td> <td style="text-align: center;">15 000</td> <td style="text-align: center;">11 500</td> </tr> <tr> <td>Trade receivables</td> <td style="text-align: center;">3 750</td> <td style="text-align: center;">2 250</td> </tr> <tr> <td>Rent prepaid</td> <td style="text-align: center;">500</td> <td style="text-align: center;">400</td> </tr> <tr> <td>Electricity owing</td> <td style="text-align: center;">35</td> <td style="text-align: center;">40</td> </tr> <tr> <td>Trade payables</td> <td style="text-align: center;">3 460</td> <td style="text-align: center;">1 790</td> </tr> </table> <p>All equipment was originally purchased for \$2700 on 1 May 2013. Jing depreciates his equipment using the reducing balance method at a rate of 10% per annum.</p> <p><b>REQUIRED</b></p> <p>(a) (i) Calculate the sales for the year ended 30 April 2015.</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p style="text-align: center;">Sales Ledger Control A/c</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; padding: 5px;">                 Bal b/d 3750                  credit 95000                  Sales  <hr/>                 98750             </td> <td style="width: 50%; padding: 5px;">                 Receipts 96300                  Bad debts 200                  Bal c/d 2250  <hr/>                 98750             </td> </tr> </table> <p style="text-align: right;">Bal b/d 2250 [2]</p> </div> <p>(ii) Calculate the purchases for the year ended 30 April 2015.</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p style="text-align: center;">Purchases ledger Control A/c</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; padding: 5px;">                 Payments 73540                  purchase 2480                  returns                  Bal c/d 1790  <hr/>                 77810             </td> <td style="width: 50%; padding: 5px;">                 Bal b/d 3460                  credit 74350                  purchases  <hr/>                 77810             </td> </tr> </table> <p style="text-align: center;">Bal b/d. [2]</p> </div>	\$		Cheques received from credit customers	96 300	Cheques paid to credit suppliers	73 540	Rent paid	5 500	Electricity paid	345	Carriage inwards	630	Carriage outwards	950	Other operating expenses	95	Irrecoverable debts written off	200	Purchases returns	2 480		At 30 April 2014	At 30 April 2015		\$	\$	Equipment	?	?	Inventory	15 000	11 500	Trade receivables	3 750	2 250	Rent prepaid	500	400	Electricity owing	35	40	Trade payables	3 460	1 790	Bal b/d 3750 credit 95000 Sales <hr/> 98750	Receipts 96300 Bad debts 200 Bal c/d 2250 <hr/> 98750	Payments 73540 purchase 2480 returns Bal c/d 1790 <hr/> 77810	Bal b/d 3460 credit 74350 purchases <hr/> 77810	<p><b>1</b> The candidate has prepared a sales ledger control account and correctly identifies the credit sales for the year.</p> <p>Mark for (a) (i) = 2/2</p> <p><b>2</b> The candidate has prepared a purchases ledger control account and correctly identifies the credit purchases for the year.</p> <p>Mark for (a) (ii) = 2/2</p>
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<p><b>Additional information</b></p> <p>After preparing the financial statements, Jing remembered the following:</p> <p>He had paid his cleaner \$60 cash, out of his own money, to clean the offices and his house. He agreed that this should be split in the ratio 3:2 respectively.</p> <p><b>REQUIRED</b></p> <p>(b) Prepare the journal entry to record this transaction. A narrative is <b>not</b> required.</p> <table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px dotted black;">Journal</th> <th style="text-align: center; border-bottom: 1px dotted black;">\$ Dr.</th> <th style="text-align: center; border-bottom: 1px dotted black;">\$ Cr.</th> </tr> </thead> <tbody> <tr> <td style="border-bottom: 1px dotted black;">Office expense</td> <td style="text-align: center; border-bottom: 1px dotted black;">36</td> <td></td> </tr> <tr> <td style="border-bottom: 1px dotted black;">House expense</td> <td style="text-align: center; border-bottom: 1px dotted black;">24</td> <td></td> </tr> <tr> <td style="border-bottom: 1px dotted black;">4 Cash</td> <td></td> <td style="text-align: center; border-bottom: 1px dotted black;">60</td> </tr> <tr> <td style="border-bottom: 1px dotted black;">Bank A/c</td> <td></td> <td style="text-align: center; border-bottom: 1px dotted black;">60</td> </tr> <tr> <td style="border-bottom: 1px dotted black;"></td> <td style="text-align: center; border-bottom: 1px dotted black;">60</td> <td style="text-align: center; border-bottom: 1px dotted black;">60</td> </tr> </tbody> </table> <p style="text-align: right;">[2]</p> <p>(c) State two types of entries, other than the correction of errors, which would usually be recorded in the general journal.</p> <p>1 Bad debts written off</p> <p>2 purchase of non-current asset. for example purchase of a motor vehicle.</p> <p style="text-align: right;">[2]</p> <p><b>Additional information</b></p> <p>Jing calculated the gross margin and the profit margin for his business. He discovered that the gross margin had decreased for the year ended 30 April 2015. For the same period the profit margin had increased.</p>	Journal	\$ Dr.	\$ Cr.	Office expense	36		House expense	24		4 Cash		60	Bank A/c		60		60	60	<p><b>4</b> The cleaning expenses have already been paid with the owner's own cash, so the credit entry should be to 'Capital (introduced)'.</p> <p>Mark for (b) = 1/2</p> <p><b>5</b> These are both valid entries that would be recorded in the general journal.</p> <p>Mark for (c) = 2/2</p>
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Example candidate response – high, continued	Examiner comments
<p><b>REQUIRED</b></p> <p>(d) Assess the performance of the business for the year ended 30 April 2015. Suggest possible reasons for the changes.</p> <p>Jong's gross profit margin has decreased. This could be due to an increase in the cost of sales. For example, an unexpected increase in the purchase price of goods. Another reason for an increase in cost of sales could be an increase in carriage inward expense. <b>6</b> Gross profit margin may have worsened because the selling price per unit is decreased. <b>7</b> In contrast the profit margin of the business has improved. This could be because a reduction in overhead expenses. Another reason could be an increase in the income received. For example – rent received, <del>commission</del> profit on sale of non-current assets etc. <b>8</b> [8]</p> <p>(e) State three benefits to a business of using ratios.</p> <p>can compare performance of the business with similar competing businesses. It helps to assess the business performance by comparing performance of previous years. By <del>not</del> helping to see if business performance is seen to be worsening corrective actions can be taken. <b>9</b> [Total: 30]</p>	<p><b>6</b> This is good development of the basic point that the cost of sales has increased.</p> <p><b>7</b> It is important to note that the decreased gross profit is due to a reduction in the selling price, not a reduction in sales.</p> <p><b>8</b> Good development. Mark for (d) = 6/8</p> <p><b>9</b> The third mark could have been obtained by stating that using ratios enables comparison with industry averages. Mark for (e) = 2/3</p> <p><b>Total marks awarded = 25 out of 30</b></p>

### How the candidate could have improved their answer

(a) (iii) Avoiding the use of old terminology ('net profit') would have resulted in full marks here.

(d) Here, the candidate could have discussed any problems with inventory control and the consequences of these.

(e) The candidate could have mentioned the ability to make comparisons with industry averages.

Mark awarded = (a) (i) 2/2, (ii) 2/2, (iii) 10/11

Mark awarded = (b) 1/2

Mark awarded = (c) 2/2

Mark awarded = (d) 6/8

Mark awarded = (e) 2/3

**Total marks awarded = 25 out of 30**

Example candidate response – middle	Examiner comments																																																									
<p>1 Jing is a sole trader. He does not maintain full accounting records. All sales and purchases are on credit.</p> <p>He provided the following information for the year ended 30 April 2015.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">\$</td> </tr> <tr> <td>Cheques received from credit customers</td> <td style="text-align: right;">96 300</td> </tr> <tr> <td>Cheques paid to credit suppliers</td> <td style="text-align: right;">73 540</td> </tr> <tr> <td>Rent paid</td> <td style="text-align: right;">5 500</td> </tr> <tr> <td>Electricity paid</td> <td style="text-align: right;">345</td> </tr> <tr> <td>Carriage inwards</td> <td style="text-align: right;">630</td> </tr> <tr> <td>Carriage outwards</td> <td style="text-align: right;">950</td> </tr> <tr> <td>Other operating expenses</td> <td style="text-align: right;">95</td> </tr> <tr> <td>Irrecoverable debts written off</td> <td style="text-align: right;">200</td> </tr> <tr> <td>Purchases returns</td> <td style="text-align: right;">2 480</td> </tr> </table> <p>Jing had the following assets and liabilities.</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: right;">At 30 April 2014</th> <th style="text-align: right;">At 30 April 2015</th> </tr> </thead> <tbody> <tr> <td>Equipment</td> <td style="text-align: right;">\$ 2430</td> <td style="text-align: right;">\$ 2187</td> </tr> <tr> <td>Inventory</td> <td style="text-align: right;">15 000</td> <td style="text-align: right;">11 500</td> </tr> <tr> <td>Trade receivables</td> <td style="text-align: right;">3 750</td> <td style="text-align: right;">2 250</td> </tr> <tr> <td>Rent prepaid</td> <td style="text-align: right;">500</td> <td style="text-align: right;">400</td> </tr> <tr> <td>Electricity owing</td> <td style="text-align: right;">35</td> <td style="text-align: right;">40</td> </tr> <tr> <td>Trade payables</td> <td style="text-align: right;">3 460</td> <td style="text-align: right;">1 790</td> </tr> </tbody> </table> <p>All equipment was originally purchased for \$2700 on 1 May 2013. Jing depreciates his equipment using the reducing balance method at a rate of 10% per annum.</p> <p><b>REQUIRED</b></p> <p>(a) (i) Calculate the sales for the year ended 30 April 2015.</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p style="text-align: center;"><u>Sales Ledger Control Account</u></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-right: 1px solid black;">Balance b/d 3750</td> <td style="width: 50%;">Bank 96300</td> </tr> <tr> <td style="border-right: 1px solid black;">Sales 95000</td> <td>Balance c/d 2250</td> </tr> <tr> <td style="border-right: 1px solid black;"></td> <td>Bad Debts 200</td> </tr> <tr> <td style="border-right: 1px solid black;"><u>98750</u></td> <td><u>98750</u></td> </tr> </table> <p style="text-align: right;">[2]</p> </div> <p>(ii) Calculate the purchases for the year ended 30 April 2015.</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p style="text-align: center;"><u>Purchase Ledger Control Account</u></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-right: 1px solid black;">Bank 73540</td> <td style="width: 50%;">Balance b/d 3460</td> </tr> <tr> <td style="border-right: 1px solid black;">Purchase returns 2480</td> <td>Purchases 74350</td> </tr> <tr> <td style="border-right: 1px solid black;">Balance c/d 1790</td> <td></td> </tr> <tr> <td style="border-right: 1px solid black;"><u>77810</u></td> <td><u>77810</u></td> </tr> </table> <p style="text-align: right;">[2]</p> </div>		\$	Cheques received from credit customers	96 300	Cheques paid to credit suppliers	73 540	Rent paid	5 500	Electricity paid	345	Carriage inwards	630	Carriage outwards	950	Other operating expenses	95	Irrecoverable debts written off	200	Purchases returns	2 480		At 30 April 2014	At 30 April 2015	Equipment	\$ 2430	\$ 2187	Inventory	15 000	11 500	Trade receivables	3 750	2 250	Rent prepaid	500	400	Electricity owing	35	40	Trade payables	3 460	1 790	Balance b/d 3750	Bank 96300	Sales 95000	Balance c/d 2250		Bad Debts 200	<u>98750</u>	<u>98750</u>	Bank 73540	Balance b/d 3460	Purchase returns 2480	Purchases 74350	Balance c/d 1790		<u>77810</u>	<u>77810</u>	<p><b>1</b> Both calculations are correct, based on control accounts.</p> <p>Mark for (a) (i) = 2/2</p> <p>Mark for (a) (ii) = 2/2</p>
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<u>98750</u>	<u>98750</u>																																																									
Bank 73540	Balance b/d 3460																																																									
Purchase returns 2480	Purchases 74350																																																									
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<u>77810</u>	<u>77810</u>																																																									

Example candidate response – middle, continued	Examiner comments																																																			
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Example candidate response – middle, continued	Examiner comments
<p><b>REQUIRED</b></p> <p>(d) Assess the performance of the business for the year ended 30 April 2015. Suggest possible reasons for the changes.</p> <p>The gross profit margin for the year ended 30 April 2015 had probably decreased possibly due to lower selling prices or an increase in the cost of raw materials and purchases while consequently, the expenses of the business may not have increased at a similar rate as the cost of sales did. Moreover, there possibly may have been an overall decrease in expenses which may have led to an increase in net profit margin. Examples include loan which may have been paid off along with its interest which contributed to the increase in profit margin. Overall, the business may have done better but there may be some factors to consider about regarding gross profit margin.</p> <p>[8]</p> <p>(e) State three benefits to a business of using ratios.</p> <p>(i) Business can set targets for the future.                  (ii) Business can compare performance with <sup>previous</sup> years.                  (iii) Business can compare performance with competitors.</p> <p>[3]</p> <p>[Total: 30]</p>	<p><b>6</b> Two examples of reasons for the reduction in gross profit.</p> <p><b>7</b> One reason for the increase in net profit, plus a valid example.</p> <p>Mark for (d) = 4/8</p> <p><b>8</b> Comparison is the key factor here.</p> <p>Mark for (e) = 2/3</p> <p><b>Total marks awarded = 22 out of 30</b></p>

**How the candidate could have improved their answer**

- (a) (iii) The candidate should have avoided the use of old terminology ('net profit') and should have included purchases returns in the income statement.
- (d) The candidate could have included more development of the reasons for the decrease in gross profit.
- (e) The candidate could have mentioned the ability to compare with industry averages.

Mark awarded = (a) (i) 2/2, (ii) 2/2, (iii) 9/11  
 Mark awarded = (b) 1/2  
 Mark awarded = (c) 2/2  
 Mark awarded = (d) 4/8  
 Mark awarded = (e) 2/3

**Total marks awarded = 22 out of 30**

**Example candidate response – low**

**Examiner comments**

1 Jing is a sole trader. He does not maintain full accounting records. All sales and purchases are on credit.

He provided the following information for the year ended 30 April 2015.

	\$
Cheques received from credit customers	96 300
Cheques paid to credit suppliers	73 540
Rent paid	5 500
Electricity paid	345
Carriage inwards	630
Carriage outwards	950
Other operating expenses	95
Irrecoverable debts written off	200
Purchases returns	2 480

Jing had the following assets and liabilities.

	At 30 April 2014	At 30 April 2015
	\$	\$
Equipment	?	?
Inventory	15 000	11 500
Trade receivables	3 750	2 250
Rent prepaid	500	400
Electricity owing	35	40
Trade payables	3 460	1 790

All equipment was originally purchased for \$2700 on 1 May 2013. Jing depreciates his equipment using the reducing balance method at a rate of 10% per annum.

**REQUIRED**

(a) (i) Calculate the sales for the year ended 30 April 2015.

Sales ledger control a/c			
		Trade receivable	2 250
Sales	98 750	Cheques received	96 300
		Debts written off	200
	<u>98 750</u>	<u>98 750</u>	<u>98 750</u> [2]

(ii) Calculate the purchases for the year ended 30 April 2015.

Purchase ledger			
Cheques paid	73 540	Cheques paid	<del>73 540</del>
Purchase returns	2 480	Purchases	78 810
Trade payables	1 790		
	<u>78 810</u> ①	<u>78 810</u>	[2]

① Although control accounts are given for both parts (i) and (ii), unclear figures and crossings out make it difficult to see which figures the candidate is offering.

Mark for (a) (i) = 0/2

Mark for (a) (ii) = 0/2

Example candidate response – low, continued	Examiner comments																																																																											
<p>(iii) Prepare Jing's income statement for the year ended 30 April 2015.</p> <p style="text-align: center;">Jing Income Statement for the year ended 30 April 2015</p> <table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"></th> <th style="text-align: right;">\$</th> <th style="text-align: right;">\$</th> </tr> </thead> <tbody> <tr> <td colspan="3"><u>Sales</u></td> </tr> <tr> <td>Sales</td> <td></td> <td style="text-align: right;"><del>98750</del> 98716</td> </tr> <tr> <td colspan="3"><u>Cost of sales</u></td> </tr> <tr> <td>opening inventory</td> <td style="text-align: right;">15000</td> <td></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">78870</td> <td></td> </tr> <tr> <td>Carriage inward</td> <td style="text-align: right;">630</td> <td></td> </tr> <tr> <td>purchase returns</td> <td style="text-align: right;">(2480)</td> <td></td> </tr> <tr> <td>closing inventory</td> <td style="text-align: right;">(11500)</td> <td style="text-align: right;">( <del>7960</del> ) (7946)</td> </tr> <tr> <td>Gross Profit</td> <td style="text-align: right;"><del>20280</del> 18770</td> <td></td> </tr> <tr> <td colspan="3"><u>Expenses</u></td> </tr> <tr> <td>Rent paid (5500 - 400) <b>2</b></td> <td style="text-align: right;">5100</td> <td></td> </tr> <tr> <td>Electricity paid (345 - 40) <b>3</b></td> <td style="text-align: right;">305</td> <td></td> </tr> <tr> <td>Carriage outward</td> <td style="text-align: right;">450</td> <td></td> </tr> <tr> <td>Other operating expenses</td> <td style="text-align: right;">95</td> <td></td> </tr> <tr> <td>new debts written off</td> <td style="text-align: right;">200</td> <td style="text-align: right;">6650</td> </tr> <tr> <td>Net Profit <b>4</b></td> <td></td> <td style="text-align: right;"><del>12260</del> 12160</td> </tr> <tr> <td colspan="3"> </td> </tr> <tr> <td colspan="3"><u>Equipment at 30 April 2014</u></td> </tr> <tr> <td colspan="3">= 2700 × 10 % = 270</td> </tr> <tr> <td colspan="3">2700 - 270 = 2430</td> </tr> <tr> <td colspan="3"> </td> </tr> <tr> <td colspan="3"><u>Equipment at 30 April 2015</u></td> </tr> <tr> <td colspan="3">= 2430 × 10 %</td> </tr> <tr> <td colspan="3">= 2430 - 243 = 2187 [11]</td> </tr> </tbody> </table>		\$	\$	<u>Sales</u>			Sales		<del>98750</del> 98716	<u>Cost of sales</u>			opening inventory	15000		Purchases	78870		Carriage inward	630		purchase returns	(2480)		closing inventory	(11500)	( <del>7960</del> ) (7946)	Gross Profit	<del>20280</del> 18770		<u>Expenses</u>			Rent paid (5500 - 400) <b>2</b>	5100		Electricity paid (345 - 40) <b>3</b>	305		Carriage outward	450		Other operating expenses	95		new debts written off	200	6650	Net Profit <b>4</b>		<del>12260</del> 12160				<u>Equipment at 30 April 2014</u>			= 2700 × 10 % = 270			2700 - 270 = 2430						<u>Equipment at 30 April 2015</u>			= 2430 × 10 %			= 2430 - 243 = 2187 [11]			<p><b>2</b> Opening prepayment omitted.</p> <p><b>3</b> Opening accrual omitted and incorrect treatment of closing accrual.</p> <p><b>4</b> Old terminology ('net profit') used.</p> <p>Mark for (a) (iii) = 5/11</p>
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Example candidate response – low, continued	Examiner comments																														
<p><b>Additional information</b></p> <p>After preparing the financial statements, Jing remembered the following:</p> <p>He had paid his cleaner \$60 cash, out of his own money, to clean the offices and his house. He agreed that this should be split in the ratio 3:2 respectively.</p> <p><b>REQUIRED</b></p> <p>(b) Prepare the journal entry to record this transaction. A narrative is <b>not</b> required.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 10%;"></td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">Cash</td> <td></td> <td style="text-align: right;">60</td> <td></td> </tr> <tr> <td style="text-align: right;">Office</td> <td style="text-align: right;">36</td> <td style="border-left: 1px solid black;"></td> <td></td> <td style="text-align: right;">5</td> <td></td> </tr> <tr> <td style="text-align: right;">House</td> <td style="text-align: right;">24</td> <td style="border-left: 1px solid black;"></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">60</td> <td style="border-left: 1px solid black;"></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">60</td> <td style="text-align: right;">[2]</td> </tr> </table> <p>(c) State two types of entries, other than the correction of errors, which would usually be recorded in the general journal.</p> <p>1 Increase or decrease in the value of expenses</p> <p>2 Increase or decrease in the value of incomes 6 [2]</p> <p><b>Additional information</b></p> <p>Jing calculated the gross margin and the profit margin for his business. He discovered that the gross margin had decreased for the year ended 30 April 2015. For the same period the profit margin had increased.</p>									Cash		60		Office	36			5		House	24						60			60	[2]	<p><b>5</b> The credit entry should be to 'Capital (introduced)'. Mark for (b) = 1/2</p> <p><b>6</b> These are both incorrect uses of the general journal. Mark for (c) = 0/2</p>
		Cash		60																											
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	60			60	[2]																										

Example candidate response – low, continued	Examiner comments
<p><b>REQUIRED</b></p> <p>(d) Assess the performance of the business for the year ended 30 April 2015. Suggest possible reasons for the changes.</p> <p>The Gross margin had decreased in the year 30 April 2015 which shows that the sales might have decreased or it may be that the amount of cost of sales expenses has increased which has lowered the Gross Margin thus deteriorating the performance but at the same time the profit margin of the business has increased this shows that the overall profit being earned has increased this could be because of the decrease in expenses of the business or might show that the other incomes might have increased, by looking at the performance we can assess that although the gross margin might have decreased the profit margin has increased showing that the business is performing better than last compared to the last year.</p> <p>[8]</p> <p>(e) State three benefits to a business of using ratios.</p> <ol style="list-style-type: none"> <li>1) Ratios can be used to assess the performance of the business</li> <li>2) Ratios can be used to compare the performance of other companies in same field</li> <li>3) Comparison between previous and current year can be done</li> </ol> <p>[Total: 30]</p>	<p><b>7</b> Two valid comments regarding the increased net profit, but insufficiently developed comments about the gross profit limit the overall marks awarded.</p> <p>Mark for (d) = 3/8</p> <p><b>8</b> Comparison is the key here.</p> <p>Mark for (e) = 2/3</p> <p><b>Total marks awarded = 11 out of 30</b></p>

### How the candidate could have improved their answer

(a) (i) & (ii) The candidate should have made their figures clearer and avoided trying to alter existing incorrect figures. It is better to cross out any errors and rewrite figures clearly underneath.

(a) (iii) The candidate needed to appreciate the effect that opening and closing accruals and prepayments have on an expense.

(c) The candidate needed greater knowledge of the use of the general journal.

(d) The candidate should have developed the basic points they identified more fully.

Mark awarded = (a) (i) 0/2, (ii) 0/2, (iii) 5/11

Mark awarded = (b) 1/2

Mark awarded = (c) 0/2

Mark awarded = (d) 3/8

Mark awarded = (e) 2/3

**Total marks awarded = 11 out of 30**

### Common mistakes candidates made in this question

**(a) (iii)** Many candidates used old terminology in financial statements. The correct term is 'profit for the year', not 'net profit'.

**(d)** Some candidates did not offer relevant development of initial assessment points raised. When asked to 'assess', it is not sufficient to list one or two basic reasons for an increase or a decrease; deeper analysis of the reasons is required.

**(e)** Few candidates stated the third main benefit to a business of using ratios, that of comparing performance against industry averages. Assessing the performance of the business was not deemed to be a benefit. The key to ratio analysis is comparison.

## Question 2

### Example candidate response – high

### Examiner comments

**REQUIRED**

(a) Prepare the revaluation account on Darim's retirement on 1 December 2015.

Revaluation account	
\$	\$
Motor vehicles ①	11 000
Inventory	4 000
Trade receivables	2 000
Profit on revaluation a/c	14 000
D 9333	
E 4667	
45 000	45 000

[5]

① The revaluation of motor vehicles must take account of the motor vehicle taken over by the retiring partner.

Mark for (a) = 4/5

**Additional information**

To help fund the payment to Darim on his retirement, Emran paid additional capital into the partnership bank account. After this payment had been made the balance on Emran's capital account was \$65 000.

**REQUIRED**

(b) Prepare a statement to show how much cash Emran paid into the partnership bank account.

Retains	\$
Opening balance on Emran's capital A/c	40 000
(+) Profit on revaluation	4 667
(-) Bank	<del>2 000</del>
Closing balance on Emran's capital A/c	<del>65 000</del>
(+) Goodwill introduction	8 000
(-) Emran paid (-) Goodwill writeoff	(16 000)
Closing balance on Emran's capital A/c	65 000
∴ Emran paid \$ 28 333 into the bank ②	[4]

② Based on the candidate's own figures, full marks are awarded here.

Mark for (b) = 4/4

Example candidate response – high, continued	Examiner comments
<p>(c) State <b>three</b> advantages to a sole trader of forming a partnership.</p> <p>1 ..... Sharing of workload .....            .....            2 ..... Sharing of 'losses' .....            .....            3 ..... Increased ability of partners to raise finance ..... [3]</p> <p>(d) State <b>three</b> reasons why partnerships maintain separate capital accounts and current accounts for each partner.</p> <p>1 ..... To show the capital invested by each partner .....            .....            2 ..... To show the amount owed to a partner or owing from a partner to the business ..... [4]            .....            3 ..... To calculate the interest on capital ..... [3]</p> <p style="text-align: right;">[Total: 15]</p>	<p><b>3</b> Three valid advantages.            Mark for (c) = 3/3</p> <p><b>4</b> Too vague.            Mark for (d) = 2/3</p> <p><b>Total marks awarded = 13 out of 15</b></p>

**How the candidate could have improved their answer**

(a) The candidate needed to take account of the motor vehicle taken over by the retiring partner.

- Mark awarded = (a) 4/5
- Mark awarded = (b) 4/4
- Mark awarded = (c) 3/3
- Mark awarded = (d) 2/3

**Total marks awarded = 13 out of 15**

**Example candidate response – middle**

**Examiner comments**

**REQUIRED**

(a) Prepare the revaluation account on Darim's retirement on 1 December 2015.

Revaluation account

Motor vehicles	11000	Premises	45000
Inventory	4000		
Trade receivables	2000		
Revaluation loss :-			
Collin $(2000 \times \frac{2}{6})$	666		
Darim $(2000 \times \frac{2}{6})$	666		
Emran $(2000 \times \frac{2}{6})$	666		
	45000		45000

[5]

**Additional information**

To help fund the payment to Darim on his retirement, Emran paid additional capital into the partnership bank account. After this payment had been made the balance on Emran's capital account was \$65 000.

**REQUIRED**

(b) Prepare a statement to show how much cash Emran paid into the partnership bank account.

Emran's balance on capital A/c	\$ 40,000
Additional capital	25,000
Emran's balance after the payment	65,000

[4]

**1** No account taken of the motor vehicle taken over by the retiring partner.

Mark for (a) = 4/5

**2** Only two marks are awarded here, as no account has been taken of revaluation surplus or goodwill.

Mark for (b) = 2/4

Example candidate response – middle, continued	Examiner comments
<p>(c) State three advantages to a sole trader of forming a partnership.</p> <p>1 Additional capital can be introduced.</p> <p>2 The losses can be shared.</p> <p>3 New ideas and innovative skills by the partner. <b>3</b> [3]</p> <p>(d) State three reasons why partnerships maintain separate capital accounts and current accounts for each partner.</p> <p>1 To record the goodwill of each partner</p> <p>2 To record the drawings of each partner</p> <p>3 To record the revaluation gain of each partner <b>4</b> [3]</p> <p>[Total: 15]</p>	<p><b>3</b> Three valid advantages.</p> <p>Mark for (c) = 3/3</p> <p><b>4</b> All three responses are too vague to be rewarded.</p> <p>Mark for (d) = 0/3</p> <p><b>Total marks awarded = 9 out of 15</b></p>

### How the candidate could have improved their answer

- (a) The candidate did not take account of the motor vehicle taken over by the retiring partner.
- (b) The candidate did not account for either goodwill or the surplus on revaluation.
- (d) The key reasons for maintaining separate capital and current accounts for partners were not identified, i.e. to enable interest on capital and drawings to be identified and to prevent partners overdrawing.

Mark awarded = (a) 4/5

Mark awarded = (b) 2/4

Mark awarded = (c) 3/3

Mark awarded = (d) 0/3

**Total marks awarded = 9 out of 15**

**Example candidate response – low**

**Examiner comments**

**REQUIRED**

(a) Prepare the revaluation account on Darim's retirement on 1 December 2015.

Revaluation account

Motor vehicle	11	1	Property	15
<del>Motor vehicle</del>	<del>11</del>		<del>Motor vehicle</del>	<del>15</del>
Inventory	4		Inventory	4
Trade Receivable	2		Trade Receivable	2
Revaluation Gain	28	2		
	<u>45</u>			<u>45</u>

  

Capital A/c					
Woodville	32000		Emran	16000	
Motor vehicle			Revaluation Gain		28000
Bank loan		24000	Goodwill		2000
		<u>24000</u>			<u>28000</u>

[5]

**Additional information:**

To help fund the payment to Darim on his retirement, Emran paid additional capital into the partnership bank account. After this payment had been made the balance on Emran's capital account was \$65 000.

**REQUIRED**

(b) Prepare a statement to show how much cash Emran paid into the partnership bank account.

Emran	
Capital at start	40,000
Add Current Account	25,000
Addition Capital	15,000
	<u>60,000</u>

[3]

[4]

1 No account is taken of the motor vehicle taken over by the retiring partner.

2 Any resultant loss or gain on revaluation must be split between the partners in the revaluation account in their profit-sharing ratios.

Mark for (a) = 3/5

3 Only one mark is awarded for the opening and closing balances. No 'own figure' mark is awarded for the additional capital as the arithmetic is incorrect.

Mark for (b) = 1/4

Example candidate response – low, continued	Examiner comments
<p>(c) State <b>three</b> advantages to a sole trader of forming a partnership.</p> <p>1 <del>Forming</del> Forming partnership brings in more and new ideas.</p> <p>2. Losses are shared</p> <p>3 More capital. <b>4</b></p> <p>[3]</p> <p>(d) State <b>three</b> reasons why partnerships maintain separate capital accounts and current accounts for each partner.</p> <p>1 If any partner retire's, he will be doing with his money out of the business.</p> <p>2 Some partners may receive salaries and not all at them so separate accounts</p> <p>3 Some partners enjoy goodwill on different ratio until new partner comes in <b>5</b></p> <p>[3]</p> <p>[Total: 15]</p>	<p><b>4</b> Three valid advantages.</p> <p>Mark for (c) = 3/3</p> <p><b>5</b> No valid reasons are offered by this candidate.</p> <p>Mark for (d) = 0/3</p> <p><b>Total marks awarded = 7 out of 15</b></p>

### How the candidate could have improved their answer

- (a) The revaluation surplus needed to be split between the partners in their profit-sharing ratios.
- (b) The candidate did not account either for goodwill or the revaluation surplus.
- (d) The key reasons for maintaining separate capital and current accounts for partners were not identified, i.e. to enable interest on capital and drawings to be identified and to prevent partners overdrawing.

Mark awarded = (a) 3/5

Mark awarded = (b) 1/4

Mark awarded = (c) 3/3

Mark awarded = (d) 0/3

**Total marks awarded = 7 out of 15**

### Common mistakes candidates made in this question

- (a) Many candidates did not account for the motor vehicle taken over by the retiring partner. The less well-prepared candidates did not split the resulting profit or loss on revaluation between the partners and entered a total figure only.
- (b) Some candidates appeared not to know the correct method for this calculation and the task was not attempted at all by less well-prepared candidates.
- (d) Many candidates gave vague responses to this question; their answers were similar to 'to keep the books tidy'.

### Question 3

Example candidate response – high 1	Examiner comments
<p>3 Miu is a sole trader and prepares her financial statements to 31 May each year. She depreciates her motor vehicles using the reducing balance method at a rate of 20% per annum. Depreciation is charged monthly.</p> <p><b>REQUIRED</b></p> <p>(a) State what is meant by depreciation of non-current assets.</p> <p>Depreciation of non-current assets is charged <b>1</b> in order to spread the cost of assets over its useful life [1] so that costs can be matched with revenue generated.</p> <p>(b) State three causes of depreciation of non-current assets.</p> <p>1 Obsolescence</p> <p>2 Wear and tear</p> <p>3 Technological innovation <b>2</b></p> <p>[3]</p> <p><b>Additional information</b></p> <p>Miu purchased a motor vehicle on 1 June 2013 for \$152 000.</p> <p>On 1 March 2015, a new motor vehicle was purchased at a cost of \$190 000. The old motor vehicle was part-exchanged at a value of \$84 000.</p> <p>The balance was settled by a bank loan repayable over 3 years.</p>	<p><b>1</b> The candidate makes a valid statement that shows clear understanding of depreciation.</p> <p>Mark for (a) = 1/1</p> <p><b>2</b> Three valid causes of depreciation.</p> <p>Mark for (b) = 3/3</p>



Example candidate response – high 1, continued	Examiner comments								
<p>(iii) Calculate the profit or loss on disposal of the motor vehicle purchased on 1 June 2013.</p> <table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-bottom: 1px dotted black;">Cost</td> <td style="border-bottom: 1px dotted black; text-align: right;">152000</td> </tr> <tr> <td style="border-bottom: 1px dotted black;">Less: Accumulated Depreciation</td> <td style="border-bottom: 1px dotted black; text-align: right;">(48640)</td> </tr> <tr> <td style="border-bottom: 1px dotted black;">Net Book value</td> <td style="border-bottom: 1px dotted black; text-align: right;">103360</td> </tr> <tr> <td style="border-bottom: 1px dotted black;">Net Book value = 103360 - 84000 = 19360 (loss)<sup>(1)</sup></td> <td style="border-bottom: 1px dotted black;"></td> </tr> </table> <p style="text-align: center;"><b>5</b></p> <p><b>Additional information</b></p> <p>Miu is considering the effect it would have on her financial statements if she sold motor vehicles for cash rather than part-exchange them in the future.</p> <p><b>REQUIRED</b></p> <p>(d) Advise Miu of the effect on her financial statements if she had not part-exchanged the motor vehicle but had sold it for \$80 000 cash.</p> <p>The part-exchange of the motor vehicles are based bank loan repayable over 3 years, however, if she had <del>not</del> not part-exchanged it, she would have received \$80000 cash which is less than the amount received by part-exchange. Hence, the loss on disposal would be greater if she had not part-exchange the motor vehicle. <b>6</b></p> <p style="text-align: right;">[3]</p> <p style="text-align: right;">[Total: 15]</p>	Cost	152000	Less: Accumulated Depreciation	(48640)	Net Book value	103360	Net Book value = 103360 - 84000 = 19360 (loss) <sup>(1)</sup>		<p><b>5</b> The mark is awarded for the correct calculation.</p> <p>Mark for (c) (iii) = 1/1</p> <p><b>6</b> The only valid point in this response is that the loss on disposal would be greater. The candidate has not addressed the effect on the statement of financial position.</p> <p>Mark for (d) = 1/3</p> <p><b>Total marks awarded = 9 out of 15</b></p>
Cost	152000								
Less: Accumulated Depreciation	(48640)								
Net Book value	103360								
Net Book value = 103360 - 84000 = 19360 (loss) <sup>(1)</sup>									

### How the candidate could have improved their answer

- (c) (i) The motor vehicles at cost account needed to be shown as two separate entries: for the bank loan and the part-exchange.
- (c) (ii) The candidate needed to include the correct dates in this account.
- (d) The candidate should have addressed the effect on the statement of financial position as well as on the income statement.

Mark awarded = (a) 1/1  
 Mark awarded = (b) 3/3  
 Mark awarded = (c) (i) 0/2, (ii) 3/5, (iii) 1/1  
 Mark awarded = (d) 1/3

**Total marks awarded = 9 out of 15**



**Example candidate response – high 2, continued**

**Examiner comments**

**REQUIRED**

(c) (i) Prepare the motor vehicles at cost account for the year ended 31 May 2015.

Miu  
Motor vehicles at cost account

<sup>19000</sup> b/d	15000	Disposal	15000
<sup>8000</sup> Trade in	8000		
Bank	106000	<sup>19000</sup> c/d	190000
	<u>34000</u>		<u>340000</u>
b/d	190000		

[2]

**3** Both available marks are awarded as the candidate clearly shows the two separate entries required.

Mark for (c) (i) = 2/2

(ii) Prepare the motor vehicle provision for depreciation account for the years ended 31 May 2014 and 31 May 2015.

Miu  
Motor vehicles provision for depreciation account

<sup>48640</sup> Disposal	48640	<sup>30400</sup> b/d	30400
		P/L	18240
c/d.	9500	P/L	9500
	<u>58140</u>		<u>58140</u>
		b/d.	9500

[5]

**4** Valid dates are not included, there is no structure to the account and the figures are incorrect. No marks awarded.

Mark for (c) (ii) = 0/5

Example candidate response – high 2, continued	Examiner comments
<p>(iii) Calculate the profit or loss on disposal of the motor vehicle purchased on 1 June 2013.</p>  <p><b>Additional information</b></p> <p>Miu is considering the effect it would have on her financial statements if she sold motor vehicles for cash rather than part-exchange them in the future.</p> <p><b>REQUIRED</b></p> <p>(d) Advise Miu of the effect on her financial statements if she had not part-exchanged the motor vehicle but had sold it for \$80 000 cash.</p> <p>If Miu had sold motor vehicle for 80000 cash rather than part exchange it would have increased her loss. This would result in less net profit and eventually less owner capital at the end. However, 80000 cash would have increased her <del>asset</del> asset as well as improve her liquidity. I would <del>not</del> still advise Miu to part exchange motor vehicle <del>as</del> as in contrast it would improve her liquidity and reduce <del>claiming</del> <del>bankruptcy</del>.</p> <p style="text-align: right;">[Total: 15]</p>	<p><b>5</b> The mark is awarded for the correct calculation here.</p> <p>Mark for (c) (iii) = 1/1</p> <p><b>6</b> Three valid points discussed and full marks awarded.</p> <p>Mark for (d) = 3/3</p> <p><b>Total marks awarded = 9 out of 15</b></p>

### How the candidate could have improved their answer

(b) The candidate should have added a further cause of depreciation, such as obsolescence or depletion. The candidate's third response is not a cause of depreciation; it is a reason for providing for depreciation.

(c) (ii) The candidate needed to include dates in this account.

Mark awarded = (a) 1/1

Mark awarded = (b) 2/3

Mark awarded = (c) (i) 2/2, (ii) 0/5, (iii) 1/1

Mark awarded = (d) 3/3

**Total marks awarded = 9 out of 15**

Example candidate response – middle	Examiner comments
<p>3 Miu is a sole trader and prepares her financial statements to 31 May each year. She depreciates her motor vehicles using the reducing balance method at a rate of 20% per annum. Depreciation is charged monthly.</p> <p><b>REQUIRED</b></p> <p>(a) State what is meant by depreciation of non-current assets.</p> <p>Depreciation of non-current assets means the amount of fall in the value of non-current assets in the year they were used to generate income [1]</p> <p>(b) State three causes of depreciation of non-current assets.</p> <p>1 Update in technology</p> <p>2 Wear and tear of non-current assets</p> <p>3 Obsolescence [2]</p> <p>[3]</p> <p><b>Additional information</b></p> <p>Miu purchased a motor vehicle on 1 June 2013 for \$152 000.</p> <p>On 1 March 2015, a new motor vehicle was purchased at a cost of \$190 000. The old motor vehicle was part-exchanged at a value of \$84 000.</p> <p>The balance was settled by a bank loan repayable over 3 years:</p> <div style="display: flex; justify-content: space-between;"> <div style="width: 45%;"> <p>1 June 2013 → 31 May 2014 Cost = 152 000 Dep = 30 400 NBV = 121 600</p> <p>1 May 2014 → 1 June 2015 NBV 121 600 sold at 1 March 2015 Dep = 18 240</p> </div> <div style="width: 45%; border-left: 1px solid black; padding-left: 10px;"> <p>New Motor Vehicle 1 Mar 2015 → 31 May 2015 Cost = 190 000 Dep = 38 000 NBV = 152 000 9000</p> </div> </div>	<p><b>1</b> This shows understanding of the concept of depreciation.</p> <p>Mark for (a) = 1/1</p> <p><b>2</b> Three valid causes which earn full marks.</p> <p>Mark for (b) = 3/3</p>

**Example candidate response – middle, continued**

**Examiner comments**

**REQUIRED**

(c) (i) Prepare the motor vehicles at cost account for the year ended 31 May 2015.

Miu  
Motor vehicles at cost account

2015	\$	2015	\$
1 June 2014 Balance b/d	152000	1 May 2015 Disposal	152000
1 May 2015 New motor vehicle	190000	31 May 2015 Balance c/d	190000
	342000		342000
Balance b/d	190000		

[2]

**3** The addition is shown as one figure, rather than split between the part exchange value and the bank loan. No marks are awarded.

Mark for (c) (i) = 0/2

(ii) Prepare the motor vehicle provision for depreciation account for the years ended 31 May 2014 and 31 May 2015.

Miu  
Motor vehicles provision for depreciation account

2015	\$	2015	\$
1 May 2015 Disposal	48640	1 June 2014 Balance b/d	30400
31 May 2015 Balance c/d	9500	Income statement	27740
	58140		58140
		1 June 2015 Balance b/d	9500

[5]

**4** Incorrect dates result in just the closing balance being awarded a mark.

Mark for (c) (ii) = 1/5

Example candidate response – middle, continued	Examiner comments									
<p>(iii) Calculate the profit or loss on disposal of the motor vehicle purchased on 1 June 2013.</p> <p style="text-align: center;">\$</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Cost of vehicle</td> <td style="width: 30%; text-align: right;">152000</td> <td style="width: 30%; text-align: right;">103360 - 24000</td> </tr> <tr> <td>Depreciation (accumulated)</td> <td style="text-align: right;">(48640)</td> <td style="text-align: right;">\$19360 lon on disposal</td> </tr> <tr> <td>Net Book Value</td> <td style="text-align: right;">103360</td> <td></td> </tr> </table> <p style="text-align: right;">[1]</p> <p><b>Additional information</b></p> <p>Miu is considering the effect it would have on her financial statements if she sold motor vehicles for cash rather than part-exchange them in the future.</p> <p><b>REQUIRED</b></p> <p>(d) Advise Miu of the effect on her financial statements if she had not part-exchanged the motor vehicle but had sold it for \$80 000 cash.</p> <p>If Miu had not part-exchanged the motor vehicle but had sold it for \$80,000 cash, she would have experience a further loss of \$4000. This would lead to a decrease in profit of \$4000 worsening the economic condition of her business.</p> <p style="text-align: right;">[3]</p> <p style="text-align: right;">[Total: 15]</p>	Cost of vehicle	152000	103360 - 24000	Depreciation (accumulated)	(48640)	\$19360 lon on disposal	Net Book Value	103360		<p><b>5</b> One mark is awarded for the correct calculation.</p> <p>Mark for (c) (iii) = 1/1</p> <p><b>6</b> Two marks are awarded for the income statement comments, but the effect on the statement of financial position is too vague.</p> <p>Mark for (d) = 2/3</p> <p><b>Total marks awarded = 8 out of 15</b></p>
Cost of vehicle	152000	103360 - 24000								
Depreciation (accumulated)	(48640)	\$19360 lon on disposal								
Net Book Value	103360									

**How the candidate could have improved their answer**

(c) (i) The motor vehicles at cost account should have been shown as two separate entries: the bank loan and the part-exchange.

(c) (ii) The correct dates should have been included in this account.

(d) The candidate should have specifically addressed the effect on the statement of financial position as well as on the income statement.

Mark awarded = (a) 1/1

Mark awarded = (b) 3/3

Mark awarded = (c) (i) 0/2, (ii) 1/5, (iii) 1/1

Mark awarded = (d) 2/3

**Total marks awarded = 8 out of 15**

### Common mistakes candidates made in this question

- (a)** While most candidates understood what is meant by depreciation, a general lack of clarity in their explanations often cost them the mark here.
- (c) (i)** Some candidates did not follow the rules of double entry and simply entered one figure of \$190 000.
- (c) (ii)** All dates should have been correctly entered and each year correctly closed off. In many cases this did not happen.
- (c) (iii)** Many candidates correctly stated the effect of the loss on disposal, but did not extend their answer to the effect on the net assets of the business.

### Question 4

Example candidate response – high	Examiner comments																														
<p><b>REQUIRED</b></p> <p>(a) Calculate, to two decimal places, a suitable overhead absorption rate for <u>each</u> of the <u>three</u> production departments.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">Machining</th> <th style="text-align: center;">Assembly</th> <th style="text-align: center;">Finishing</th> <th style="text-align: center;">Stores</th> <th style="text-align: center;">Central</th> </tr> </thead> <tbody> <tr> <td>Total cost of department</td> <td style="text-align: right;">458 000</td> <td style="text-align: right;">386 000</td> <td style="text-align: right;">565 100</td> <td style="text-align: right;">140 000</td> <td style="text-align: right;">170 000</td> </tr> <tr> <td>Stores</td> <td style="text-align: right;">49 000</td> <td style="text-align: right;">35 000</td> <td style="text-align: right;">56 000</td> <td style="text-align: right;">(140 000)</td> <td style="text-align: right;">-</td> </tr> <tr> <td>Central</td> <td style="text-align: right;">429 000</td> <td style="text-align: right;">51 000</td> <td style="text-align: right;">76 500</td> <td style="text-align: right;">-</td> <td style="text-align: right;">(170 000)</td> </tr> <tr> <td>Total cost of production departments</td> <td style="text-align: right; border-top: 1px solid black;">549 500</td> <td style="text-align: right; border-top: 1px solid black;">466 000</td> <td style="text-align: right; border-top: 1px solid black;">697 600</td> <td style="text-align: right; border-top: 1px solid black;">-</td> <td style="text-align: right; border-top: 1px solid black;">-</td> </tr> </tbody> </table> <p>Machining: <math>\frac{549 500}{45 000}</math> : 12.2 per machine hr</p> <p>Assembly: <math>\frac{466 000}{60 000}</math> : 7.76 per direct labour hr</p> <p>Finishing: <math>\frac{697 600}{40 000}</math> : 17.4 per direct labour hr</p> <p style="text-align: right;">[13]</p>		Machining	Assembly	Finishing	Stores	Central	Total cost of department	458 000	386 000	565 100	140 000	170 000	Stores	49 000	35 000	56 000	(140 000)	-	Central	429 000	51 000	76 500	-	(170 000)	Total cost of production departments	549 500	466 000	697 600	-	-	<p><b>1</b> Despite correct calculations, this candidate does not earn three of the available marks because they haven't followed the instructions correctly. All overhead absorption rates should have been calculated to two decimal places.</p> <p>Mark for (a) = 10/13</p>
	Machining	Assembly	Finishing	Stores	Central																										
Total cost of department	458 000	386 000	565 100	140 000	170 000																										
Stores	49 000	35 000	56 000	(140 000)	-																										
Central	429 000	51 000	76 500	-	(170 000)																										
Total cost of production departments	549 500	466 000	697 600	-	-																										

Example candidate response – high, continued	Examiner comments												
<p><b>Additional information</b></p> <p>Bruna Limited has been approached by a customer to quote for one of their products. This will require the following:</p> <p>Direct materials .20 kilos at \$5 per kilo            Direct labour 10 hours at \$9 per hour</p> <p>Direct labour hours and machine hours required in each department will be:</p> <table border="1"> <thead> <tr> <th></th> <th>Machining</th> <th>Assembly</th> <th>Finishing</th> </tr> </thead> <tbody> <tr> <td>Direct labour hours</td> <td>5</td> <td>3</td> <td>2</td> </tr> <tr> <td>Machine time</td> <td>2 hours</td> <td>30 minutes</td> <td>20 minutes</td> </tr> </tbody> </table> <p>It is the company's practice to achieve a gross margin of <u>40%</u> on all its products.</p> <p><b>REQUIRED</b></p> <p>(b) Calculate the <u>total price</u> to quote to the customer.</p> <p>.....</p> <p>Direct materials : 100 <span style="float: right;">12.2 pu m.hrs</span></p> <p>Direct labour : 90 <span style="float: right;">12.2 = 1</span></p> <p>Total Variable cost : 190 <span style="float: right;">" = 2</span></p> <p>Overheads (Machining) : 24.4 <span style="float: right;">7.7 = 1 hr</span></p> <p>Overheads (Assembly) : 23.2 <span style="float: right;">- 3</span></p> <p>Overheads (Finishing) : 34.8 <span style="float: right;">12.4 = 2</span></p> <p>Total cost : 272.4 <span style="float: right;">34.8 = 2</span></p> <p>Margin Selling price 45.4 Ans</p> <p style="text-align: center;">③</p> <p style="text-align: right;">[7]</p> <p style="text-align: center;">G.P 40%            S.A 100% -            Cost 60% = 272.4</p>		Machining	Assembly	Finishing	Direct labour hours	5	3	2	Machine time	2 hours	30 minutes	20 minutes	<p>② 'Own figure' marks are awarded for all three overhead calculations as they are correct, based on the candidate's own overhead absorption rates.</p> <p>③ One mark is not awarded because the candidate does not give a figure for the margin.</p> <p>Mark for (b) = 6/7</p>
	Machining	Assembly	Finishing										
Direct labour hours	5	3	2										
Machine time	2 hours	30 minutes	20 minutes										

Example candidate response – high, continued	Examiner comments
<p><b>Additional information</b></p> <p>The directors are considering changing from departmental overhead absorption rates to one factory-wide rate.</p> <p><b>REQUIRED</b></p> <p>(c) Advise the directors whether or not they should make this change. Justify your answer.</p> <p>.....</p> <p>This is will make cost different from the last year <del>amount</del>  cost account as will show under the view of the financial statements.  Overhead absorption rates help to apportion overheads on single job  cost however in taking cost this unit be possible. It is because  Overheads are <sup>per unit</sup> <del>best</del> can be changed according to the output level of the  job. <b>4</b></p> <p>..... [4]</p> <p>(d) Explain how over absorption and under absorption of overheads can affect the profit of a manufacturing business.</p> <p>.....</p> <p>If there is over absorption this means that there is actual  expenditure per less than budgeted expenditure and hence business can  charge higher price losing its <sup>and</sup> <del>and</del> revenue means  less profits. If there is under absorption of overheads this means  that there more actual cost than budget cost, making the price  so low that there is loss and no profit for the business. <b>5</b></p> <p>..... [6]</p> <p>[Total: 30]</p>	<p><b>4</b> The candidate offers no advice, only a description.</p> <p>Mark for (c) = 1/4</p> <p><b>5</b> The candidate offers a good explanation which shows the necessary knowledge and understanding.</p> <p>Mark for (d) = 6/6</p> <p><b>Total marks awarded = 23 out of 30</b></p>

**How the candidate could have improved their answer**

- (a) The candidate did not correctly round up the overhead absorption rates.
- (b) The candidate needed to show the margin here.
- (c) A very vague response that did not identify the key point about the different labour hours and machine hours required by different products.
- (d) A good explanation of the effect of over absorption and under absorption.

Mark awarded = (a) 10/13  
 Mark awarded = (b) 6/7  
 Mark awarded = (c) 1/4  
 Mark awarded = (d) 6/6  
**Total marks awarded = 23 out of 30**

**Example candidate response – middle 1**

**Examiner comments**

**REQUIRED**

(a) Calculate, to two decimal places, a suitable overhead absorption rate for each of the three production departments.

Details	M	A	F	S	C
Indirect labour	253,000	290,000	340,100	52,000	79,000
Other indirect cost	205,000	90,000	225,000	88,000	92,000
	458,000	380,000	565,100	140,000	171,000
Re-apportioned					
Stores	49,000	35,000	56,000	(140,000)	
	507,000	415,000	621,100	-	171,000
Re-apportioned					
Canteen	42,500	51,000	76,500		(170,000)
	549,500	466,000	697,600		

Details	Mach.	Ass.	Finish.
Total overhead	549,500	466,000	697,600
Direct L. hrs		60,000	40,000
D. Machine hrs	45,000		
Overhead absorption rate	12.21	7.77	17.44

1

1 Although all these calculations are totally correct, the candidate was not awarded three of the available marks because they have not stated the basis for absorption, i.e. per labour hour or per machine hour.

Mark for (a) = 10/13

[13]

Example candidate response – middle 1, continued	Examiner comments																												
<p><b>Additional information</b></p> <p>Bruna Limited has been approached by a customer to quote for one of their products. This will require the following:</p> <p>Direct materials 20 kilos at \$5 per kilo                      Direct labour 10 hours at \$9 per hour</p> <p>Direct labour hours and machine hours required in each department will be:</p> <table border="1"> <thead> <tr> <th></th> <th>Machining</th> <th>Assembly</th> <th>Finishing</th> </tr> </thead> <tbody> <tr> <td>Direct labour hours</td> <td>5</td> <td>3</td> <td>2</td> </tr> <tr> <td>Machine time</td> <td>2 hours</td> <td>30 minutes</td> <td>20 minutes</td> </tr> </tbody> </table> <p>It is the company's practice to achieve a gross margin of 40% on all its products.</p> <p><b>REQUIRED</b></p> <p>(b) Calculate the total price to quote to the customer.</p> <p><i>Details</i></p> <table border="1"> <tbody> <tr> <td>Direct materials (20x5)</td> <td>100</td> </tr> <tr> <td>Direct labour (10x9)</td> <td>90</td> </tr> <tr> <td>Overheads: Machining (2x12.21)</td> <td>24.4</td> </tr> <tr> <td>Assembly (3x7.77) <b>2</b></td> <td>23.3</td> </tr> <tr> <td>Finishing (2x17.44)</td> <td>34.9</td> </tr> <tr> <td>Total cost</td> <td>272.6</td> </tr> <tr> <td>(+) Mark up (272.6 x 2/3)</td> <td>181.7</td> </tr> <tr> <td>Selling price</td> <td><u>454.3</u></td> </tr> </tbody> </table> <p>[7]</p>		Machining	Assembly	Finishing	Direct labour hours	5	3	2	Machine time	2 hours	30 minutes	20 minutes	Direct materials (20x5)	100	Direct labour (10x9)	90	Overheads: Machining (2x12.21)	24.4	Assembly (3x7.77) <b>2</b>	23.3	Finishing (2x17.44)	34.9	Total cost	272.6	(+) Mark up (272.6 x 2/3)	181.7	Selling price	<u>454.3</u>	<p><b>2</b> Calculations of prices must be accurate. In this case, despite the correct overhead absorption rates, none of the end results has been stated to two decimal places.</p> <p>Mark for (b) = 4/7</p>
	Machining	Assembly	Finishing																										
Direct labour hours	5	3	2																										
Machine time	2 hours	30 minutes	20 minutes																										
Direct materials (20x5)	100																												
Direct labour (10x9)	90																												
Overheads: Machining (2x12.21)	24.4																												
Assembly (3x7.77) <b>2</b>	23.3																												
Finishing (2x17.44)	34.9																												
Total cost	272.6																												
(+) Mark up (272.6 x 2/3)	181.7																												
Selling price	<u>454.3</u>																												

Example candidate response – middle 1, continued	Examiner comments
<p><b>Additional information</b></p> <p>The directors are considering changing from departmental overhead absorption rates to one factory-wide rate.</p> <p><b>REQUIRED</b></p> <p>(c) Advise the directors whether or not they should make this change. Justify your answer.</p> <p>..... They would be converting single overhead rate which .....  <del>it</del> will be easy to calculate and by avoiding the necessity  to allocate and apportion cost to departments and less  hassle with less errors <sup>like</sup> while allocating and apportion  could have. Though if different products spend varying  amount of time then it might lead over-under absorp-  tion which is actually <del>an</del> occurring that is undesirable.  Thus it <sup>might be</sup> better to not to change. <b>3</b> [4]</p> <p>(d) Explain how over absorption and under absorption of overheads can affect the profit of a manufacturing business.</p> <p>..... Over-absorption is when the budgeted overhead is  greater than the actual overhead. It means <sup>too much</sup> not enough  overhead is charged <del>on</del> on production due excess  actual activity thus cost of production differs along  with the profit level.</p> <p>..... Under-absorption is when the budgeted overhead  is less than actual overhead. It means not enough  overhead is charged on production thus cost of  production also affect along with profit level.  it mainly occur when the actual activity  is less than the planned level. <b>4</b></p> <p>[6]</p> <p>[Total: 30]</p>	<p><b>3</b> A good response.</p> <p>Mark for (c) = 3/4</p> <p><b>4</b> The candidate has confused the effect of under absorption with that of over absorption and the response is rather vague.</p> <p>Mark for (d) = 0/6</p> <p><b>Total marks awarded = 17 out of 30</b></p>

### How the candidate could have improved their answer

- (a) This candidate should have stated the basis for each overhead absorption rate calculated.
- (b) They needed to correctly analyse each overhead rate to two decimal places.
- (d) They needed to offer correct and relevant explanation of the effect of under absorption and over absorption on profit.

Mark awarded = (a) 10/13  
Mark awarded = (b) 4/7  
Mark awarded = (c) 3/4  
Mark awarded = (d) 0/6

**Total marks awarded = 17 out of 30**

Example candidate response – middle 2	Examiner comments
<p><b>REQUIRED</b></p> <p>(a) Calculate, to two decimal places, a suitable overhead absorption rate for each of the three production departments.</p> <p>* <b>Machining</b> = <math>\frac{\text{Total overheads absorbed}}{\text{Total Machine hours}}</math></p> <p><math>= \frac{253000 + 205000}{45000}</math></p> <p><math>= \frac{458000}{45000} = \\$10.18 / \text{Machine hour}</math></p> <p>* <b>Assembly</b>:- <math>\frac{\text{Total Overheads absorbed}}{\text{Total <del>##</del> Direct labour hours}}</math></p> <p><math>= \frac{290000 + 90000}{60000}</math></p> <p><math>= \frac{380000}{60000} = \\$6.33 / \text{labour hour}</math></p> <p>* <b>Finishing</b>:- <math>\frac{\text{Total Overheads absorbed}}{\text{Total Direct labour hours}}</math></p> <p><math>= \frac{340100 + 225000}{40000}</math></p> <p><math>= \frac{565100}{40000} = \\$14.13 / \text{labour hour}</math></p> <p style="text-align: right;">[13]</p>	<p>1 This candidate has not re-allocated any of the service centre overheads, so seven of the available marks weren't awarded.</p> <p>Mark for (a) = 6/13</p>

Example candidate response – middle 2, continued	Examiner comments												
<p><b>Additional information</b></p> <p>Bruna Limited has been approached by a customer to quote for one of their products. This will require the following:</p> <p>Direct materials 20 kilos at \$5 per kilo = 100.                      Direct labour 10 hours at \$9 per hour = 90</p> <p>Direct labour hours and machine hours required in each department will be:</p> <table border="1"> <thead> <tr> <th></th> <th>Machining</th> <th>Assembly</th> <th>Finishing</th> </tr> </thead> <tbody> <tr> <td>Direct labour hours</td> <td>5</td> <td>3</td> <td>2</td> </tr> <tr> <td>Machine time</td> <td>2 hours</td> <td>30 minutes</td> <td>20 minutes</td> </tr> </tbody> </table> <p>It is the company's practice to achieve a gross margin of 40% on all its products.</p> <p><b>REQUIRED</b></p> <p>(b) Calculate the total price to quote to the customer.</p> <p>costs: <del>Machining</del> <del>Assembly</del> <del>Finishing</del></p> <p>Direct Material (20x5) = \$100.                      Direct Labour (10x9) = \$90                      overheads cost:</p> <p>Machining: <math>2 \times 10.18 = \\$20.36</math>                      Assembly: <math>3 \times 6.33 \times \frac{30}{60} = \\$9.495</math>                      Finishing: <math>2 \times 14.13 \times \frac{20}{60} = \\$9.42</math>                      Total cost of product = \$100 + \$90 + \$9.495 +                      \$9.42 + \$20.36                      = \$229.275 [7]</p> <p>gross margin = 40% of sales.                      cost of sales = 60% of sales = 60% of <math>x = 229.28</math>.  <math>x = \frac{229.28}{0.6} = 382.125</math>.</p> <p>Total Price quoted to customer = \$382.125 <span style="border: 1px solid red; border-radius: 50%; padding: 2px;">2</span></p>		Machining	Assembly	Finishing	Direct labour hours	5	3	2	Machine time	2 hours	30 minutes	20 minutes	<p><b>2</b> This candidate's presentation is poor. They haven't calculated the correct 40% margin so full marks aren't awarded.</p> <p>Mark for (b) = 5/7</p>
	Machining	Assembly	Finishing										
Direct labour hours	5	3	2										
Machine time	2 hours	30 minutes	20 minutes										

Example candidate response – middle 2, continued	Examiner comments
<p><b>Additional information</b></p> <p>The directors are considering changing from departmental overhead absorption rates to one factory-wide rate,</p> <p><b>REQUIRED</b></p> <p>(c) Advise the directors whether or not they should make this change. Justify your answer.</p> <p>NO! they should not make this change as each department has its own overheads absorption rate. Some departments consume more of machine hours &amp; some consume more of labour hours and vice versa so giving them one factory wide rate won't be justified. It would cause over statement &amp; under statement of profits. <del>which</del> Prudence states that profits should not be overstated and <sup>(4)</sup> losses should not be understated so this change is not fair.</p> <p>(d) Explain how over absorption and under absorption of overheads can affect the profit of a manufacturing business.</p> <p>Over absorption is when Budgeted overheads are greater than actual overheads. They under state the profit of manufacturing business. So they need to be deducted from cost of sales. In income statement of the year.</p> <p>Under absorption is when Budgeted overheads are less than actual overheads. They over state the profit of manufacturing business. They need to be added in cost of sales in income statement of the year.</p> <p>[6]</p> <p>[Total: 30]</p>	<p><b>3</b> Good advice, backed up with sound justification, is awarded full marks.</p> <p>Mark for (c) = 4/4</p> <p><b>4</b> While the basic statements are correct here, there is insufficient development to award more than two marks.</p> <p>Mark for (d) = 2/6</p> <p><b>Total marks awarded = 17 out of 30</b></p>

**How the candidate could have improved their answer**

(a) The candidate did not re-allocate the service department overheads and so seven of the available marks could not be awarded.

(b) The candidate needed to avoid arithmetical errors.

(d) Here, the candidate needed to offer more development of the basic facts they included.

- Mark awarded = (a) 6/13
- Mark awarded = (b) 5/7
- Mark awarded = (c) 4/4
- Mark awarded = (d) 2/6

**Total marks awarded = 17 out of 30**

### Common mistakes candidates made in this question

- (a)** Many candidates did not accurately calculate overhead absorption rates to two decimal places, despite the instruction. Less well-prepared candidates also did not re-allocate the service centres' overheads before calculating the overhead absorption rates.
- (b)** Many candidates only took account of labour and material costs in calculating the price to quote to the customer, completely ignoring the addition of any overheads. Some candidates were unable to correctly calculate the 40% gross margin, most simply adding 40% onto the cost.
- (c)** Less well prepared candidates offered no development of the advice they chose to give.
- (d)** Some candidates were unable to provide a clear explanation here, and their answers were too vague for marks to be awarded.

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