



**Cambridge Assessment  
International Education**

Example Candidate Responses – Paper 2

**Cambridge International AS & A Level  
Accounting 9706**

For examination from 2023



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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 & A Level Accounting, and to show how different levels of candidates' performance (high, middle and low) relate to the syllabus requirements. This document helps teachers to assess the standards required to achieve marks beyond the guidance of the mark scheme.

In this booklet candidate responses have been chosen from the June 2023 exam series to exemplify a range of answers.

For each question, the response is annotated with examiner comments about where and why marks were awarded or omitted. This is followed by comments on how the answer could be improved. There is also a list of common mistakes and guidance for candidates for each question.

Please refer to the June 2023 Examiner Report for further details and guidance.

The mark scheme is available on the [School Support Hub](#)

**9706 June 2023 Question Paper 22**

**9706 June 2023 Mark Scheme 22**

Past exam resources and other teaching and learning resources are available on the [School Support Hub](#)

## How to use this booklet

This booklet goes through the paper one question at a time, showing you the high-, middle- and low level response for each question. In the left-hand column are the candidate responses, and in the right-hand column are the examiner comments.

Example Candidate Response – middle	Examiner comments																						
<p>1 J Limited's financial year ended on 30 September 2022. The following balances were available on this date.</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="width: 80%;"></th> <th style="width: 20%; text-align: center;">\$</th> </tr> </thead> <tbody> <tr> <td>8% Debentures (2025)</td> <td style="text-align: right;">100 000</td> </tr> <tr> <td>Administrative expenses</td> <td style="text-align: right;">28 000</td> </tr> <tr> <td>Distribution costs</td> <td style="text-align: right;">57 000</td> </tr> <tr> <td>Dividends paid</td> <td style="text-align: right;">21 000</td> </tr> <tr> <td>Finance costs</td> <td style="text-align: right;">4 000</td> </tr> <tr> <td>Inventory at 1 October 2021</td> <td style="text-align: right;">54 000</td> </tr> <tr> <td>Issued share capital: shares of \$0.50 each at 1 October 2021</td> <td style="text-align: right;">420 000</td> </tr> <tr> <td>Non-current assets at 1 October 2021</td> <td></td> </tr> <tr> <td>Cost</td> <td style="text-align: right;">1 300 000</td> </tr> <tr> <td>Provision for depreciation</td> <td style="text-align: right;">280 000</td> </tr> </tbody> </table> <p style="margin-top: 10px; font-size: small;">Handwritten: 4000 next to Finance costs, and a circled 1 next to Administrative expenses.</p>		\$	8% Debentures (2025)	100 000	Administrative expenses	28 000	Distribution costs	57 000	Dividends paid	21 000	Finance costs	4 000	Inventory at 1 October 2021	54 000	Issued share capital: shares of \$0.50 each at 1 October 2021	420 000	Non-current assets at 1 October 2021		Cost	1 300 000	Provision for depreciation	280 000	<p>1 The candidate presents the statement of profit or loss clearly. However, some narratives are incorrect and an incorrect profit for the year has been given. As clear workings are given although a mark is lost for an omitted item, they still achieve the profit for the year mark on an own figure basis as it has also been correctly labelled. It is important that candidates correctly label each</p>
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<p><b>Answers</b> are by real candidates in exam conditions. These show you the types of answers for each level. Discuss and analyse the answers with learners in the classroom to improve their skills.</p>	<p><b>Examiner comments</b> are alongside the answers. These explain where and why marks were awarded. This helps you to interpret the standard of Cambridge exams so you can help your learners to refine their exam technique.</p>																						

## How the candidate could improve their answer

- **(a)** The narratives and format should reflect the fact that it is a limited company therefore, for example, opening inventory, purchases and closing inventory should have been shown as one item of cost of sales. Some expenses were incorrect but marks were awarded from the workings shown.
- **(b)** The answer was clear and only one item was missing balance of retained earnings.

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

## Common mistakes and guidance

- **(a)** Not displaying workings and not showing the correct narratives for items in financial statements. It is important for candidates to have lots of practice completing final accounts for different types of business to ensure they use the correct formats. Displaying clear workings should be encouraged.
- **(b)** Not displaying workings. Marks can be awarded from for candidates to show all their workings. It is important t accounts.

This section lists common mistakes as well as helpful guidance from the examiner. This will help your learners to avoid these mistakes. You can use this alongside the relevant Examiner Report to guide your learners.

## Question 1

### Example Candidate Response – high 1

### Examiner comments

- 1 J Limited's financial year ended on 30 September 2022. The following balances were available on this date.

	\$
8% Debentures (2025)	100 000
Administrative expenses	28 000
Distribution costs	57 000
Dividends paid	21 000
Finance costs	4 000
Inventory at 1 October 2021	54 000
Issued share capital: shares of \$0.50 each at 1 October 2021	420 000
Non-current assets at 1 October 2021	
Cost	1 300 000
Provision for depreciation	260 000
Purchases	460 000
Retained earnings at 1 October 2021	125 000
Revenue	869 000
Share premium at 1 October 2021	210 000
Trade receivables	83 000

The following additional information is available.

- 1 Inventory at 30 September 2022 was valued at \$57 000.
- ~~2~~ The balance of the account of a credit customer, \$3000, should be written off as irrecoverable and charged to administrative expenses.
- ~~3~~ The directors have agreed to create an allowance for irrecoverable debts of 5% of trade receivables. The allowance should be charged to administrative expenses.
- 4 Debenture interest for the second half of the year is outstanding.
- 5 Non-current assets should be depreciated at 20% per annum using the straight-line method. Depreciation should be allocated as follows:

Administrative expenses	60%
Distribution costs	40%

**Example Candidate Response – high 1, continued**

**Examiner comments**

**REQUIRED**

(a) Prepare the statement of profit or loss for the year ended 30 September 2022. Use the space provided to show your workings.

J Limited  
Statement of profit or loss for the year ended 30 September 2022

1

	\$
Revenue	869,000
Less cost of Sales (540,000 + 46,000 - 57,000)	(457,000)
Gross Profit	412,000
Less Administrative Expenses	(191,000)
Distribution costs	(161,000)
Profit from operations	6,000
Finance cost	(8,000)
Profit for the year	52,000

Workings:

<p>Administrative expenses</p> $28,000 + 30,000 + 4,000 + 156,000 = 191,000$ <del><math display="block">60\% \text{ of } 260,000 = 156,000</math></del> $60\% \text{ of } 260,000 = 156,000$
<p>Distribution costs</p> $20\% \text{ of } 130,000 = 26,000$ $40\% \text{ of } 260,000 = 104,000$ $57,000 + 104,000 = 161,000$

1 The question relates to a limited company. This candidate has an excellent understanding of the production of a statement of profit or loss for a limited company. They have the correct narrative for each item to be displayed in the correct order with full workings for each item that has adjustments. Mark for (a) = 11 out of 11

**Example Candidate Response – high 1, continued**

**Examiner comments**

**Additional information**

The directors found that the following transaction had **not** been recorded in the books of account:

On 30 September 2022 the directors had made a bonus issue of 2 ordinary shares for every 3 shares held. The directors had decided to maintain reserves in their most flexible form.

**REQUIRED**

(b) Calculate the balance of retained earnings at 30 September 2022 following the bonus issue.

Bal B/d	125000	Shares = $840000 \times \frac{420000}{615} = 840000$
Dividends	(21000)	$840000 \times \frac{2}{3} = 560000$
Profit	52000	$560000 - 280000$
Bonus issue	(70000)	2
		$280000 - 210000$
$125000 - 21000 + 52000 - 70000$		
<b>= 86000 credit</b>		

[6]

(c) State **one** reason why the directors of a company might decide to make a bonus issue.

~~to utilise~~ When company has earned a profit and wants to reward shareholders but has no cash. [1]

(d) Explain **one** reason why trade payables and potential lenders might approve of a company making a bonus issue.

Bonus issue means  $\rightarrow$  has no cash outflow for the business so the business remains with working capital ~~to remain~~ to pay off money lenders and trade payables debts. [2]

(e) Identify **three** points the directors should consider when deciding whether to pay a dividend.

1. expectations of the shareholders
2. whether the company after paying the dividend will remain liquid enough to pay off debts.
3. They must also consider objectives of the business if it is <sup>growth</sup> expansion dividends should not be paid. [3]

**2** The balance of retained earnings is correctly calculated with full workings. This demonstrates the importance of displaying workings in their answer.

Mark for (b) = 6 out of 6

**3** In the narrative questions relating to a bonus issue and the payment of a dividend, clear concise responses are given to the specific question. Where more than one point is required, the relevant number of points are given in their answer.

Mark for (c) = 1 out of 1

Mark for (d) = 2 out of 2

Mark for (e) = 3 out of 3



## Example Candidate Response – high 1, continued

## Examiner comments

## Additional information

The directors of J Limited wish to improve the company's liquidity. They will choose one of the following options.

Option 1: allow trade receivables a cash discount of 5% for payment within 20 days.

Option 2: make all purchases on credit from a different supplier who is prepared to offer a trade discount.

## REQUIRED

- (f) Advise the directors which option they should choose. Justify your choice by discussing both options.

If trade receivables are allowed a discount relationship with customers will improve there will be less chances of bad debts and the receivables turnover will improve, improving the cashflow and making the company attractive to potential suppliers and investors however this will lead to less collections from receivables and a reduction in profit. For option 2 the business should consider if the supplier is reliable? will he deliver on time? will he offer the same quality of goods? if these ~~two~~ things are taken care of the company will make a profit as it will pay trade ~~payables~~ <sup>purchase cheap</sup>. The business should go with option B and in my opinion if the supplier is reliable this will improve profits allow the company to pay more dividends making business attractive to investors. [7]

4 The last part of the question relates to giving advice to the directors of the company by discussing two options. This candidate discusses both options giving clear point. Finally they make a decision which option should be chosen.

Mark for (f) = 7 out of 7

Total mark awarded = 30 out of 30

## How the candidate could improve their answer

- This candidate had an excellent answer with clear workings so no improvement was required. Excellent example throughout.
- (f) The candidate was not penalised for referring to bad debts rather than irrecoverable debts. However, the most up-to-date terminology should be taught as shown in the syllabus.

## Example Candidate Response – high 2

## Examiner comments

- 1 J Limited's financial year ended on 30 September 2022. The following balances were available on this date.

	\$
8% Debentures (2025)	100 000
✓ Administrative expenses	28 000
✓ Distribution costs	57 000
✗ Dividends paid	21 000
Finance costs	4 000
✓ Inventory at 1 October 2021	54 000
✗ Issued share capital: shares of \$0.50 each at 1 October 2021	420 000
✓ Non-current assets at 1 October 2021	
Cost	1 300 000
✗ Provision for depreciation	260 000
✓ Purchases	460 000
✗ Retained earnings at 1 October 2021	125 000
✓ Revenue	869 000
✗ Share premium at 1 October 2021	210 000
Trade receivables	83 000

The following additional information is available.

- ✓ Inventory at 30 September 2022 was valued at \$57 000.
- ✓ The balance of the account of a credit customer, \$3000, should be written off as irrecoverable and charged to administrative expenses.
- ✓ The directors have agreed to create an allowance for irrecoverable debts of 5% of trade receivables. The allowance should be charged to administrative expenses.
- 4 Debenture interest for the second half of the year is outstanding.
- 5 Non-current assets should be depreciated at 20% per annum using the straight-line method. Depreciation should be allocated as follows:

Administrative expenses	60%
Distribution costs	40%

**Example Candidate Response – high 2, continued**

**Examiner comments**

**REQUIRED**

(a). Prepare the statement of profit or loss for the year ended 30 September 2022. Use the space provided to show your workings.

J Limited  
Statement of profit or loss for the year ended 30 September 2022

1

	\$
Revenue	869 000
less: cost of sales (54000 + 460000 - 57000)	(457 000)
<del>opening inventory</del> Gross Profit	412 000
less: administrative expenses (w1)	(191 000)
less: distribution costs (w2)	(161 000)
Operating Profit	60 000
less: finance cost (100 000 x 8%)	(8 000)
Profit for the year	52 000

Workings:

<p>Administrative expenses W1: \$28 000 + 156 000 + 3 000 + 4 000 = 191 000</p>	<p>dep 130 000 x 20% = 26 000 x 60% = 156 000</p> <p>pfid = 83 000 - 3 000 = 80 000 x 5% = 4 000</p>
<p>Distribution costs W2: 57 000 + 104 000 = 161 000</p>	<p>dep 260 000 x 40% = 104 000</p>

1 The first part of the question is well answered with the correct narrative for most items to be displayed in the correct order with full clear workings for the adjustments. The only error is that the narrative for profit from operations is incorrectly shown as operating profit. It is important that candidates understand the format for each type of organisation with the correct narrative required for each item.  
Mark for (a) = 10 out of 11

**Example Candidate Response – high 2, continued**

**Examiner comments**

**Additional information**

The directors found that the following transaction had **not** been recorded in the books of account:

On 30 September 2022 the directors had made a bonus issue of 2 ordinary shares for every 3 shares held. The directors had decided to maintain reserves in their most flexible form.

**REQUIRED**

(b) Calculate the balance of retained earnings at 30 September 2022 following the bonus issue.

$\$420000 \div \$0.50 = 840000 \text{ shares} \times 2$

S.P	210000	=	560000 shares	<sup>3</sup>	\$
R. & R.	70000		Retained earnings at 1 Oct 2021		125000
	0.S.C	280000	less: dividend paid		(21000)
			less: bonus issue		(70000)
			add: profit for year		52000
			Retained earnings at 30 Sep 2022		<u>86000</u>

[6]

(c) State **one** reason why the directors of a company might decide to make a bonus issue.

To capitalize the capital reserves, however it will not increase the equity of ~~business~~ company [1]

2

(d) Explain **one** reason why trade payables and potential lenders might approve of a company making a bonus issue.

Trade payables <sup>and lenders</sup> might approve company of making a bonus issue as it will increase the capital reserves, company will be more financially stable and pay its debts if it ever faces loss. [2]

[2]

(e) Identify **three** points the directors should consider when deciding whether to pay a dividend.

1. expectations of the shareholders
2. amount of revenue reserves available to the company
3. company's profits.

Mark for (b) = 6 out of 6

2 The candidate gives ambiguous answers to the prose questions. There is no clear understanding shown of the effect this would have on trade payables or lenders.

Mark for (c) = 0 out of 1

Mark for (d) = 0 out of 2

Mark for (e) = 2 out of 3

## Example Candidate Response – high 2, continued

## Examiner comments

## Additional information

The directors of J Limited wish to improve the company's liquidity. They will choose one of the following options.

Option 1: allow trade receivables a cash discount of 5% for payment within 20 days.

Option 2: make all purchases on credit from a different supplier who is prepared to offer a trade discount.

## REQUIRED

(f) Advise the directors which option they should choose. Justify your choice by discussing both options.

Option 1 will encourage early payments by the customers which will improve the cashflow. Debtors may ~~increase~~ continue to buy from J Limited due to cash discounts. However, if they are unable to pay within 20 days, they will not receive any discounts which may demotivate them causing them to go to competitors leading to loss of potential customers. Option 2 will improve the liquidity of the company as there will not be immediate cash outflows and company is also offered a trade discount which may reduce the costs of the company leading to higher profits. Directors should choose option A as it will also minimize the risk of bad debts and business will have inflows quickly. [7]

3 For the final part, the candidate gives a clear decision but for the second option they are not clear on both the benefits and disadvantages of changing supplier. In this type of question, where two options are given, it is important that candidates can see both the benefits and disadvantages of each choice. Mark for (f) = 5 out of 7

Total mark awarded =  
23 out of 30

## How the candidate could improve their answer

- (a) The narrative for profit from operations was incorrectly shown as operating profit; it is important to have the correct terms for each item in the statement of profit or loss.
- (c) A clear understanding of the reasons of a bonus issue such as reward/satisfy shareholders, insufficient liquid funds to pay dividend or utilise capital reserves could have improved the answer.
- (d) The answer needed to focus on the point of the question which was how trade payables and potential lenders might approve.
- (e) Three separate points should have been given in the answer and duplication should have been avoided.
- (f) The candidate should have included both positive and negative points for both options.

## Example Candidate Response – middle

## Examiner comments

- 1 J Limited's financial year ended on 30 September 2022. The following balances were available on this date.

	\$
8% Debentures (2025)	100 000
Administrative expenses	28 000
Distribution costs	57 000
Dividends paid	21 000
Finance costs	4 000
Inventory at 1 October 2021	54 000
Issued share capital: shares of \$0.50 each at 1 October 2021	420 000
Non-current assets at 1 October 2021	
Cost	1 300 000
Provision for depreciation	260 000
Purchases	460 000
Retained earnings at 1 October 2021	125 000
Revenue	869 000
Share premium at 1 October 2021	210 000
Trade receivables	83 000

The following additional information is available.

- Inventory at 30 September 2022 was valued at \$57 000.
- The balance of the account of a credit customer, \$3000, should be written off as irrecoverable and charged to administrative expenses.
- The directors have agreed to create an allowance for irrecoverable debts of 5% of trade receivables. The allowance should be charged to administrative expenses.
- Debenture interest for the second half of the year is outstanding.
- Non-current assets should be depreciated at 20% per annum using the straight-line method. Depreciation should be allocated as follows:

Administrative expenses	60%
Distribution costs	40%

**Example Candidate Response – middle, continued**

**Examiner comments**

**REQUIRED**

(a) Prepare the statement of profit or loss for the year ended 30 September 2022. Use the space provided to show your workings.

J Limited  
Statement of profit or loss for the year ended 30 September 2022

1

	\$
Sales Revenue	869000
LESS: Cost of goods sold	
Opening inventory	59000
Add: purchases	460000
LESS: closing inventory	(57000)
Gross profit	412000
LESS: Expenses	
Administration	(187000)
Distribution	161000
Operation profit	64000
LESS: Debenture Interest $(100000 \times 8\% \times 6/12)$	(4000)
Profit for the year	60000
Workings: -----	

Administrative expenses	
As per trial balance	28000
interest on debt	3000
Depreciation $(160000 \times 60\%)$	96000
$1300000 \times 20\%$	260000
	187000
Distribution costs	
As per trial balance	57000
Depreciation $(260000 \times 40\%)$	104000
	161000

1 The candidate presents the statement of profit or loss clearly. However, some narratives are incorrect and an incorrect profit for the year has been given. As clear workings are given although a mark is lost for an omitted item, they still achieve the profit for the year mark on an own figure basis as it has also been correctly labelled. It is important that candidates correctly label each item in the statement to gain full marks, for example operating profit should have been labelled as profit from operations. Mark for (a) = 7 out of 11

**Example Candidate Response – middle, continued**

**Examiner comments**

**Additional information**

The directors found that the following transaction had **not** been recorded in the books of account:

On 30 September 2022 the directors had made a bonus issue of 2 ordinary shares for every 3 shares held. The directors had decided to maintain reserves in their most flexible form.

**REQUIRED**

(b) Calculate the balance of retained earnings at 30 September 2022 following the bonus issue.

$$420000 \times \frac{2}{3} = 280000 - 210000 = 70000$$

Balance b/d	125000
Add: profit for the year	60000
less: Bonus issue	(70000)
Bal c/d	<u>115000</u>

[6]

(c) State **one** reason why the directors of a company might decide to make a bonus issue.

They may want to reduce the share price of the company.

[1]

(d) Explain **one** reason why trade payables and potential lenders might approve of a company making a bonus issue.

They may approve it because it will show the liquidity position of the business.

Mark for (d) = 0 out of 2

(e) Identify **three** points the directors should consider when deciding whether to pay a dividend.

1. They should consider whether there are enough retained earnings on it.
2. They should consider whether they can issue bonus issue instead of dividend.
3. They should consider whether there will be profit or not to pay dividend.

[3]

2 The calculation of the balance on retained earnings is incomplete as the dividend paid has been omitted. Reading the question very carefully is important to ensure every item is covered.

Mark for (b) = 5 out of 6

3 The narrative questions have all been attempted with some success. It is very important that candidates do attempt narrative questions, reading questions carefully to ensure they give the relevant numbers of points.

Mark for (c) = 0 out of 1

Mark for (e) = 1 out of 3



## Example Candidate Response – middle, continued

## Examiner comments

**Additional information**

The directors of J Limited wish to improve the company's liquidity. They will choose one of the following options.

Option 1: allow trade receivables a cash discount of 5% for payment within 20 days.

Option 2: make all purchases on credit from a different supplier who is prepared to offer a trade discount.

**REQUIRED**

- (f) Advise the directors which option they should choose. Justify your choice by discussing **both** options.

If they choose option 1 then prompt payments can be attracted from receivable which will improve inflows thus leading to better liquidity. Also it may reduce the chances of bad debt so better inflow will be rare. However giving cash discount will reduce the value of receivables which can reduce the value by 5%. Also so which will reduce the inflow from 5%. So it may not improve liquidity. If the director will choose option 2 so it is through credit purchase the outflow can be delayed and it will lead also trade discount will reduce outflow thus better liquidity. However supplier may not offer much trade discount on credit purchase. ~~Secondly~~

I would advise to choose option 1 as it is more flexible in improve liquidity. The quick inflows from the receivable through discount will also not destroy relations with receivable and at the same time will improve liquidity.

4 For the last task the candidate has given clear advice about which option to take, but has been less clear about the advantages and disadvantages of each being somewhat contradictory in their answer.

Mark for (f) = 6 out of 7

Total mark awarded =  
19 out of 30

## How the candidate could improve their answer

- **(a)** The narratives and format should reflect the fact that it is a limited company therefore, for example, opening inventory, purchases and closing inventory should have been shown as one item of cost of sales. Some expenses were incorrect but marks were awarded from the workings shown.
- **(b)** The answer was clear and only one item was missing. It is important to include all relevant items to arrive at the balance of retained earnings.
- **(c)** A clear understanding of the reasons for a bonus issue such as reward/satisfy shareholders, insufficient liquid funds to pay dividend or utilise capital reserves would have improved the answer.
- **(d)** The answer needed to focus on the point of the question.
- **(e)** The candidate should have been careful to ensure three separate points were given in their answer and there was no duplication.
- **(f)** Negative point for option 2 of not being offered much trade discount is too weak to be considered a negative so, overall, the answer needed more balance for full marks.

## Common mistakes and guidance

- **(a)** Not displaying workings and not showing the correct narratives for items in financial statements. It is important for candidates to have lots of practice completing final accounts for different types of business to ensure they use the correct formats. Displaying clear workings should be encouraged.
- **(b)** Not displaying workings. Marks can be awarded from workings going into an answer, therefore, it is important for candidates to show all their workings. It is important to remember which items need to go in each type of accounts.
- **(c)** Candidates needed to learn the reasons behind both bonus and rights issues of shares.
- **(e)** Not giving the required number of points or duplicating very similar points which could be rewarded only once.
- **(f)** Not giving positive and negative points for both options, not making a decision about which option to choose, not presenting their narrative clearly and changing from one option to another throughout their answer.

## Question 2

### Example Candidate Response – high

### Examiner comments

2 Rudra prepares bank reconciliation statements for his business at the end of each month.

**REQUIRED**

1

(a) State **three** reasons why it is important to a business to prepare bank reconciliation statements at regular intervals.

- 1 To determine arithmetical accuracy of the business' transactions
- 2 Bank is an independent body and comparing business statements with it is helpful in preventing fraud.
- 3 There are many transactions like direct debit, standing orders and bank charges which are dealt only within the bank. Hence, these can be added in the cash book to show a fair amount.

**Additional information**

On 31 March 2022 the balance shown in the business's cash book (bank columns) was \$3060 overdrawn. This did not agree with the balance shown on the business's bank statement on this date. The difference in the two balances was accounted for by the following:

- 1 Rudra had omitted to record a direct debit for water charges of \$442. C -
- 2 There were unpresented cheques: TK Stores \$482, RH Supplies \$1043. BRS +
- 3 Bank charges, \$85, appeared on the bank statement but had not yet been recorded in the cash book. C -
- 4 Rudra had debited the cash book with cash takings, \$893, but this had not yet been recorded by the bank. bank -
- 5 A cheque payment to Peter, \$320, had been correctly recorded in the bank statement, but had been entered in the cash book as \$230. - C 90
- 6 The bank statement included an entry for a dishonoured cheque for \$582 received by Rudra from Jamia. No entries had been made in the cash book to record the dishonoured cheque. -C
- 7 An error had been made in the cash book. Interest received, \$225, had been correctly recorded in the bank statement, but had been credited in the cash book.

+ 450 C

1 The question relates to bank reconciliations. This candidate has an excellent understanding of the reasons for preparing bank reconciliations. Their reasons are clearly presented and listed. Mark for (a) = 3 out of 3

## Example Candidate Response – high, continued

## Examiner comments

### REQUIRED

- (b) Prepare the cash book to show the updated balance at 31 March 2022. Dates are not required.

Cash book (bank columns)

	\$		\$
2022 Manufactures received	225	2022 30 Mar Balance b/d	3060
✓ correction error	225	31 Mar direct debit	442
maxi Balance c/d	3809	✓ Bank charges	85
		✓ Payment Petroleum (value)	90
		✓ dishonoured cheque	582
	4259		4259
		2022 April 1 Balance b/d	3809

2

2 The preparation of the updated cash book balance is well presented with clear account names and amounts with the balance brought down correctly. Only one error is made on an account name. The narrative/details should relate to the account that would be affected by the double entry, i.e. water charges not direct debit.  
Mark for (b) = 5 out of 6

- (c) Prepare a bank reconciliation statement to show the bank statement balance at 31 March 2022.

Rudra  
Bank reconciliation statement at 31 March 2022

	\$	\$
Balance as per updated cash book		(3809)
Add Unpresented cheques		
TK Stones	482	
PH Supplies	1043	1525
less uncredited cheque		(2284)
Cash takings	893	(893)
Balance as per bank statement (debit)		(1291)

3

3 The bank reconciliation is well presented, clearly identifying the overdrawn balance from the cashbook and working towards the balance as per bank statement correctly.  
Mark for (c) = 4 out of 4

- (d) Define each of the following terms:

- (i) unpresented cheque

Cheques that have been paid by the business but have not been presented by creditors to the bank and hence are not in the bank statement. [1]

- (ii) dishonoured cheque.

When a customer (trade receivable) pays a cheque that has insufficient fund, the cheque is sent back to him. This cheque is called dishonoured cheque. [1]

4

4 The last part of the question requires the candidate to define both an unpresented cheque and a dishonoured cheque. Both are clearly and correctly defined in clear handwriting.  
Mark for (d)(i) = 1 out of 1

Mark for (d)(ii) = 1 out of 1

**Total mark awarded =  
14 out of 15**

### How the candidate could improve their answer

- (b) The candidate should have given the correct narrative details for the accounts involved in the transactions.

**Example Candidate Response – low**

**Examiner comments**

2 Rudra prepares bank reconciliation statements for his business at the end of each month.

1

**REQUIRED**

(a) State **three** reasons why it is important to a business to prepare bank reconciliation statements at regular intervals.

1. It helps to detect errors and frauds, which result in correct records
2. It lead business to gain accurate financial records to make decisions.
3. It helps to compare the bank statement with cash-book, leading to improved records of transactions.

[3]

**Additional information**

On ~~31 March 2022~~ the balance shown in the business's cash book (bank columns) was \$3060 overdrawn. This did not agree with the balance shown on the business's bank statement on this date. The difference in the two balances was accounted for by the following:

- ✓ Rudra had omitted to record a direct debit for water charges of \$442
- ② There were unpresented cheques: TK Storés \$482; RH Supplies \$1043.  $WPC = 1525$
- ✓ Bank charges, \$85, appeared on the bank statement but had not yet been recorded in the cash book.
- ④ Rudra had debited the cash book with cash takings, \$693, but this had not yet been recorded by the bank.  $WCC = 8913$
- ✓ A cheque payment to Peter, \$320, had been correctly recorded in the bank statement, but had been entered in the cash book as \$230.
- ⑥ The bank statement included an entry for a dishonoured cheque for \$582 received by Rudra from Jamia. No entries had been made in the cash book to record the dishonoured cheque.
- ✓ An error had been made in the cash book. Interest received, \$225, had been correctly recorded in the bank statement, but had been credited in the cash book.

1 Three clear well-presented reasons given for preparing a bank reconciliation.

Mark for (a) = 3 out of 3

**Example Candidate Response – low, continued**

**Examiner comments**

**REQUIRED**

(b) Prepare the cash book to show the updated balance at 31 March 2022. Dates are not required.

Cash book (bank columns)

	\$		\$
direct debit	942.5	b/d	3060
error	450	Bank charges	85
		cheque payment	90
		Dishonoured chq	582
c/d	2925		
	<u>3867.5</u>		<u>3867.5</u>
		b/d	2925

2

2 Only 1 mark is awarded here for the credit entry of bank charges \$85. For all other entries, the details/narrative is incorrect; the name of the account that would be used for the double entry transaction should be used, i.e. error \$450 the debit side should be interest received \$450.

Also, the direct debit for water charges should be on the credit side. Lastly, b/d \$2925 credit side is not awarded a mark as the balance brought down should be termed either balance b/d or bal. b/d not just b/d.

Mark for (b) = 1 out of 6

(c) Prepare a bank reconciliation statement to show the bank statement balance at 31 March 2022.

Rudra  
Bank reconciliation statement at 31 March 2022

	\$	\$
Balance as per updated cash book		2925
add: UPC		1525
less: UCC		(893)
bal as per bank st		3557
		3557

3

3 The updated cash book balance is incorrect. It should be negative as it is overdrawn. What follows through is the unrepresented cheques and outstanding balance but wrong abbreviations have been used.

Mark for (c) = 0 out of 4

(d) Define each of the following terms:

(i) unrepresented cheque

These cheques are credited by business, but Bank didn't debited yet. [1]

4

4 For both entries, the definitions do not give specific details. Mark for (d)(i) = 0 out of 1

(ii) dishonoured cheque.

These cheques are those cheques which bounce back, due to not a correct signature. [1]

Mark for (d)(ii) = 0 out of 1

**Total mark awarded =  
4 out of 15**

## How the candidate could improve their answer

- **(b)** The candidate should have used the correct details/narrative in the account to relate to the account that would be used to complete the double entry.
- **(c)** Candidates should be careful when they start with an overdrawn balance as per cashbook as it is a negative balance especially when they are adding or subtracting amounts.
- **(d)** The candidate should have been specific in the fact that an unpresented cheque has been recorded in the cash book but not on the bank statement.

## Common mistakes and guidance

- **(a)** Repeating a reason in a different way.
- **(b)** Not using the correct details/narrative in the account to relate to the account that would be used to complete the double entry. Not bringing down the closing balance. Candidates should always bring down balances and either give the narrative balance b/d or bal. b/d
- **(c)** Candidates should be careful when they start with an overdrawn balance as per cashbook as it is a negative balance especially when they are adding or subtracting amounts.
- **(d)** Candidates should be careful to give specific details when asked for a definition.

## Question 3

### Example Candidate Response – high 1

### Examiner comments

- 3 Khaled opened his business on 1 January 2021 with a capital of \$41 000. He did not maintain a full set of accounting records.

Khaled wishes to know his profit or loss for the year ended 31 December 2021. He has provided the following information.

- 1 Assets and liabilities at 31 December 2021

	\$
Bank overdraft	3 470
Bank loan	8 500
Inventory	18 450
Non-current assets (carrying value)	27 500
Trade payables	9 940
Trade receivables	7 230

- 2 Non-current assets include a motor vehicle. This vehicle had been privately owned by Khaled but during 2021 it was transferred to the business at a valuation of \$9 000.
- 3 During 2021 Khaled's drawings were \$14 870.

**REQUIRED**

- (a) Calculate the business's profit or loss for the year ended 31 December 2021.

$$\begin{aligned} \text{Asset} &= (18\,450 + 27\,500 + 7\,230) = 53\,180 \\ \text{Liability} &= (3\,470 + 8\,500 + 9\,940) = (21\,910) \\ \text{Capital} &= 31\,270 \end{aligned}$$

$$\begin{aligned} \text{Closing Capital} &= \text{Opening capital} + \text{Introduced capital} \\ &\quad + \text{profit} - \text{drawing} \end{aligned}$$

$$31\,270 - 41\,000 - 9\,000 + 14\,870 = \text{profit}$$

$$\therefore \text{loss of the year} = (3\,860)$$

1 The candidate demonstrates they can calculate a loss made by a business from incomplete records, clearly showing all workings to arrive at their answer. Mark for (a) = 7 out of 7



**Example Candidate Response – high 1, continued**

**Examiner comments**

**Additional information**

During 2022 Khaled kept more detailed records but could not provide a figure for revenue. The following information is available at 31 December 2022.

	\$
Inventory at 31 December 2022	16250
Purchases	148300

Khaled's policy is to mark-up all goods by 50%.

**REQUIRED**

(b) Calculate revenue for the year ended 31 December 2022.

$$\begin{aligned} \text{COGS} &= 18450 + 148300 - 16250 = 150500 \\ \text{Revenue} &= \frac{15}{10} \\ \text{COGS} &= \frac{10}{10} \\ \text{Revenue} &= \frac{15}{10} \times 150500 \\ \text{Revenue} &= 225750 \end{aligned}$$

[4]

(c) State two advantages to a business of maintaining a full set of accounting records.

1. Can create accurate financial statement
2. Easier to submit government documentation for tax etc.

[2]

(d) State two disadvantages to a business of maintaining a full set of accounting records.

1. It ~~can~~ may be time consuming
2. It may have additional costs

2

2 By using a mark-up policy the candidate calculated the revenue for the year correctly from the cost of sales.  
Mark for (b) = 4 out of 4

3

3 Candidate clearly explains both the advantages and disadvantages of the business maintaining a full set of accounting records.  
Mark for (c) = 2 out of 2

Mark for (d) = 2 out of 2

**Total mark awarded = 15 out of 15**

**How the candidate could improve their answer**

The response was awarded full marks.

## Example Candidate Response – high 2

## Examiner comments

3 Khaled opened his business on 1 January 2021 with a capital of \$41,000. He did not maintain a full set of accounting records.

Khaled wishes to know his profit or loss for the year ended 31 December 2021. He has provided the following information.

Assets and liabilities at 31 December 2021

	\$	
Bank overdraft	✓ 3470	CL
Bank loan	✓ 8500	NCL
Inventory	✓ 18450	CA
Non-current assets (carrying value)	✓ 27500	NCA
Trade payables	✓ 9940	CL
Trade receivables	✓ 7230	CA

2 Non-current assets include a motor vehicle. This vehicle had been privately owned by Khaled but during 2021 it was transferred to the business at a valuation of \$9000.

3 During 2021 Khaled's drawings were \$14,870.

↳ Capital introduced \$9000

### REQUIRED

(a) Calculate the business's profit or loss for the year ended 31 December 2021.

→ Statement of Affairs for the year ended 31 December 2021

Non-current assets		27,500
Current assets: Inventory		18,450
Trade receivables		7,230
<b>Total Assets</b>		<b>53,180</b>
Non-current liabilities	8,500	
Current liabilities: Bank overdraft	3,470	
Trade payables	9,940	21,910
<b>Total liabilities</b>		<b>21,910</b>
<b>Capital at end</b>		<b>31,270</b>
<b>Total liabilities and Equity</b>		<b>53,180</b>

  

Drawings	14,870	Capital introduced	9,000	Capital at start	41,000	Profit for the year =	\$ 3,870
Bank overdraft	3,470						
Trade payables	9,940						
<b>Total</b>	<b>31,280</b>						
	50,000						

1

1 A well prepared set of calculations however, on completing the capital account, a figure is transposed incorrectly for the drawings and the mark could not be awarded.

Mark for (a) = 6 out of 7

**Example Candidate Response – high 2, continued**

**Examiner comments**

**Additional information**

During 2022 Khaled kept more detailed records but could not provide a figure for revenue. The following information is available at 31 December 2022:

Inventory at 31 December 2022  $\frac{C}{I} \rightarrow \$18450$   
Purchases  $\frac{C}{I} \rightarrow \$148300$

Khaled's policy is to mark-up all goods by 50%.  
 $\text{Mark-up} = \frac{1}{2} = 0.5$   
 $\text{Margin} = \frac{1}{3} = 0.333$

**REQUIRED**

(b) Calculate revenue for the year ended 31 December 2022.

Extract Statement of Profit and Loss for 31 Dec 2022. Cost of Sales = \$150,500. Mark-up = 1/2

Revenue	225,750	GP = 1/2	x - P = 150,500
Opening Inventory	18,450	COGS = 150,500	
Purchases	148,300	GP = 1/2	
Less closing inventory	(16,250)	GP = 75,250	
Gross Profit	75,250	Revenue = \$225,750	

2

2 By using a mark-up policy the candidate calculates correctly from the cost of sales the revenue for the year.  
Mark for (b) = 4 out of 4

(c) State two advantages to a business of maintaining a full set of accounting records.

- The business obtains useful information such as total assets, capital and liabilities.
- Easier to obtain finance from banks since it is possible to the bank.

3

3 The candidate gives very vague answers.  
Mark for (c) = 0 out of 2

(d) State two disadvantages to a business of maintaining a full set of accounting records.

- Costly since the business needs to place on a good habit.
- Time-consuming to prepare.

4

4 The candidate clearly explains disadvantages of maintaining a full set of accounts  
Mark for (d) = 2 out of 2

**Total mark awarded = 12 out of 15**

**How the candidate could improve their answer**

- (a) The candidate should have been careful to transfer figures correctly from the question to the answer.
- (c) On narrative questions, the candidate should have read the question carefully and been specific in the answer.

## Example Candidate Response – middle

## Examiner comments

- 3 Khaled opened his business on 1 January 2021 with a capital of \$41 000. He did not maintain a full set of accounting records.

Khaled wishes to know his profit or loss for the year ended 31 December 2021. He has provided the following information.

- 1 Assets and liabilities at 31 December 2021

	\$	
Bank overdraft	3470	-
Bank loan	8500	-
Inventory	18450	-
Non-current assets (carrying value)	27500	9000
Trade payables	9940	-
Trade receivables	7230	-
		21910

- 2 Non-current assets include a motor vehicle. This vehicle had been privately owned by Khaled but during 2021 it was transferred to the business at a valuation of \$9000.
- 3 During 2021 Khaled's drawings were \$14870.

### REQUIRED

- (a) Calculate the business's profit or loss for the year ended 31 December 2021.

Statement of affairs

Opening capital	41000	41000
Add: profit	13360	
less: drawings	(14870)	
Closing capital	(12770)	
Profit = 13360		

  

$$NI = 18450 + 7230 + (27500 + 9000) - (3470 + 8500 + 9940)$$

$$= 34680 - 21910$$

$$= 12770$$

1 Although the candidate has an incorrect answer, they do gain marks where correct entries are made. Also, 1 mark is awarded for their own figure arrived at in the answer. Two marks are not awarded here for an incorrect non-current assets figure in the first working. The second mark was lost for not including the capital introduced of \$9000 in their calculation of profit. Mark for (a) = 5 out of 7

**Example Candidate Response – middle, continued**

**Examiner comments**

**Additional information**

During 2022 Khaled kept more detailed records but could not provide a figure for revenue. The following information is available at 31 December 2022.

	\$
Inventory at 31 December 2022	16250
Purchases	148300

Khaled's policy is to mark-up all goods by 50%.

**REQUIRED**

(b) Calculate revenue for the year ended 31 December 2022.

Cost of goods sold = 16250 + 148300 = 184550  
 = ~~14600~~ 146100 2

Sales = Cost + gross profit  
 150 = 100 + 250

Revenue  
 Sales =  $\frac{146100 \times 150}{100} = 219150$  [4]

2 The opening and closing inventories are treated incorrectly by identifying closing inventory as opening and opening as closing. Mark for (b) = 2 out of 4

(c) State two advantages to a business of maintaining a full set of accounting records.

1 It will be able to measure performance from last year

2 It will help in decision making process. 3

[2]

3 Both advantages give 1 mark overall as measuring performance and helping decision making are linked together as measuring performance leads to decision making. Mark for (c) = 1 out of 2

(d) State two disadvantages to a business of maintaining a full set of accounting records.

1 It is time consuming process

2 It is a costly process <sup>as</sup> softwares or accountants are needed

Mark for (d) = 2 out of 2

**Total mark awarded = 10 out of 15**

**How the candidate could improve their answer**

- (a) The candidate should have clearly shown all workings to maximise marks.
- (c) The candidate should have been specific and stated distinct advantages.

**Common mistakes and guidance**

- (a), (b) Not displaying workings can lose marks for candidates so it is very important that they understand the importance of this.
- (c) Some candidates were not specific in stating separate advantages.
- (d) Some candidates were not specific in stating separate disadvantages.

## Question 4

### Example Candidate Response – high

### Examiner comments

4 K Limited is a manufacturing company which has two production departments and one service department at one of its factories. At this factory absorption costing is used.

**REQUIRED**

(a) Define each of the following terms:

(i) cost centre

It is a department of the business where costs and overheads can be allocated. [1]

(ii) allocation of overheads

Charging overheads that can be clearly identified with a specific cost centre to that cost centre [1]

(iii) apportionment of overheads.

Charging overheads to cost centres in a suitable basis; these overheads cannot be clearly identified with a specific cost centre [1]

**Additional information**

The following budgeted information is available for the year ended 31 August 2022.

	Production departments		Service department
	Cutting	Finishing	
	\$	\$	\$
Factory overheads	273 820	189 240	31 350

The service department's overheads are reapportioned on the basis of the number of employees in each production department.

	Cutting department	Finishing department
Number of employees	125	84

209

1 The question relates to a manufacturing company. The first task requires the definition of various terms. The candidate gives clear concise definitions for each term.

Mark for (a)(i) = 1 out of 1

Mark for (a)(ii) = 1 out of 1

Mark for (a)(iii) = 1 out of 1

**Example Candidate Response – high, continued**

**Examiner comments**

**REQUIRED**

(b) Reapportion the service department's overheads to the production departments.

2

	Cutting department \$	Finishing department \$	Service department \$
Factory overheads	273 820	189 240	31 350
Reapportionment	18 750	12 600	(31 350)
Total overheads	292 570	201 840	-

[2]

**Additional information**

The following forecast information is available for the year ended 31 August 2022.

	Cutting department	Finishing department
Direct labour hours per annum	9 400	7 420
Machine hours per annum	17 900	3 840

**REQUIRED**

(c) Calculate an appropriate overhead absorption rate, correct to two decimal places, for each production department:

3

(i) Cutting department

$$\frac{\text{Budgeted overheads}}{\text{Budgeted Activity}} = \frac{\$ 292\,570}{17\,900} = \$ 16.34/\text{per Machine hour}$$

[1]

(ii) Finishing department.

$$\frac{\$ 201\,840}{7\,420} = \$ 27.20/\text{per Direct labour hour}$$

[1]

2 The candidate correctly and clearly calculates reapportionment of the service departments. Mark for (b) = 2 out of 2

3 The candidate calculates the overhead absorption rates, clearly works to two decimal places and states machine hour or direct labour hour as required. Mark for (c)(i) = 1 out of 1

Mark for (c)(ii) = 1 out of 1

## Example Candidate Response – high, continued

## Examiner comments

### Additional information

The actual results for the year ended 31 August 2022 were as follows:

	Cutting department	Finishing department
Factory overheads	\$312 600	\$193 400
Direct labour hours	9 800	7 210
Machine hours	17 200	4 220

(d) Calculate the under-absorption or over-absorption of factory overheads for each production department for the year ended 31 August 2022.

(i) Cutting department

$$\begin{aligned} & \text{Budgeted Overhead absorption rate} \times \text{Machine hours} \\ \text{Budgeted overheads} &= \$16.34 \times 17200 = \$281048 \\ \text{Under Absorption} &= \text{Actual} - \text{Budgeted} \\ \$312600 - \$281048 &= \$31552 \end{aligned} \quad [3]$$

(ii) Finishing department

$$\begin{aligned} \text{Budgeted overheads} &= \$27.20 \times 7210 \\ &= \$196112 \\ \text{Overabsorption} &= \text{Actual} - \text{budgeted} = \text{Actual} \\ \$196112 - \$193400 &= \$2712 \end{aligned} \quad [3]$$

4 The under/over absorption has been correctly calculated displaying all calculations and clearly states either under or over absorbed. Mark for (d)(i) = 3 out of 3

Mark for (d)(ii) = 3 out of 3



**Example Candidate Response – high, continued**

**Examiner comments**

**Additional information**

At a second factory marginal costing is used.

A single product, Product X, is manufactured. However, demand for this product has fallen recently due to increased competition.

The following information is available for Product X.

Per unit	\$
Direct materials	22
Direct labour	18
Contribution	20

$$\text{Contribution} = \text{selling} - \text{variable}$$

$$\$20 = x - \$40$$

$$\text{selling price} = \$60$$

Normal capacity is 14000 units per month. The factory is currently operating at 75% of normal capacity. All the units produced are sold. Fixed costs per month are \$56000.

$$\frac{14000 \times 75\%}{100} = 10500 \text{ units}$$

(e) Calculate the profit for one month.

	(\$)
Total contribution ( $\$20 \times 10500$ )	210,000
Fixed costs	(56000)
Profit for the month	154000 [1]

5

5 Correct calculation shown. Mark for (e) = 1 out of 1

**Additional information**

The directors are considering two options to increase profits.

Option A:

- 1 Reduce the selling price per unit by 5%.  $\rightarrow 60 \times 5\% = 3 = \$57$
- 2 Run a six-month advertising campaign at a cost of \$1100 per month.
- 3 Monthly sales are forecast to increase by 25% on current levels.

$$10500 \times 25\% = 2625$$

$$= 13125 \text{ units}$$

Option B

- 1 Discontinue manufacture of Product X.
- 2 Produce a different product, Product Y, with a selling price of \$58 per unit.
- 3 It is forecast that demand will be such that the factory can operate at 110% normal capacity.  $\rightarrow 15400 \text{ units}$
- 4 Direct material cost will increase by 10% per unit.  $\$24.2$ 

100	110
14000	$x$ 15400
- 5 Direct labour costs will remain unchanged. However, workers will be paid an overtime premium of 50% for all work over normal capacity.  $1400 \text{ units} \times \$27$
- 6 Machinery will need some alterations which will cost \$54000. Non-current assets are depreciated by 25% per annum.  $\rightarrow 1125$ 

13500
15
- 7 The company will need to borrow \$30000 to finance the cost of the machinery alterations. Interest at 6% per annum will be charged on this loan.  $\frac{1500}{1.1} = \$150$

**Example Candidate Response – high, continued**

**Examiner comments**

**REQUIRED**

(f) Calculate the profit to be made on each option in the first month of production.

6

(i) Option A

	<del>(£)</del>	<del>(£)</del>
Contribution per unit = \$57 - \$40 = \$17		
	<del>(£)</del>	(\$)
Total contribution (\$17 x 13125)		223125
Fixed costs (\$5600 + 1100)		<u>(57100)</u>
Profit for the month		<u>166025</u> [3]

6 For both options very clear work displayed with all items labelled with the calculations displayed.  
Mark for (f)(i) = 3 out of 3

(ii) Option B

	(\$)	(\$)
Sales Revenue (\$58 x 15400)		893200
Variable Cost:-		
Direct Material (\$24.2 x 15400)	372680	
Direct labour (\$15 x 14000)	<del>210000</del> 252000	
Overtime Payment (\$27 x 1400)	37800	<u>(662480)</u>
Total contribution		230720
Fixed Costs (\$5600 + \$150 + \$1125)		<u>(57275)</u>
Profit for the month		173445

Mark for (f)(ii) = 6 out of 6

## Example Candidate Response – high, continued

## Examiner comments

- (g) Advise the directors which option they should choose. Justify your answer by considering both financial and non-financial factors.

Option A would help achieve objective of increased profit from \$154000 and there would also be a higher positive contribution of \$223125 to cover fixed costs and contribute to the profit. It would also lead to better utilization of spare capacity as 13125 units would be produced which would motivate the labour as their skills will be utilized effectively. However, how reliable are the estimates? Will the advertising campaign be successful in raising monthly sales by 25%? Even though there is high competition in the market? On the other hand, option B would give both a higher contribution and profit for the month than option A which could be used to invest in increasing capacity. However, it will reduce customer loyalty due to discontinuation of Product X even though it had a positive contribution and the factory would be exceeding capacity by 1400 units which is unsustainable. Lastly, option A would be better as the other option would increase the liabilities and gearing ratio of the business. ~~reducing capacity~~

A - Positive contribution & profit  
No loss of customers Better capacity utilization  
[Total: 30]  
BUT  
How reliable? Will advertising be successful?  
B - Profit and contribution both higher  
But exceed capacity - waste around due to excess not sustainable  
May lose customers of product X

7 A well-written report with a clear decision made on the relevant option to choose, with both financial and non-financial aspects considered in full.

Mark for (g) = 7 out of 7

Total mark awarded =  
30 out of 30

## How the candidate could improve their answer

The candidate was awarded full marks.

## Example Candidate Response – middle

## Examiner comments

- 4 K Limited is a manufacturing company which has two production departments and one service department at one of its factories. At this factory absorption costing is used.

**REQUIRED**

- (a) Define each of the following terms:

- (i) cost centre

A cost centre is a production centre to which different costs are attached [1]

- (ii) allocation of overheads

When an overhead is directly related to a specific department, it is allocated to that department. [1]

- (iii) apportionment of overheads.

When an overhead is related to the whole factory, it is apportioned to different departments according to some suitable bases. [1]

**Additional information**

The following budgeted information is available for the year ended 31 August 2022.

	Production departments		Service department \$
	Cutting \$	Finishing \$	
Factory overheads	273 820	189 240	31 350

The service department's overheads are reapportioned on the basis of the number of employees in each production department.

	Cutting department	Finishing department
Number of employees	125	84

209

1

1 Good clear answers given for parts (ii) and (iii), however, part (i) a cost centre does not only relate to a production centre. A production centre is an example of a cost centre not a definition.

Mark for (a)(i) = 0 out of 1

Mark for (a)(ii) = 1 out of 1

Mark for (a)(iii) = 1 out of 1

**Example Candidate Response – middle, continued**

**Examiner comments**

**REQUIRED**

(b) Reapportion the service department's overheads to the production departments. 2

	Cutting department \$	Finishing department \$	Service department \$
Factory overheads	273820	189240	31350
Reapportionment	18750	12600	
Total overheads	292570	201840	

[2]

**Additional information**

The following forecast information is available for the year ended 31 August 2022.

	Cutting department	Finishing department
Direct labour hours per annum	9400	7420
Machine hours per annum	17900	3840

**REQUIRED**

(c) Calculate an appropriate overhead absorption rate, correct to **two** decimal places, for **each** production department: 3

(i) Cutting department  $= \$ 31.12$   
 $\frac{292570}{17900} = \$ 16.34$  per machine hour labour  
 $\frac{9400}{17900}$  [1]

(ii) Finishing department.  
 $\frac{201840}{7420} = \$ 27.20$  per labour hour  
 $\frac{7420}{7420}$  [1]

**2** The reapportionment of the services departments is correctly calculated.

Mark for (b) = 2 out of 2

**3** The cutting department's overhead absorption rate is incorrectly calculated by using labour hours when machine hours are more appropriate.

Mark for (c)(i) = 0 out of 1

Mark for (c)(ii) = 1 out of 1

**Example Candidate Response – middle, continued**

**Examiner comments**

**Additional information**

The actual results for the year ended 31 August 2022 were as follows:

	Cutting department	Finishing department
Factory overheads	\$312600	\$193400
Direct labour hours	9800	7210
Machine hours	17200	4220

(d) Calculate the under-absorption or over-absorption of factory overheads for each production department for the year ended 31 August 2022.

(i) Cutting department

\$ 4

Actual overheads 312600

Absorbed overheads  $(17200 \times 16.34)$  281048

Under absorbed overheads ~~31552~~ 304976

7624 [3]

(ii) Finishing department

\$

Actual overheads 193400

Absorbed overheads 196112

Over absorbed overheads 2712

4 The cutting department's under absorption could not gain any marks as the candidate has not indicated how they arrived at the \$304976. They have not displayed any workings therefore they could not gain own figure marks as it is not clear where the amount came from. Mark for (d)(i) = 0 out of 3

Mark for (d)(ii) = 3 out of 3

**Example Candidate Response – middle, continued**

**Examiner comments**

**Additional information**

At a second factory marginal costing is used.

A single product, Product X, is manufactured. However, demand for this product has fallen recently due to increased competition.

The following information is available for Product X.

Per unit	\$
Direct materials	22
Direct labour	18
Contribution	20

$$\begin{array}{r} 21000 \\ (56000) \\ \hline 15400 \end{array}$$

Normal capacity is 14000 units per month. The factory is currently operating at 75% of normal capacity. All the units produced are sold. Fixed costs per month are \$56000. 4

5

(e) Calculate the profit for one month.

~~$x - 22 - 18 = 20$  • contribution - fixed cost = Profit~~  
~~Sales = \$60 per unit~~  
~~Profit = 20 - 4 Profit = 21000 - 56000 = 15400~~  
~~\$16 per unit~~  
~~or \$16500 168500 [1]~~

**Additional information**

The directors are considering two options to increase profits.

Option A:

$$60 - 5\% = 57$$

- 1 Reduce the selling price per unit by 5%.
- 2 Run a six-month advertising campaign at a cost of \$1100 per month.
- 3 Monthly sales are forecast to increase by 25% on current levels. 13125.

Option B

- 1 Discontinue manufacture of Product X.
- 2 Produce a different product, Product Y, with a selling price of \$58 per unit.
- 3 It is forecast that demand will be such that the factory can operate at 110% normal capacity. 15400
- 4 Direct material cost will increase by 10% per unit. 24 = 2 37800 27
- 5 Direct labour costs will remain unchanged. However, workers will be paid an overtime premium of 50% for all work over normal capacity. 18 + 252000 + (1400 x 1.50)
- 6 Machinery will need some alterations which will cost \$54000. Non-current assets are depreciated by 25% per annum.
- 7 The company will need to borrow \$30000 to finance the cost of the machinery alterations. Interest at 6% per annum will be charged on this loan.

5 Candidate gives clear calculations.  
Mark for (e) = 1 out of 1

**Example Candidate Response – middle, continued**

**Examiner comments**

**REQUIRED**

(f) Calculate the profit to be made on each option in the first month of production.

(i) Option A:

	\$	
Sales	57	
less Direct material	(22)	
Direct labour	(18)	
Contribution per unit	17	
less contribution \$	223125	
less advertising campaign	(1100)	
profit	<u>222025</u>	(3)

6

(ii) Option B

	\$
Sales (58 x 15400)	893200
less Direct material	372680
Direct labour	289800
depreciatio	230720
Loan	(30000)
Interest on loan	(150)
Depreciation	(1125)
profit for year.	<u>199425</u>

6 This is a good attempt. In option A, the original fixed costs of \$56000 per month are omitted. In option B, although the original fixed costs have again been omitted, the candidate is not penalised twice for the same error. However, an extraneous item of loan \$3000 is included as a cost therefore losing them their own figure mark for their final answer.

Mark for (f)(i) = 2 out of 3

Mark for (f)(ii) = 5 out of 6



## Example Candidate Response – middle, continued

## Examiner comments

- (g) Advise the directors which option they should choose. Justify your answer by considering both financial and non-financial factors.

Option A is yielding a higher profit than option B, however Product X will also be having an advertising campaign therefore attracting more customers and making a loyal customer base. Also, the same product is being manufactured so no training costs required. However option B is yielding a higher contribution than option A. Changing to the manufacture of Product Y is also a suitable option because the demand for product X has dropped due to increased competition. Its selling price per unit is also much higher than option A thus being more profitable. However some risk is involved due to new product.

7

7 The task requires both financial and non-financial factors. The candidate relates their answer mainly to the financial aspects with minor comments on the effect of the advertising campaign. Much of the answer is restating facts given in the question and no clear advice is given.

Mark for (g) = 2 out of 7

Total mark awarded =  
18 out of 30

## How the candidate could improve their answer

- (a)(i) The candidate should have given a clear definition or an example.
- (c)(i) The activity with the greater number of hours should have been chosen for the calculation.
- (d) It is very important to show workings to maximise marks.
- (f) The candidate should have shown the workings.
- (g) They should have been careful to give both financial and non-financial points, make it clear which option should be taken.

## Example Candidate Response – low

## Examiner comments

- 4 K Limited is a manufacturing company which has two production departments and one service department at one of its factories. At this factory absorption costing is used.

### REQUIRED

- (a) Define **each** of the following terms:

- (i) cost centre

Cost Centres are the base of where costs are appointed to.  
to..... [1]

- (ii) allocation of overheads

Allocation of overheads is when we appoint the cost to  
different centres:..... [1]

- (iii) apportionment of overheads.

On what basis the costs are allocated to cost centres..... [1]

### Additional information

The following budgeted information is available for the year ended 31 August 2022.

	Production departments		Service department
	Cutting	Finishing	
	\$	\$	\$
Factory overheads	273 820	189 240	31 350

The service department's overheads are reapportioned on the basis of the number of employees in each production department.

	Cutting department	Finishing department
Number of employees	125	84

$$C = \frac{125}{209} \times 31350 = 18750$$

$$F = \frac{84}{209} \times 31350 = 12600$$

1

1 Vague answers given for (i) and (ii). Clear definitions need to be given.

Mark for (a)(i) = 0 out of 1

Mark for (a)(ii) = 0 out of 1

Mark for (a)(iii) = 1 out of 1

**Example Candidate Response – low, continued**

**Examiner comments**

**REQUIRED**

(b) Reapportion the service department's overheads to the production departments. 2

	Cutting department \$	Finishing department \$	Service department \$
Factory overheads	273820	189240	31350
Reapportionment	18750	12600	(31350)
Total overheads	292570	201840	—

[2]

**Additional information**

The following forecast information is available for the year ended 31 August 2022.

	Cutting department	Finishing department
Direct labour hours per annum	9400	7420
Machine hours per annum	17900	3840

3

**REQUIRED**

(c) Calculate an appropriate overhead absorption rate, correct to **two** decimal places, for each production department:

(i) Cutting department

$$\begin{aligned} &= \frac{\text{FOH}}{\text{Mach. Hrs}} = \frac{292570}{17900} = 16.35 / \text{mach. Hr} \end{aligned}$$

[1]

(ii) Finishing department.

$$\begin{aligned} &= \frac{\text{FOH}}{\text{Lab. Hrs}} = \frac{201840}{7420} = 27.2 / \text{lab. Hr} \end{aligned}$$

[1]

2 Correct answers all clearly presented.

Mark for (b) = 2 out of 2

3 The candidate uses correct figures in calculations however for the cutting department the rounding of the answer to two decimal places is incorrect. The answer is 16.344692 therefore to two decimal places that will give \$16.34.

Mark for (c)(i) = 0 out of 1

Mark for (c)(ii) = 1 out of 1

## Example Candidate Response – low, continued

## Examiner comments

### Additional information

The actual results for the year ended 31 August 2022 were as follows:

	Cutting department	Finishing department
Factory overheads	\$312 600	\$193 400
Direct labour hours	9 800	7 210
Machine hours	17 200	4 220

4

(d) Calculate the under-absorption or over-absorption of factory overheads for each production department for the year ended 31 August 2022.

(i) Cutting department

$$\begin{aligned} \text{Over/(under)} &= (\text{B.FOH} \times \text{Actual activity} - \text{Actual FOH}) \\ &= (2902570 \times 16.35 - 312600) \\ &= 44709.20 \text{ Over Absorbed} \end{aligned}$$

[3]

(ii) Finishing department

$$\begin{aligned} \text{Over/(under)} &= (\text{B.FOH} \times \text{Actual activity} - \text{Actual FOH}) \\ &= (201840 \times 27.2 - 193400) \\ &= 529664.8 \text{ Over Absorbed} \end{aligned}$$

4 The candidate uses incorrect figures in both calculations by using the total overhead cost in place of the actual activity.

Mark for (d)(i) = 0 out of 3

Mark for (d)(ii) = 0 out of 3

**Example Candidate Response – low, continued**

**Examiner comments**

**Additional information**

At a second factory marginal costing is used.

A single product, Product X, is manufactured. However, demand for this product has fallen recently due to increased competition.

The following information is available for Product X.

Per unit	\$
Direct materials	22
Direct labour	18
Contribution	20

*Sales - Variable Costs = Contribution*  
 $22 - 18 = 4$

$14000 \times 75\% = 10500$

Normal capacity is 14 000 units per month. The factory is currently operating at 75% of normal capacity. All the units produced are sold. Fixed costs per month are \$56 000.

(e) Calculate the profit for one month.

5

*Selling Price = 22 + 18 + 20 = 60*  
~~100 000~~  
*Contribution = 20 x 10500 = 210000*  
~~100000~~  
*Less: Fixed Costs (56000)*  
*Profit 154000* [1]

5 Candidate gives correct calculations.  
 Mark for (e) = 1 out of 1

**Additional information**

The directors are considering two options to increase profits.

Option A:

- 1 Reduce the selling price per unit by 5%.  $60 \times 5\% = 3$  ~~33~~
- 2 Run a six-month advertising campaign at a cost of \$1100 per month.
- 3 Monthly sales are forecast to increase by 25% on current levels. 14000

Option B:

- 1 Discontinue manufacture of Product X.
- 2 Produce a different product, Product Y, with a selling price of \$58 per unit.
- 3 It is forecast that demand will be such that the factory can operate at 110% normal capacity. <sup>15400</sup>
- 4 Direct material cost will increase by 10% per unit.  $22 \times 110\% = 24.2$
- 5 Direct labour costs will remain unchanged. However, workers will be paid an overtime premium of 50% for all work over normal capacity.  $18 \times 50\% = 9 \times 1400 = 12600$
- 6 Machinery will need some alterations which will cost \$54 000. Non-current assets are depreciated by 25% per annum.
- 7 The company will need to borrow \$30 000 to finance the cost of the machinery alterations. Interest at 6% per annum will be charged on this loan.

## Example Candidate Response – low, continued

## Examiner comments

### REQUIRED

(f) Calculate the profit to be made on each option in the first month of production.

6

(i) Option A

	\$	
Sales = (14 x 14000)	196000	798000
Direct Materials (22 x 14000)	(308000)	
Direct Labour (18 x 14000)	(252000)	
CONTRIBUTION	23000	
Advertising	(1100)	
Fixed Costs	(36000)	
		PROFIT 130900

[3]

6 The candidate makes some calculation errors, however own figure marks for profit are given as they have clearly displayed their workings.  
Mark for (f)(i) = 2 out of 3

(ii) Option B

	\$	
Sales (58 x 15400)	893200	
Less: Direct Materials (24 x 15400)	(369600)	
Direct Labour (18 x 15400)	(277200)	
(9 x 14000)	(126000)	
CONTRIBUTION	146200	
Less: Fixed Costs	(56000)	
PROFIT	90200	

Mark for (f)(ii) = 3 out of 6

(g) Advise the directors which option they should choose. Justify your answer by considering both financial and non-financial factors.

7

If the directors choose option A they will have a loss of 85100. If they choose option B they will have a profit of 74900. This will mean that they can have other expenses too. Employees will also be well motivated since they are being paid overtime but not all employees would be willing to work extra. Option B will also have good quality materials so customers will be satisfied and more will be attracted. However, in option A they are advertising to attract more customers but a fall in selling price will give a negative contribution which means product won't be successful in the future. Option B is increasing capacity so it may be that fixed costs also increase with the capacity. But I think they should go with option A as it is more profitable.

7 The candidate gives clear advice, however, they give very vague answers for both financial and non-financial aspects with points just repeated from the question.  
Mark for (g) = 3 out of 7

**Total mark awarded = 13 out of 30**

## How the candidate could improve their answer

- **(a)** Clear definitions should have been given.
- **(c)** The candidate should have rounded the answer to two decimal places.
- **(d)** The correct formula should have been used.
- **(f)** The candidate should have been careful in calculations.
- **(g)** The candidate should have given both financial and non-financial points.

## Common mistakes and guidance

- **(a)** The candidates should be clear on what a definition is.
- **(c)** Rounding errors are often made when rounding to two decimal places.
- **(d)** As with all calculations, the candidates should show all workings and be clear in labelling either under or over absorbed.
- **(e), (f)** As with all calculations, the candidates should show all workings.
- **(g)** Clear advice was sometimes omitted and often the non-financial aspects were not considered in the answer.

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