

---

**ACCOUNTING**

**9706/32**

Paper 3 Structured Questions

**February/March 2019**

FINAL MARK SCHEME

Maximum Mark: 150

---

Question	Answer	Marks																																	
1(a)	<p style="text-align: center;">Income and expenditure account for year ended 30 June 2018</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: center;">\$</th> <th style="width: 20%; text-align: center;">\$</th> </tr> </thead> <tbody> <tr> <td>Subscription fee (\$544 000 + (\$3 400 + \$8 200) <b>(1)</b> – (\$7 000 + \$2 400) <b>(1)</b>)</td> <td></td> <td style="text-align: right;">546 200</td> </tr> <tr> <td>Restaurant profit (\$12 600 – \$3 300)</td> <td></td> <td style="text-align: right;"><u>9 300</u> <b>(1)</b></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">555 500</td> </tr> <tr> <td>Depreciation clubhouse \$300 000 × 4%</td> <td style="text-align: right;">12 000</td> <td style="text-align: right;"><b>(1)</b></td> </tr> <tr> <td>Depreciation equipment (\$140 000 – \$64 000) × 15%</td> <td style="text-align: right;">11 400</td> <td style="text-align: right;"><b>(1)</b></td> </tr> <tr> <td>Club operating expenses</td> <td style="text-align: right;">192 000</td> <td></td> </tr> <tr> <td>Club staff salaries</td> <td style="text-align: right;">326 000</td> <td></td> </tr> <tr> <td>Loan interest \$10 000 × 10% × <math>\frac{6}{12}</math></td> <td style="text-align: right;"><u>500</u></td> <td style="text-align: right;"><b>(1)</b></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>541 900</u></td> </tr> <tr> <td>Surplus of income over expenditure</td> <td></td> <td style="text-align: right;"><u>13 600</u> <b>(1) OF</b></td> </tr> </tbody> </table>		\$	\$	Subscription fee (\$544 000 + (\$3 400 + \$8 200) <b>(1)</b> – (\$7 000 + \$2 400) <b>(1)</b> )		546 200	Restaurant profit (\$12 600 – \$3 300)		<u>9 300</u> <b>(1)</b>			555 500	Depreciation clubhouse \$300 000 × 4%	12 000	<b>(1)</b>	Depreciation equipment (\$140 000 – \$64 000) × 15%	11 400	<b>(1)</b>	Club operating expenses	192 000		Club staff salaries	326 000		Loan interest \$10 000 × 10% × $\frac{6}{12}$	<u>500</u>	<b>(1)</b>			<u>541 900</u>	Surplus of income over expenditure		<u>13 600</u> <b>(1) OF</b>	<b>7</b>
	\$	\$																																	
Subscription fee (\$544 000 + (\$3 400 + \$8 200) <b>(1)</b> – (\$7 000 + \$2 400) <b>(1)</b> )		546 200																																	
Restaurant profit (\$12 600 – \$3 300)		<u>9 300</u> <b>(1)</b>																																	
		555 500																																	
Depreciation clubhouse \$300 000 × 4%	12 000	<b>(1)</b>																																	
Depreciation equipment (\$140 000 – \$64 000) × 15%	11 400	<b>(1)</b>																																	
Club operating expenses	192 000																																		
Club staff salaries	326 000																																		
Loan interest \$10 000 × 10% × $\frac{6}{12}$	<u>500</u>	<b>(1)</b>																																	
		<u>541 900</u>																																	
Surplus of income over expenditure		<u>13 600</u> <b>(1) OF</b>																																	
1(b)	<p>Responses could include:</p> <ul style="list-style-type: none"> <li>receipts and payments account is a summary of cash book while income and expenditure account is of same nature as an income statement;</li> <li>receipts and payments account applies cash basis accounting while income and expenditure account applies accrual accounting;</li> <li>receipts and payments account records only cash transactions while income and expenditure also records non-cash transactions such as depreciation;</li> <li>receipts and payments account looks for the increase / decrease in cash during the year while income and expenditure account looks for the surplus/deficit;</li> <li>the opening balance of receipts and payments account represents cash balance at bank and in hand while there is no opening balance for income and expenditure account.</li> </ul> <p><b>Accept other valid points.</b> <b>(1 mark) × 2 differences</b></p>	<b>2</b>																																	

Question	Answer			Marks
1(c)	Statement of financial position at 30 June 2018			
	\$ Cost	\$ Accumulated depreciation	\$ NBV	
	Non-current assets Clubhouse Equipment	300 000 140 000 <u>440 000</u>	132 000 64 600 <u>196 600</u>	<b>(1) OF</b> <b>(1) OF</b>
	Current assets Inventory Subscriptions in arrears Cash and cash equivalents	23 400 8 200 7 700	   <u>39 300</u>	   <b>(1)</b>
	Total assets		<u>235 900</u>	
	Accumulated fund at 1 July 2017		194 000	
	Surplus for the year		13 600	<b>(1) OF</b>
	Non-current liability Loan from member		10 000	<b>(1)</b>
	Current liabilities Trade payables Subscriptions in advance Accrued wages Accrued interest	12 100 2 400 3 300 500	 <b>(1)</b> } } <b>(1) OF</b> <u>18 300</u>	
	Total accumulated fund and liabilities		<u>235 900</u>	<b>7</b>

Question	Answer	Marks																		
1(d)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;"></td> <td style="text-align: center;">\$</td> <td></td> </tr> <tr> <td>Restaurant profit</td> <td style="text-align: right;">9 300</td> <td></td> </tr> <tr> <td>Increase in inventory (23400 – 15 700)</td> <td style="text-align: right;">(7 700) (1)</td> <td></td> </tr> <tr> <td>Decrease in trade payables (12 100 – 13 900)</td> <td style="text-align: right;">(1 800) (1)</td> <td></td> </tr> <tr> <td>Increase in accrued wages</td> <td style="text-align: right;">3 300 (1)</td> <td></td> </tr> <tr> <td>Net cash surplus from restaurant</td> <td style="text-align: right; border-top: 1px solid black;">3 100 (1) OF</td> <td style="text-align: center; vertical-align: bottom;"><b>4</b></td> </tr> </table>		\$		Restaurant profit	9 300		Increase in inventory (23400 – 15 700)	(7 700) (1)		Decrease in trade payables (12 100 – 13 900)	(1 800) (1)		Increase in accrued wages	3 300 (1)		Net cash surplus from restaurant	3 100 (1) OF	<b>4</b>	<b>4</b>
	\$																			
Restaurant profit	9 300																			
Increase in inventory (23400 – 15 700)	(7 700) (1)																			
Decrease in trade payables (12 100 – 13 900)	(1 800) (1)																			
Increase in accrued wages	3 300 (1)																			
Net cash surplus from restaurant	3 100 (1) OF	<b>4</b>																		
1(e)	<p>Responses could include:</p> <ul style="list-style-type: none"> <li>less paper work and procedures (than bank loan)</li> <li>quicker to obtain loan (than bank loan)</li> <li>may not require collateral (vs. bank loan)</li> </ul> <p>however:</p> <ul style="list-style-type: none"> <li>still may have to pay interest</li> <li>still may have to repay the loan</li> <li>already has a loan from a member \$10 000; members may refuse to lend more</li> </ul> <p><b>Accept other valid points.</b>  <b>(2 marks)</b> for explaining one reason for obtaining members' loan and <b>(2 marks)</b> for explaining one reason against members' loan. <b>(1 mark)</b> for decision.</p>	<b>5</b>																		
	<b>Total:</b>	<b>25</b>																		

Question	Answer	Marks
2(a)	<p>Trade receivables turnover = <math>\frac{137\,500}{994\,000} \times 365 = 51</math> days <b>(1)</b></p> <p>Inventory turnover ratio = <math>\frac{220\,000}{640\,000}</math> <b>(1)</b> <math>\times 365 = 126</math> days <b>(1) OF</b></p> <p>Trade payables turnover = <math>\frac{52\,100}{680\,000} \times 365 = 28</math> days <b>(1)</b></p> <p>Working capital cycle = <math>51 + 126 - 28 = 149</math> days <b>(1) OF</b></p>	<b>5</b>
2(b)	<p>The company is receiving payments and making payments within the agreed period. <b>(1)</b></p> <p>Payments are being made before receipt <b>(1)</b> so there will be an adverse effect on cash flow. <b>(1)</b></p> <p>Inventory turnover ratio has worsened from the previous year. <b>(1) OF</b></p> <p>Liquidity could be improved by reducing receivable days and inventory turnover ratio whilst increasing payables days. <b>(1)</b></p> <p><b>Accept other valid points.</b></p>	<b>5</b>
2(c)	<p>The ratio has worsened from the previous year <b>(1)</b> because a greater proportion of the revenue is being used to fund the working capital cycle. <b>(1)</b></p> <p>The increase in the closing inventory has contributed to this <b>(1)</b> and indicates greater inefficiency. <b>(1)</b></p> <p>The fall in trade payables <b>(1)</b> and rise in trade receivables <b>(1)</b> have also had the same effect.</p> <p><b>Accept other valid points.</b></p>	<b>6</b>

Question	Answer	Marks
2(d)	<p>The gearing of F Limited is lower which indicates less risk <b>(1)</b> although both are low geared companies. <b>(1)</b></p> <p>Earnings per share of C Limited is higher which is better <b>(1)</b> indicating greater profits for each share held. <b>(1)</b></p> <p>Dividend cover of C Limited is higher which is better <b>(1)</b> indicating that there is a greater proportion of profits available for the payment of dividends. <b>(1)</b></p> <p>Dividend per share of C Limited is higher which is better <b>(1)</b> showing that a higher dividend is paid for each share owned. <b>(1)</b></p> <p>From the limited information available, I would advise Blair to invest in C Limited. <b>(1)</b></p> <p><b>Accept other valid points.</b></p> <p>Award <b>1 mark</b> for decision and <b>max 2 marks</b> for each ratio.</p>	<b>9</b>
	<b>Total:</b>	<b>25</b>

Question	Answer	Marks																																
3(a)	<p>The closing inventory is valued at:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;"></td> <td style="text-align: right;">\$</td> <td></td> </tr> <tr> <td>unsold containers 6 × 7 200</td> <td style="text-align: right;">43 200</td> <td><b>(1)</b></td> </tr> <tr> <td>shipping expenses <math>\frac{1}{5} \times 11\,600</math></td> <td style="text-align: right;">2 320</td> <td><b>(1)</b></td> </tr> <tr> <td>customs charges <math>\frac{1}{5} \times 7\,800</math></td> <td style="text-align: right;">1 560</td> <td><b>(1)</b></td> </tr> <tr> <td>closing inventory valuation.</td> <td style="text-align: right; border-top: 1px solid black;"><u>47 080</u></td> <td><b>(1) OF</b></td> </tr> </table>		\$		unsold containers 6 × 7 200	43 200	<b>(1)</b>	shipping expenses $\frac{1}{5} \times 11\,600$	2 320	<b>(1)</b>	customs charges $\frac{1}{5} \times 7\,800$	1 560	<b>(1)</b>	closing inventory valuation.	<u>47 080</u>	<b>(1) OF</b>	<b>4</b>																	
	\$																																	
unsold containers 6 × 7 200	43 200	<b>(1)</b>																																
shipping expenses $\frac{1}{5} \times 11\,600$	2 320	<b>(1)</b>																																
customs charges $\frac{1}{5} \times 7\,800$	1 560	<b>(1)</b>																																
closing inventory valuation.	<u>47 080</u>	<b>(1) OF</b>																																
3(b)(i)	<p style="text-align: center;">Consignment account</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="text-align: right;">\$</td> <td style="width: 30%;"></td> <td style="text-align: right;">\$</td> </tr> <tr> <td>Goods on consignment</td> <td style="text-align: right;">216 000</td> <td>Sales</td> <td style="text-align: right;">244 800</td> </tr> <tr> <td>Shipping expenses</td> <td style="text-align: right;">11 600</td> <td></td> <td></td> </tr> <tr> <td>Commission</td> <td style="text-align: right;">12 240</td> <td></td> <td></td> </tr> <tr> <td>Customs charges</td> <td style="text-align: right;">7 800</td> <td></td> <td></td> </tr> <tr> <td>Income statement</td> <td style="text-align: right; border-top: 1px solid black;"><u>44 240</u></td> <td>Balance c/d</td> <td style="text-align: right; border-top: 1px solid black;"><u>47 080</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>291 880</u></td> <td></td> <td style="text-align: right;"><u>291 880</u></td> </tr> <tr> <td>Balance b/d</td> <td style="text-align: right;"><u>47 080</u></td> <td></td> <td></td> </tr> </table>		\$		\$	Goods on consignment	216 000	Sales	244 800	Shipping expenses	11 600			Commission	12 240			Customs charges	7 800			Income statement	<u>44 240</u>	Balance c/d	<u>47 080</u>		<u>291 880</u>		<u>291 880</u>	Balance b/d	<u>47 080</u>			<b>7</b>
	\$		\$																															
Goods on consignment	216 000	Sales	244 800																															
Shipping expenses	11 600																																	
Commission	12 240																																	
Customs charges	7 800																																	
Income statement	<u>44 240</u>	Balance c/d	<u>47 080</u>																															
	<u>291 880</u>		<u>291 880</u>																															
Balance b/d	<u>47 080</u>																																	
3(b)(ii)	<p style="text-align: center;">Maureen account</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="text-align: right;">\$</td> <td style="width: 30%;"></td> <td style="text-align: right;">\$</td> </tr> <tr> <td>Consignment a/c -sales</td> <td style="text-align: right;">244 800</td> <td>Consignment a/c-commission</td> <td style="text-align: right;">12 240</td> </tr> <tr> <td></td> <td></td> <td>Bank</td> <td style="text-align: right;">220 320</td> </tr> <tr> <td></td> <td></td> <td>Consignment a/c- customs</td> <td style="text-align: right;">7 800</td> </tr> <tr> <td></td> <td></td> <td>Balance c/d</td> <td style="text-align: right;">4 440</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;"><u>244 800</u></td> <td></td> <td style="text-align: right; border-top: 1px solid black;"><u>244 800</u></td> </tr> <tr> <td>Balance b/d</td> <td style="text-align: right;"><u>4 440</u></td> <td></td> <td></td> </tr> </table>		\$		\$	Consignment a/c -sales	244 800	Consignment a/c-commission	12 240			Bank	220 320			Consignment a/c- customs	7 800			Balance c/d	4 440		<u>244 800</u>		<u>244 800</u>	Balance b/d	<u>4 440</u>			<b>5</b>				
	\$		\$																															
Consignment a/c -sales	244 800	Consignment a/c-commission	12 240																															
		Bank	220 320																															
		Consignment a/c- customs	7 800																															
		Balance c/d	4 440																															
	<u>244 800</u>		<u>244 800</u>																															
Balance b/d	<u>4 440</u>																																	

Question	Answer	Marks										
3(c)	44 240 / 24 (1) = \$1843.33 (1) OF	2										
3(d)	The debit balance (1) on Maureen's account shows the amount payable by Maureen (trade receivable - the consignee) (1) to SH Limited (the consignor). (1)	3										
3(e)	<table border="1" data-bbox="302 422 1653 598"> <tbody> <tr> <td data-bbox="302 422 974 459">Consignment</td> <td data-bbox="974 422 1653 459">Joint venture</td> </tr> <tr> <td data-bbox="302 459 974 496">Long-term trading relation (1)</td> <td data-bbox="974 459 1653 496">Short-term, specific purpose (1)</td> </tr> <tr> <td data-bbox="302 496 974 533">Profit usually commission (1)</td> <td data-bbox="974 496 1653 533">Joint venture total profit shared (1)</td> </tr> <tr> <td data-bbox="302 533 974 569">Involves consignor and consignee (1)</td> <td data-bbox="974 533 1653 569">Involves co-venturers (1)</td> </tr> <tr> <td data-bbox="302 569 974 606">Control exercised by consignor (1)</td> <td data-bbox="974 569 1653 606">Both parties have control over decisions (1)</td> </tr> </tbody> </table> <p data-bbox="302 635 660 699"><b>Accept other valid points. Max 4</b></p>	Consignment	Joint venture	Long-term trading relation (1)	Short-term, specific purpose (1)	Profit usually commission (1)	Joint venture total profit shared (1)	Involves consignor and consignee (1)	Involves co-venturers (1)	Control exercised by consignor (1)	Both parties have control over decisions (1)	4
Consignment	Joint venture											
Long-term trading relation (1)	Short-term, specific purpose (1)											
Profit usually commission (1)	Joint venture total profit shared (1)											
Involves consignor and consignee (1)	Involves co-venturers (1)											
Control exercised by consignor (1)	Both parties have control over decisions (1)											
	<b>Total:</b>	<b>25</b>										



Question	Answer	Marks																																																																		
4(a)(i)	No movement of funds is involved. <b>(1)</b>	<b>1</b>																																																																		
4(a)(ii)	Revaluation of non-current asset. <b>(1)</b>  <b>Accept other valid points.</b>	<b>1</b>																																																																		
4(b)	<p style="text-align: center;">T plc - Schedule of non-current assets</p> <table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 15%; text-align: center;">Land and buildings \$000</th> <th style="width: 15%; text-align: center;">Machinery \$000</th> <th style="width: 15%; text-align: center;">Fixtures and fittings \$000</th> <th style="width: 15%; text-align: center;">Total \$000</th> <th></th> </tr> </thead> <tbody> <tr> <td>Cost at 1 January 2018</td> <td style="text-align: center;">400</td> <td style="text-align: center;">214</td> <td style="text-align: center;">82</td> <td style="text-align: center;">696</td> <td><b>(1) for row</b></td> </tr> <tr> <td>Purchases</td> <td></td> <td style="text-align: center;">262</td> <td style="text-align: center;">10</td> <td style="text-align: center;">272</td> <td><b>(1) for row</b></td> </tr> <tr> <td>Disposals</td> <td></td> <td style="text-align: center;">(100)</td> <td></td> <td style="text-align: center;">(100)</td> <td><b>(1) for row</b></td> </tr> <tr> <td>Cost at 31 December 2018</td> <td style="text-align: center;"><u>400</u></td> <td style="text-align: center;"><u>376</u></td> <td style="text-align: center;"><u>92</u></td> <td style="text-align: center;"><u>868</u></td> <td></td> </tr> <tr> <td>Accumulated depreciation at 1 January 2018</td> <td style="text-align: center;">12</td> <td style="text-align: center;">112</td> <td style="text-align: center;">17</td> <td style="text-align: center;">141</td> <td><b>(1) for row</b></td> </tr> <tr> <td>Charge for the year</td> <td style="text-align: center;">4</td> <td style="text-align: center;">84</td> <td style="text-align: center;">9</td> <td style="text-align: center;">97</td> <td><b>(1) for row</b></td> </tr> <tr> <td>Eliminated on disposals</td> <td></td> <td style="text-align: center;">(70)</td> <td></td> <td style="text-align: center;">(70)</td> <td><b>(2) for row*</b></td> </tr> <tr> <td>Accumulated depreciation at 31 December 2018</td> <td style="text-align: center;"><u>16</u></td> <td style="text-align: center;"><u>126</u></td> <td style="text-align: center;"><u>26</u></td> <td style="text-align: center;"><u>168</u></td> <td></td> </tr> <tr> <td>NBV at 31 December 2018</td> <td style="text-align: center;"><u>384</u></td> <td style="text-align: center;"><u>250</u></td> <td style="text-align: center;"><u>66</u></td> <td style="text-align: center;"><u>700</u></td> <td><b>(1) OF for row</b></td> </tr> <tr> <td>NBV at 1 January 2018</td> <td style="text-align: center;"><u>388</u></td> <td style="text-align: center;"><u>102</u></td> <td style="text-align: center;"><u>65</u></td> <td style="text-align: center;"><u>555</u></td> <td><b>(1) for row</b></td> </tr> </tbody> </table> <p style="text-align: right; margin-top: 10px;">* depreciation eliminated = 100 + 12 – 42 = 70 <b>(2)</b> for correct answer in correct column <b>(1)</b> for other answer based on 100 in correct column</p>		Land and buildings \$000	Machinery \$000	Fixtures and fittings \$000	Total \$000		Cost at 1 January 2018	400	214	82	696	<b>(1) for row</b>	Purchases		262	10	272	<b>(1) for row</b>	Disposals		(100)		(100)	<b>(1) for row</b>	Cost at 31 December 2018	<u>400</u>	<u>376</u>	<u>92</u>	<u>868</u>		Accumulated depreciation at 1 January 2018	12	112	17	141	<b>(1) for row</b>	Charge for the year	4	84	9	97	<b>(1) for row</b>	Eliminated on disposals		(70)		(70)	<b>(2) for row*</b>	Accumulated depreciation at 31 December 2018	<u>16</u>	<u>126</u>	<u>26</u>	<u>168</u>		NBV at 31 December 2018	<u>384</u>	<u>250</u>	<u>66</u>	<u>700</u>	<b>(1) OF for row</b>	NBV at 1 January 2018	<u>388</u>	<u>102</u>	<u>65</u>	<u>555</u>	<b>(1) for row</b>	<b>9</b>
	Land and buildings \$000	Machinery \$000	Fixtures and fittings \$000	Total \$000																																																																
Cost at 1 January 2018	400	214	82	696	<b>(1) for row</b>																																																															
Purchases		262	10	272	<b>(1) for row</b>																																																															
Disposals		(100)		(100)	<b>(1) for row</b>																																																															
Cost at 31 December 2018	<u>400</u>	<u>376</u>	<u>92</u>	<u>868</u>																																																																
Accumulated depreciation at 1 January 2018	12	112	17	141	<b>(1) for row</b>																																																															
Charge for the year	4	84	9	97	<b>(1) for row</b>																																																															
Eliminated on disposals		(70)		(70)	<b>(2) for row*</b>																																																															
Accumulated depreciation at 31 December 2018	<u>16</u>	<u>126</u>	<u>26</u>	<u>168</u>																																																																
NBV at 31 December 2018	<u>384</u>	<u>250</u>	<u>66</u>	<u>700</u>	<b>(1) OF for row</b>																																																															
NBV at 1 January 2018	<u>388</u>	<u>102</u>	<u>65</u>	<u>555</u>	<b>(1) for row</b>																																																															

Question	Answer							Marks																																																																
4(c)	<p>T plc - Statement of Changes in Equity for the year ended 31 December 2018</p> <table border="1" data-bbox="300 327 1621 821"> <thead> <tr> <th></th> <th>Share capital</th> <th>Share premium</th> <th>Retained earnings</th> <th></th> <th>General reserve</th> <th>Total</th> <th></th> </tr> <tr> <th></th> <th>\$000</th> <th>\$000</th> <th>\$000</th> <th></th> <th>\$000</th> <th>\$000</th> <th></th> </tr> </thead> <tbody> <tr> <td>Balance at 1 January 2018</td> <td>500</td> <td></td> <td>105</td> <td></td> <td>40</td> <td>645</td> <td><b>(1) for row</b></td> </tr> <tr> <td>Share issue</td> <td>400 <b>(1)</b></td> <td>80 <b>(1)</b></td> <td></td> <td></td> <td></td> <td>480</td> <td></td> </tr> <tr> <td>Profit for the year</td> <td></td> <td></td> <td>167</td> <td><b>(3)*W1</b></td> <td></td> <td>167</td> <td></td> </tr> <tr> <td>Dividend paid</td> <td></td> <td></td> <td>(80)</td> <td><b>(1)</b></td> <td></td> <td>(80)</td> <td></td> </tr> <tr> <td>Transfer</td> <td></td> <td></td> <td>(10)</td> <td></td> <td>10</td> <td>0</td> <td><b>(1) for row</b></td> </tr> <tr> <td>Balance at 31 December 2018</td> <td><u>900</u></td> <td><u>80</u></td> <td><u>182</u></td> <td></td> <td><u>50</u></td> <td><u>1212</u></td> <td><b>(1) OF for row</b></td> </tr> </tbody> </table> <p><b>W1</b> profit for the year = 288 – 21 <b>(1)</b> interest – 100 <b>(1)</b> tax = 167 <b>(1) OF</b></p>								Share capital	Share premium	Retained earnings		General reserve	Total			\$000	\$000	\$000		\$000	\$000		Balance at 1 January 2018	500		105		40	645	<b>(1) for row</b>	Share issue	400 <b>(1)</b>	80 <b>(1)</b>				480		Profit for the year			167	<b>(3)*W1</b>		167		Dividend paid			(80)	<b>(1)</b>		(80)		Transfer			(10)		10	0	<b>(1) for row</b>	Balance at 31 December 2018	<u>900</u>	<u>80</u>	<u>182</u>		<u>50</u>	<u>1212</u>	<b>(1) OF for row</b>	<b>9</b>
	Share capital	Share premium	Retained earnings		General reserve	Total																																																																		
	\$000	\$000	\$000		\$000	\$000																																																																		
Balance at 1 January 2018	500		105		40	645	<b>(1) for row</b>																																																																	
Share issue	400 <b>(1)</b>	80 <b>(1)</b>				480																																																																		
Profit for the year			167	<b>(3)*W1</b>		167																																																																		
Dividend paid			(80)	<b>(1)</b>		(80)																																																																		
Transfer			(10)		10	0	<b>(1) for row</b>																																																																	
Balance at 31 December 2018	<u>900</u>	<u>80</u>	<u>182</u>		<u>50</u>	<u>1212</u>	<b>(1) OF for row</b>																																																																	
4(d)	<p>The directors should continue with the statement of cash flows. <b>(1)</b></p> <p>A statement of cash flows is a requirement of IAS 1. <b>(1)</b>  It shows how cash has been acquired and applied. <b>(1)</b>  It is a link between two statements of financial position. <b>(1)</b></p> <p>A cash budget is a management tool. <b>(1)</b>  It deals with the future, not historical data. <b>(1)</b>  If published, it could be of use to competitors. <b>(1)</b></p> <p><b>Accept other valid points.</b>  <b>(1)</b> for decision + <b>(Max 2)</b> for comments on statement of cash flows at <b>(1)</b> mark each and <b>(Max 2)</b> for comments on cash budgets.</p>							<b>5</b>																																																																
<b>Total:</b>							<b>25</b>																																																																	

Question	Answer	Marks																								
5(a)	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 20%; text-align: center;">Premier</th> <th style="width: 20%; text-align: center;">Standard</th> <th style="width: 30%;"></th> </tr> <tr> <td></td> <td style="text-align: center;">\$</td> <td style="text-align: center;">\$</td> <td></td> </tr> </thead> <tbody> <tr> <td>Direct materials</td> <td style="text-align: center;">80</td> <td style="text-align: center;">50</td> <td style="text-align: right;">}</td> </tr> <tr> <td>Direct labour</td> <td style="text-align: center;">90</td> <td style="text-align: center;">50</td> <td style="text-align: right;">}(1) for all</td> </tr> <tr> <td>Fixed overheads</td> <td style="text-align: center;"><u>36</u></td> <td style="text-align: center;"><u>24</u></td> <td style="text-align: right;">(1) for both</td> </tr> <tr> <td>Cost per unit</td> <td style="text-align: center;"><u>206</u></td> <td style="text-align: center;"><u>124</u></td> <td style="text-align: right;">(1) OF for both</td> </tr> </tbody> </table> <p style="margin-left: 20px;">Fixed overhead per unit <math>\frac{\\$480\,000}{40\,000} = \\$12</math></p>		Premier	Standard			\$	\$		Direct materials	80	50	}	Direct labour	90	50	}(1) for all	Fixed overheads	<u>36</u>	<u>24</u>	(1) for both	Cost per unit	<u>206</u>	<u>124</u>	(1) OF for both	<b>3</b>
	Premier	Standard																								
	\$	\$																								
Direct materials	80	50	}																							
Direct labour	90	50	}(1) for all																							
Fixed overheads	<u>36</u>	<u>24</u>	(1) for both																							
Cost per unit	<u>206</u>	<u>124</u>	(1) OF for both																							
5(b)	Cost driver is the factor that causes the change <b>(1)</b> in the cost of an activity. <b>(1)</b>	<b>2</b>																								
5(c)	<p>Advantages</p> <ul style="list-style-type: none"> <li>ABC provides more reliable information for product costing, i.e. it is based on activity cost driver. <b>(1)</b></li> <li>ABC facilitates pricing decision. <b>(1)</b></li> </ul> <p>Disadvantages</p> <ul style="list-style-type: none"> <li>It is time consuming to implement ABC. <b>(1)</b></li> <li>Determining the cost driver may be difficult. <b>(1)</b></li> <li>Measuring the quantity of each cost driver consumed may be difficult. <b>(1)</b></li> <li>It is costly because it may be necessary to employ a specialist to implement the ABC system. <b>(1)</b></li> </ul> <p><b>Accept other valid points.</b></p> <p><b>Max 2 for advantages, Max 3 for disadvantages</b></p>	<b>5</b>																								

Question	Answer				Marks	
5(d)		Premier		Standard		
		\$		\$		
	Direct materials	80		50	}	
	Direct labour	90		50	} (1) OF for all	
	Fixed overheads	28		36		
	Cost per unit	<u>198</u>	(1) OF	<u>136</u>	(1) OF	
			Premier		Standard	
			\$		\$	
	Materials requisition					
	2 × \$1200*		2 400			)
	6 × \$1200			7 200		)(1)
	Machine setup					
	2 × \$4000*		8 000			)
	3 × \$4000			12 000		)(1)
	Inspection					
	120 × \$30*		3 600			)
	320 × \$30			<u>9 600</u>		)(1)
	Total for June 2019		14 000		28 800	
	Units produced		÷ 500		÷ 800	
	Per unit		\$28	(1) OF	\$36	(1) OF
		* $\frac{\$90\,000}{75} = \$1\,200$ per requisition				
		* $\frac{\$240\,000}{60} = \$4\,000$ per setup				
		* $\frac{150\,000}{5\,000} = \$30$ per inspection hour				

8

Question	Answer		Marks																														
5(e)	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: center;">Premier</th> <th style="width: 20%; text-align: center;">Standard</th> </tr> <tr> <th></th> <th style="text-align: center;">\$</th> <th style="text-align: center;">\$</th> </tr> </thead> <tbody> <tr> <td colspan="3">(i) Absorption costing method</td> </tr> <tr> <td>Cost per unit</td> <td style="text-align: right;">206.00</td> <td style="text-align: right;">124.00</td> </tr> <tr> <td>Cost plus 40%</td> <td style="text-align: right;"><u>82.40</u></td> <td style="text-align: right;"><u>49.60</u></td> </tr> <tr> <td>Unit selling price</td> <td style="text-align: right;"><u>288.40</u> <b>(1) OF</b></td> <td style="text-align: right;"><u>173.60</u> <b>(1) OF</b></td> </tr> <tr> <td colspan="3">(ii) ABC costing method</td> </tr> <tr> <td>Cost per unit</td> <td style="text-align: right;">198.00</td> <td style="text-align: right;">136.00</td> </tr> <tr> <td>Cost plus 40%</td> <td style="text-align: right;"><u>79.20</u></td> <td style="text-align: right;"><u>54.40</u></td> </tr> <tr> <td>Unit selling price</td> <td style="text-align: right;"><u>277.20</u> <b>(1) OF</b></td> <td style="text-align: right;"><u>190.40</u> <b>(1) OF</b></td> </tr> </tbody> </table>			Premier	Standard		\$	\$	(i) Absorption costing method			Cost per unit	206.00	124.00	Cost plus 40%	<u>82.40</u>	<u>49.60</u>	Unit selling price	<u>288.40</u> <b>(1) OF</b>	<u>173.60</u> <b>(1) OF</b>	(ii) ABC costing method			Cost per unit	198.00	136.00	Cost plus 40%	<u>79.20</u>	<u>54.40</u>	Unit selling price	<u>277.20</u> <b>(1) OF</b>	<u>190.40</u> <b>(1) OF</b>	<b>4</b>
	Premier	Standard																															
	\$	\$																															
(i) Absorption costing method																																	
Cost per unit	206.00	124.00																															
Cost plus 40%	<u>82.40</u>	<u>49.60</u>																															
Unit selling price	<u>288.40</u> <b>(1) OF</b>	<u>173.60</u> <b>(1) OF</b>																															
(ii) ABC costing method																																	
Cost per unit	198.00	136.00																															
Cost plus 40%	<u>79.20</u>	<u>54.40</u>																															
Unit selling price	<u>277.20</u> <b>(1) OF</b>	<u>190.40</u> <b>(1) OF</b>																															
5(e)(iii)	<p>Difference in price of Premier (\$288.40 – \$277.20) = \$11.20  Difference in price of Standard (\$173.60 – \$190.40) = \$16.80</p> <p>The difference in selling price is caused by the fixed overhead charged to each product <b>(1)</b>  For Premier      (\$36 – \$28) × 140% = \$11.20 <b>(1) OF</b>  For Standard     (\$36 – \$24) × 140% = \$16.80 <b>(1) OF</b></p>		<b>3</b>																														
<b>Total:</b>			<b>25</b>																														

Question	Answer	Marks
6(a)(i)	Material price $  \begin{array}{r}  \text{standard} \quad 2800 \text{ kilos} \quad \times \$6 \quad \quad \quad \$ \\  \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad 16\,800 \\  \text{actual} \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \underline{17\,350} \\  \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \underline{\$550} \quad (1) \quad A \quad (1)  \end{array}  $	<b>2</b>
6(a)(ii)	Material usage $  \begin{array}{r}  \text{standard} \quad 5900 \text{ units} \quad \times 0.5 \text{ kilos} \quad \quad \quad 2\,950 \\  \text{actual} \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \underline{2\,800} \\  \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad 150 \text{ kilos} \\  \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \times \quad \underline{\$6} \\  \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \underline{\$900} \quad (1) \quad F \quad (1)  \end{array}  $	<b>2</b>
6(a)(iii)	Labour rate $  \begin{array}{r}  \text{standard} \quad 9500 \text{ hours} \quad \times \$4.50 \quad \quad \quad \$ \\  \text{actual} \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad 42\,750 \\  \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \underline{42\,275} \\  \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \underline{\$475} \quad (1) \quad F \quad (1)  \end{array}  $	<b>2</b>
6(a)(iv)	Labour efficiency $  \begin{array}{r}  \text{standard} \quad 5900 \text{ units} \quad \times 1.5 \text{ hours} \quad \quad \quad 8\,850 \\  \text{actual} \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \underline{9\,500} \\  \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad 650 \text{ hours} \\  \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \times \quad \underline{\$4.50} \\  \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \underline{\$2\,925} \quad (1) \quad A \quad (1)  \end{array}  $ <p><b>1 mark for calculation plus 1 mark for direction</b></p>	<b>2</b>

Question	Answer	Marks
6(b)	<p>Material price variance – adverse</p> <ul style="list-style-type: none"> <li>Unexpected price increase.</li> <li>Loss of previous discount from supplier.</li> <li>Better quality materials purchased.</li> </ul> <p><b>(1 mark) × any 1 reason OF</b></p> <p>Material usage variance – favourable</p> <ul style="list-style-type: none"> <li>Less wastage due to better quality material.</li> <li>Less wastage due to better skilled/experienced workforce.</li> </ul> <p><b>(1 mark) × any 1 reason OF</b></p> <p>Labour rate – favourable</p> <ul style="list-style-type: none"> <li>A planned pay increase was not given.</li> <li>Use of lower skilled labour.</li> <li>Greater supply of labour.</li> </ul> <p><b>(1 mark) × any 1 reason OF</b></p> <p>Labour efficiency - adverse</p> <ul style="list-style-type: none"> <li>Use of lower quality material.</li> <li>Use of lower skilled labour.</li> <li>More idle time than budgeted.</li> <li>Poor supervision</li> </ul> <p><b>(1 mark) × any 1 reason OF</b>  <b>Accept other valid points.</b></p>	<b>4</b>

Question	Answer	Marks															
6(c)(i)	Fixed overhead expenditure <table style="margin-left: 20px; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">\$</td> <td></td> </tr> <tr> <td>standard</td> <td></td> <td style="text-align: right;">6500 units × 1.5 hours × \$5</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">48 750</td> </tr> <tr> <td>actual</td> <td></td> <td style="text-align: right;"><u>52 100</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>\$3 350</u> (1) A (1)</td> </tr> </table>		\$		standard		6500 units × 1.5 hours × \$5			48 750	actual		<u>52 100</u>			<u>\$3 350</u> (1) A (1)	2
	\$																
standard		6500 units × 1.5 hours × \$5															
		48 750															
actual		<u>52 100</u>															
		<u>\$3 350</u> (1) A (1)															
6(c)(ii)	Fixed overhead volume <table style="margin-left: 20px; border-collapse: collapse;"> <tr> <td>standard</td> <td style="text-align: right;">units</td> <td style="text-align: right;">6 500</td> </tr> <tr> <td>actual</td> <td style="text-align: right;">units</td> <td style="text-align: right;"><u>5 900</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">600 units</td> </tr> <tr> <td>Standard OAR</td> <td style="text-align: right;">1.5 hours × \$5</td> <td style="text-align: right;">× <u>\$7.50</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>\$4 500</u> (1) A (1)</td> </tr> </table>	standard	units	6 500	actual	units	<u>5 900</u>			600 units	Standard OAR	1.5 hours × \$5	× <u>\$7.50</u>			<u>\$4 500</u> (1) A (1)	2
standard	units	6 500															
actual	units	<u>5 900</u>															
		600 units															
Standard OAR	1.5 hours × \$5	× <u>\$7.50</u>															
		<u>\$4 500</u> (1) A (1)															
6(d)	<p>The fixed overhead volume variance is the difference between the actual and budgeted production and can be broken down further (to show what caused this difference) into the fixed overhead efficiency <b>(1)</b> and fixed overhead capacity. <b>(1)</b></p> <p>If Jack calculated the fixed overhead efficiency he would know how much of the volume variance was due to the efficiency of his workforce. <b>(1)</b> As the volume variance was adverse for Jack this could mean the workforce worked more slowly than expected <b>(1)</b> due to lack of skills, poor material quality. <b>(1)</b></p> <p>If Jack calculated the fixed overhead capacity he would know how much of the <i>volume</i> variance was due to number of hours worked. <b>(1)</b> As the <i>volume</i> variance was adverse for Jack this could mean the workforce worked fewer hours than expected <b>(1)</b> due to strikes, machine breakdown or shortage of labour. <b>(1)</b></p> <p><b>Accept other valid points.</b></p> <p><b>Max 5</b></p>	5															



Question	Answer	Marks
6(e)	<p>Advantages</p> <ul style="list-style-type: none"> <li>Acting as a control device in variance analysis <b>(1)</b></li> <li>Assisting in budget setting <b>(1)</b></li> <li>Evaluating managers performance <b>(1)</b></li> <li>Predicting future costs to aid decision making <b>(1)</b></li> <li>Providing targets to motivate staff <b>(1)</b></li> <li>Suggesting ways to improve efficiency <b>(1)</b></li> <li>Enabling more accurate inventory valuation <b>(1)</b></li> </ul> <p>Disadvantages</p> <ul style="list-style-type: none"> <li>Time consuming to collect data <b>(1)</b></li> <li>Standards based on estimates <b>(1)</b></li> <li>Unrealistic standards can demotivate staff <b>(1)</b></li> <li>Factors causing variances are outside his control <b>(1)</b></li> </ul> <p><b>Max 2</b> marks for advantages and <b>Max 2</b> marks for disadvantages  <b>Accept other valid points.</b></p>	<b>4</b>
	<b>Total:</b>	<b>25</b>