



Cambridge International AS & A Level

ACCOUNTING

9706/02

Paper 2 Fundamentals of Accounting

For examination from 2023

MARK SCHEME

Maximum Mark: 90

Specimen

This document has **20** pages. Any blank pages are indicated.

Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently, e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

**Social Sciences and Humanities Subject Specific Marking Principles
(for point-based marking)****1 Components using point-based marking:**

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

From this it follows that we:

- a** DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)
 - b** DO credit alternative answers/examples which are not written in the mark scheme if they are correct
 - c** DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons ...).
 - d** DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)
 - e** DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities, e.g. a scattergun approach to a question asking for *n* items
 - f** DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).
 - g** DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)
- 2 Presentation of mark scheme:**
- Slashes (/) or the word 'or' separate alternative ways of making the same point.
 - Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
 - Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:

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

4 Annotation:

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

Abbreviations and guidance

The following abbreviations may be used in the mark scheme:

OF = own figure. The answer will be marked correct if a candidate has correctly used their own figure from a previous part or calculation

W = working. The working for a figure is given below. Where the figure has more than one mark associated with it, the working will show where individual marks are to be awarded.

CF = correct figure. The figure has to be correct i.e. no extraneous items have been included in the calculation

Extraneous item = an item that should not have been included in a calculation, including indirect expenses such as salaries in calculation of gross profit when there is one **OF** mark for gross profit'

Curly brackets, }, are used to show where one mark is given for more than one figure. If the figures are not adjacent, each is marked with a curly bracket and a symbol e.g. }*

row = all figures in the row must be correct for this mark to be awarded

Marks for figures are dependent on correct sign/direction

Accept other valid responses. This statement indicates that marks may be awarded for answers that are not listed in the mark scheme but are equally valid.

Question	Answer	Marks
1(a)(i)	<p>State <u>two</u> disadvantages to Hamid and Jamila of trading as a partnership rather than as sole traders.</p> <p>Max 2</p> <p>Having to share profits (1)</p> <p>Possible disagreements between partners (1)</p> <p>Possible delays in decision making (1)</p> <p>Accept other valid responses</p>	2
1(a)(ii)	<p>State <u>three</u> items other than the profit and loss sharing ratio which may be included in a partnership agreement.</p> <p>Max 3</p> <p>The amount of capital each partner has to introduce (1)</p> <p>Whether any interest on capital should be paid (1)</p> <p>The rate at which any interest on capital is given (1)</p> <p>Duties of each partner (1)</p> <p>Partners' salaries (1)</p> <p>Interest on drawings (1)</p> <p>Interest on partners' loans (1)</p> <p>Accept other valid responses</p>	3

Question	Answer	Marks														
1(b)	<p>Calculate the revenue for the year ended 31 December 2020.</p> <table style="margin-left: 40px;"> <tr> <td>Receipts</td> <td style="text-align: right;">\$ 164 650</td> </tr> <tr> <td>Irrecoverable debt</td> <td style="text-align: right;">336 (1)</td> </tr> <tr> <td>Returns inwards</td> <td style="text-align: right;">1 084 (1)</td> </tr> <tr> <td>Closing trade receivables</td> <td style="text-align: right;"><u>12 930</u></td> </tr> <tr> <td></td> <td style="text-align: right;">179 000</td> </tr> <tr> <td>Less opening trade receivables</td> <td style="text-align: right;"><u>14 380</u></td> </tr> <tr> <td>Revenue</td> <td style="text-align: right;"><u>164 620 (1)OF</u></td> </tr> </table> <p>No specific layout is required</p>	Receipts	\$ 164 650	Irrecoverable debt	336 (1)	Returns inwards	1 084 (1)	Closing trade receivables	<u>12 930</u>		179 000	Less opening trade receivables	<u>14 380</u>	Revenue	<u>164 620 (1)OF</u>	3
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Question	Answer	Marks																																																						
1(c)	<p data-bbox="197 703 229 1939">Prepare the partnership statement of profit or loss for the year ended 31 December 2020.</p> <p data-bbox="264 1055 331 1939">Each mark is for an amount that is clearly identified with a label Labels in bold must be correctly worded as shown</p> <p data-bbox="363 1301 395 1541">Hamid and Jamila</p> <p data-bbox="400 1003 432 1843">Statement of profit or loss for the year ended 31 December 2020</p> <table data-bbox="464 936 1193 1939"> <tr> <td data-bbox="496 1816 528 1939">Revenue</td> <td data-bbox="464 1256 496 1361">\$ 164 620</td> <td data-bbox="464 1055 496 1077">\$</td> </tr> <tr> <td data-bbox="533 1666 564 1939">Less returns inwards</td> <td data-bbox="533 1249 564 1361"><u>(1 084)</u></td> <td data-bbox="533 976 564 1021">(1)</td> </tr> <tr> <td data-bbox="564 1697 596 1939"></td> <td data-bbox="564 1032 596 1137">163 536</td> <td data-bbox="564 1032 596 1137"></td> </tr> <tr> <td data-bbox="639 1697 671 1939">Opening inventory</td> <td data-bbox="639 1218 671 1339">7 430 }*</td> <td data-bbox="639 936 671 1021">(1)OF</td> </tr> <tr> <td data-bbox="676 1794 708 1939">Purchases</td> <td data-bbox="676 1256 708 1361">112 152</td> <td data-bbox="676 936 708 1021">(1)OF</td> </tr> <tr> <td data-bbox="708 1458 740 1939">Goods for own use (balancing figure)</td> <td data-bbox="708 1249 740 1361"><u>(1 236)</u></td> <td data-bbox="708 936 740 1021">(1)OF</td> </tr> <tr> <td data-bbox="740 1256 772 1361">118 346</td> <td data-bbox="740 1218 772 1361"><u>(9 322) }</u>*</td> <td data-bbox="740 936 772 1021">(1)*</td> </tr> <tr> <td data-bbox="772 1711 804 1939">Closing inventory</td> <td data-bbox="772 1025 804 1151"><u>(109 024)</u></td> <td data-bbox="772 936 804 1021">(1)OF</td> </tr> <tr> <td data-bbox="804 1756 836 1939">Cost of sales</td> <td data-bbox="804 1032 836 1137">54 512</td> <td data-bbox="804 936 836 1021">(1)OF</td> </tr> <tr> <td data-bbox="836 1697 868 1939">Gross profit (W1)</td> <td data-bbox="836 1256 868 1339">7 465</td> <td data-bbox="836 976 868 1021">(2)</td> </tr> <tr> <td data-bbox="868 1547 900 1939">Administrative expenses (W2)</td> <td data-bbox="868 1256 900 1339">1 480</td> <td data-bbox="868 976 900 1021">(1)</td> </tr> <tr> <td data-bbox="900 1733 932 1939">Insurance (W3)</td> <td data-bbox="900 1256 932 1339">336</td> <td data-bbox="900 976 932 1021">(1)</td> </tr> <tr> <td data-bbox="932 1697 963 1939">Irrecoverable debt</td> <td data-bbox="932 1256 963 1339">225</td> <td data-bbox="932 976 963 1021">(1)</td> </tr> <tr> <td data-bbox="963 1525 995 1939">Loss on disposal of fittings (W4)</td> <td data-bbox="963 1256 995 1361">14 500</td> <td data-bbox="963 976 995 1021">(3)</td> </tr> <tr> <td data-bbox="995 1592 1027 1939">Rent of business premises</td> <td data-bbox="995 1256 1027 1361">10 230</td> <td data-bbox="995 976 1027 1021">(1)OF</td> </tr> <tr> <td data-bbox="1027 1783 1059 1939">Staff wages</td> <td data-bbox="1027 1256 1059 1361"><u>1 840</u></td> <td data-bbox="1027 976 1059 1021">(3)</td> </tr> <tr> <td data-bbox="1059 1402 1091 1939">Depreciation of furniture and fittings (W5)</td> <td data-bbox="1059 1025 1091 1137"><u>(36 076)</u></td> <td data-bbox="1059 976 1091 1021">(1)OF</td> </tr> <tr> <td data-bbox="1091 1697 1123 1939">Profit for the year</td> <td data-bbox="1091 1032 1123 1137"><u>18 436</u></td> <td data-bbox="1091 936 1123 1021">(1)OF</td> </tr> </table> <p data-bbox="1222 869 1254 1939">W1 Gross profit must be one third of own figure net sales revenue and labelled (1)</p>	Revenue	\$ 164 620	\$	Less returns inwards	<u>(1 084)</u>	(1)		163 536		Opening inventory	7 430 }*	(1)OF	Purchases	112 152	(1)OF	Goods for own use (balancing figure)	<u>(1 236)</u>	(1)OF	118 346	<u>(9 322) }</u> *	(1)*	Closing inventory	<u>(109 024)</u>	(1)OF	Cost of sales	54 512	(1)OF	Gross profit (W1)	7 465	(2)	Administrative expenses (W2)	1 480	(1)	Insurance (W3)	336	(1)	Irrecoverable debt	225	(1)	Loss on disposal of fittings (W4)	14 500	(3)	Rent of business premises	10 230	(1)OF	Staff wages	<u>1 840</u>	(3)	Depreciation of furniture and fittings (W5)	<u>(36 076)</u>	(1)OF	Profit for the year	<u>18 436</u>	(1)OF	14
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1(c)	<p>W2 Administrative expenses</p> <table style="margin-left: 40px;"> <tr> <td>Opening balance owing</td> <td style="text-align: right;">\$</td> <td></td> </tr> <tr> <td>Payments</td> <td style="text-align: right;">(472)</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Closing balance prepaid</td> <td style="text-align: right;">8 228</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>(291)</u></td> <td style="text-align: right;"><u>(1)</u></td> </tr> <tr> <td></td> <td style="text-align: right;">7 465</td> <td></td> </tr> </table> <p>W3 Insurance: paid \$1090 + opening prepayment \$390 = \$1480</p> <p>W4 Loss on disposal: valuation \$800 – receipts \$575 = \$225</p> <p>W5 Depreciation of furniture and fittings</p> <table style="margin-left: 40px;"> <tr> <td>Opening carrying value</td> <td style="text-align: right;">\$</td> <td style="text-align: right;">24 720</td> </tr> <tr> <td>Disposal</td> <td style="text-align: right;">(800)</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Additions</td> <td style="text-align: right;">4 500</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Closing carrying value</td> <td style="text-align: right;"><u>(26 580)</u></td> <td></td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">1 840</td> <td style="text-align: right;"><u>(1)OF</u></td> </tr> </table>	Opening balance owing	\$		Payments	(472)	(1)	Closing balance prepaid	8 228			<u>(291)</u>	<u>(1)</u>		7 465		Opening carrying value	\$	24 720	Disposal	(800)	(1)	Additions	4 500	(1)	Closing carrying value	<u>(26 580)</u>		Depreciation	1 840	<u>(1)OF</u>	
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1(d)(i)	<p>Calculate Jamila's share of profit or loss for both Option 1 and Option 2.</p> <p>Change in profits</p> <table style="margin-left: 40px;"> <tr> <td>Option 1</td> <td style="text-align: right;">\$(18 436 – 5000) / 2</td> <td style="text-align: right;">\$</td> <td style="text-align: right;">6718</td> <td style="text-align: right;">(1)OF</td> </tr> <tr> <td>Option 2</td> <td style="text-align: right;">\$([18 436 – 600] – 2400) (1) / 2</td> <td></td> <td style="text-align: right;">7718</td> <td style="text-align: right;">(1)OF</td> </tr> </table>	Option 1	\$(18 436 – 5000) / 2	\$	6718	(1)OF	Option 2	\$([18 436 – 600] – 2400) (1) / 2		7718	(1)OF	3																				
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1 (d)(ii)	<p>Advise the partners which option they should choose. Justify your answer.</p> <p>Max 3 marks for Option 1 Max 3 marks for Option 2 Max 4 marks in total for options 1 and 2 Decision (1)</p> <p>Option 1 (max 3) Will result in lower share of profits (1) Need to find an employee who can be trusted (1) The book-keeper may be able to help out in other areas and cut down on the partners' workload (1)</p> <p>Option 2 (max 3) Cost of purchase is a one-off cost (1) Will be able to handle large amounts of data (1) Training may be required (1) The partners may still have to employ another member of staff which will reduce profits further (1)</p> <p>Decision: either option supported by arguments (1) e.g. Option 2 because computerisation is a one-off cost</p> <p>Accept other valid responses</p>	5

Question	Answer	Marks
2(a)	<p>State two benefits of preparing regular bank reconciliation statements.</p> <p>Max 2</p> <p>Errors in the cash book will be discovered earlier and can be corrected (1)</p> <p>Errors made by the bank will be discovered earlier and can be communicated to them (1)</p> <p>Dishonoured cheques will be identified earlier and steps taken to recover the payments due from receivables (1)</p> <p>Amounts missing from the cash book would be identified earlier and could be posted to the accounts (1)</p> <p>There would be a lower risk of the business exceeding its overdraft limit (1)</p> <p>Accept other valid responses</p>	2

Question	Answer	Marks																																						
2(b)	<p>Prepare Sergio's bank reconciliation statement at 31 May 2020 to show the balance in the cash book <u>before</u> it is updated.</p> <p>Each mark is for an amount that is clearly identified with a label</p> <p style="text-align: center;">Bank reconciliation statement</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="width: 50%; text-align: right;">\$</td> </tr> <tr> <td>Balance per bank statement</td> <td style="text-align: right;">(12 350) (1)</td> </tr> <tr> <td>Correction of bank error</td> <td style="text-align: right;"><u>225 (1)</u></td> </tr> <tr> <td>Amended bank statement balance</td> <td style="text-align: right;">(12 125)</td> </tr> <tr> <td colspan="2">Unpresented cheques:</td> </tr> <tr> <td style="padding-left: 20px;">1681</td> <td style="text-align: right;">527</td> </tr> <tr> <td style="padding-left: 20px;">1682</td> <td style="text-align: right;">361</td> </tr> <tr> <td style="padding-left: 20px;">1683</td> <td style="text-align: right;"><u>1 260</u></td> </tr> <tr> <td colspan="2">Outstanding bankings</td> </tr> <tr> <td style="padding-left: 20px;">1 April</td> <td style="text-align: right;">1 211</td> </tr> <tr> <td style="padding-left: 20px;">2 April</td> <td style="text-align: right;">2 170</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>3 381 (1)</u></td> </tr> <tr> <td></td> <td style="text-align: right;">(10 892)</td> </tr> <tr> <td colspan="2">Bank charges</td> </tr> <tr> <td style="padding-left: 20px;">Bank interest</td> <td style="text-align: right;">90</td> </tr> <tr> <td style="padding-left: 20px;">Receipt from Alvaro</td> <td style="text-align: right;"><u>120</u></td> </tr> <tr> <td>Balance per cash book</td> <td style="text-align: right;">210 (1)</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>(360) (1)</u></td> </tr> <tr> <td></td> <td style="text-align: right;">(11 042) (1) OF</td> </tr> </table>		\$	Balance per bank statement	(12 350) (1)	Correction of bank error	<u>225 (1)</u>	Amended bank statement balance	(12 125)	Unpresented cheques:		1681	527	1682	361	1683	<u>1 260</u>	Outstanding bankings		1 April	1 211	2 April	2 170		<u>3 381 (1)</u>		(10 892)	Bank charges		Bank interest	90	Receipt from Alvaro	<u>120</u>	Balance per cash book	210 (1)		<u>(360) (1)</u>		(11 042) (1) OF	7
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2(c)	<p>Explain the benefits and drawbacks to Sergio of each option.</p> <p>Max 2 marks for benefits for each option Max 2 mark for drawbacks for each option Overall max 3 for each option</p> <p>Option 1 (max 3)</p> <p>Benefits (max 2) No security required (1) Sergio has less pressure (1) 100% of any future profits will go to Sergio (1)</p> <p>Drawbacks (max 2) The loan will need to be repaid within a relatively short period of time (1) The business might not do well enough to generate sufficient cash to pay it (1) The loan would not cover repayment of the overdraft (1)</p> <p>Option 2 (max 3)</p> <p>Benefits (max 2) Will clear overdraft and provide additional working capital (1) The arrangement is more formal (1) Sergio has a longer time to repay the loan (1)</p> <p>Drawbacks (max 2) The loan will cost Sergio more interest than borrowing from Miguel (1) Sergio now has more pressure to earn profits, probably higher than at present (1) Sergio could lose his business if he fails to repay as bank will take his assets (1)</p>	6

Question	Answer	Marks
3(a)(i)	<p>Identify <u>two</u> advantages to the company of a rights issue of ordinary shares.</p> <p>Max 2</p> <p>The company will gain additional cash from the rights issue (1) The issue will be cheaper than an issue by prospectus (1) The shares will be offered to existing shareholders and these investors will be more in favour of the company than finding new investors (1) Does not dilute ownership (1)</p> <p>Accept other valid responses</p>	2
3(a)(ii)	<p>Identify <u>two</u> advantages to the company of a bonus issue of ordinary shares.</p> <p>Max 2</p> <p>The bonus issue will keep existing shareholders satisfied (1) especially if there is no cash available for dividends (1) It will make use of capital reserves (1) Does not dilute ownership (1)</p> <p>Accept other valid responses</p>	2

Question	Answer	Marks																																																												
3(b)	<p data-bbox="197 1137 225 1939">Prepare the ledger accounts to record these transactions.</p> <p data-bbox="264 1171 292 1939">1 mark for all correct dates and correctly worded labels</p> <p data-bbox="331 1115 359 1514">Ordinary share capital account</p> <table border="1" data-bbox="392 689 807 1939"> <tbody> <tr> <td>2020</td> <td>\$</td> <td>2020</td> <td>\$</td> </tr> <tr> <td></td> <td></td> <td>January 1</td> <td>Balance b/d</td> </tr> <tr> <td></td> <td></td> <td>July 1</td> <td>Bank</td> </tr> <tr> <td></td> <td></td> <td>August 1</td> <td>Share premium</td> </tr> <tr> <td>December 31</td> <td>Balance c/d</td> <td><u>168 000</u></td> <td>Retained earnings</td> </tr> <tr> <td></td> <td></td> <td><u>168 000</u></td> <td><u>1 000</u></td> </tr> <tr> <td></td> <td></td> <td>2021</td> <td><u>168 000</u></td> </tr> <tr> <td></td> <td></td> <td>January 1</td> <td>Balance b/d</td> </tr> <tr> <td></td> <td></td> <td></td> <td>(1)OF</td> </tr> </tbody> </table> <p data-bbox="839 1106 866 1420">Share premium account</p> <table border="1" data-bbox="900 591 1107 1939"> <tbody> <tr> <td>2020</td> <td>\$</td> <td>2020</td> <td>\$</td> </tr> <tr> <td>August 1</td> <td>Ordinary share capital</td> <td>27 000</td> <td>January 1</td> </tr> <tr> <td></td> <td></td> <td></td> <td>Balance b/d</td> </tr> <tr> <td></td> <td></td> <td></td> <td>Bank</td> </tr> <tr> <td></td> <td></td> <td><u>27 000</u></td> <td><u>2 000</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td><u>27 000</u></td> </tr> </tbody> </table>	2020	\$	2020	\$			January 1	Balance b/d			July 1	Bank			August 1	Share premium	December 31	Balance c/d	<u>168 000</u>	Retained earnings			<u>168 000</u>	<u>1 000</u>			2021	<u>168 000</u>			January 1	Balance b/d				(1)OF	2020	\$	2020	\$	August 1	Ordinary share capital	27 000	January 1				Balance b/d				Bank			<u>27 000</u>	<u>2 000</u>				<u>27 000</u>	11
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3(b)	Retained earnings account										
	2020		\$	2020					\$		
	August 1	Ordinary share capital	1 000	(1)	January 1	Balance b/d			43 000		
	September 30	Dividend	26 880	(1)	December 31	Statement of profit or loss			18 000		
	December 31	Land	20 000	(1)OF							
		Balance c/d	<u>13 120</u>						<u> </u>		
			<u>61 000</u>						<u>61 000</u>		
					2021						
					January 1	Balance b/d			13 120		(1)OF

Question	Answer						Marks
4(a)	Apportion the service department costs by completing the table.						6
		Machining	Finishing	Stores	Canteen		
		\$	\$	\$	\$		
	Total indirect costs	458 000	565 100	132 000	170 000		
	Reapportionment of canteen costs	<u>50 000 (1)</u>	<u>90 000 (1)</u>	<u>30 000</u>	<u>(170 000)</u>		
		508 000	655 100	162 000	0		
	Reapportionment of stores	<u>75 600 (1)OF</u>	<u>86 400 (1)OF</u>	<u>(162 000)</u>			
	Total apportioned costs	<u>583 600 (1)OF</u>	<u>741 500 (1)OF</u>				

Question	Answer	Marks																								
4(b)	<p>Calculate, to <u>two</u> decimal places, a suitable overhead absorption rate for each of the production departments.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="width: 50%; text-align: right;">Machining</td> <td style="width: 50%;"></td> <td style="width: 50%; text-align: right;">Finishing</td> </tr> <tr> <td></td> <td style="text-align: right;">\$</td> <td></td> <td style="text-align: right;">\$</td> </tr> <tr> <td></td> <td style="text-align: right;">583 600</td> <td></td> <td style="text-align: right;">741 500</td> </tr> <tr> <td></td> <td style="text-align: right;">/ 45 000</td> <td></td> <td style="text-align: right;">/ 40 000</td> </tr> <tr> <td></td> <td style="text-align: right;">\$12.97 (1)OF</td> <td></td> <td style="text-align: right;">\$18.54 (1)OF</td> </tr> <tr> <td></td> <td style="text-align: right;">per machine hour (1)</td> <td></td> <td style="text-align: right;">per labour hour (1)</td> </tr> </table>		Machining		Finishing		\$		\$		583 600		741 500		/ 45 000		/ 40 000		\$12.97 (1)OF		\$18.54 (1)OF		per machine hour (1)		per labour hour (1)	4
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	per machine hour (1)		per labour hour (1)																							
4(c)	<p>Calculate the total price to quote to the customer.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="width: 50%; text-align: right;">\$</td> </tr> <tr> <td>Direct materials (20 kilos at \$5 per kilo)</td> <td style="text-align: right;">100.00 (1)</td> </tr> <tr> <td>Direct labour (8 hours at \$9 per hour)</td> <td style="text-align: right;">72.00 (1)</td> </tr> <tr> <td>Machining department overhead (2 × \$12.97)</td> <td style="text-align: right;">25.94 (1)OF</td> </tr> <tr> <td>Finishing department overhead (5 × \$18.54)</td> <td style="text-align: right;"><u>92.70 (1)OF</u></td> </tr> <tr> <td></td> <td style="text-align: right;">290.64</td> </tr> <tr> <td>Margin</td> <td style="text-align: right;"><u>193.76 (1)OF</u></td> </tr> <tr> <td>Price to quote</td> <td style="text-align: right;"><u>484.40 (1)OF</u></td> </tr> </table>		\$	Direct materials (20 kilos at \$5 per kilo)	100.00 (1)	Direct labour (8 hours at \$9 per hour)	72.00 (1)	Machining department overhead (2 × \$12.97)	25.94 (1)OF	Finishing department overhead (5 × \$18.54)	<u>92.70 (1)OF</u>		290.64	Margin	<u>193.76 (1)OF</u>	Price to quote	<u>484.40 (1)OF</u>	6								
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4(d)	<p>Advise the directors whether or not they should accept the offer. Justify your answer.</p> <p>Max 2 marks for reasons for accepting Max 2 marks for reasons for rejecting 1 mark for decision</p> <p>Accepting (max 2) Will ensure that workers are employed (1) Will ensure the factory keeps working (1) A gross margin of 25% will still cover the variable costs and earn some contribution (1) Factory may gain extra work as a result of satisfying this customer (1)</p> <p>Rejecting (max 2) It may lead to this customer looking for a lower margin/purchase price on all future orders (1) Other customers may learn of the reduction in price and all ask for their prices to be reduced (1) Might stop the company taking on more profitable orders if resources are being taken up with this (1)</p> <p>Decision: accept or reject, supported by reasoning (1) e.g. accept because some contribution is still earned</p> <p>Accept other valid responses</p>	5

Question	Answer	Marks
4(e)	<p>Advise the directors whether or not they should make this change. Justify your answer.</p> <p>Max 2 marks for changing Max 2 marks against changing 1 mark for decision supported by a comment</p> <p>For changing (Max 2 marks) Easier to calculate (1) No need to use arbitrary apportionment rates to charge factory-wide overheads to departments (1) Cheaper to calculate (1)</p> <p>Against making change (Max 2 marks) Different products may use more direct labour hours than machine hours (1) Less accurate (1) May lead to uncompetitive selling prices being charged (1) Different products may spend different time in each department (1)</p> <p>Decision for or against, supported by reasoning (1) e.g. factory should make change because it is easier to calculate</p>	5
4(f)	<p>Discuss the impact of over-absorption of overheads on the profits of a manufacturing business.</p> <p>Max 4 marks Will mean that too much overhead is charged to the product (1) This may lead to a higher price being charged to customers (1) leading to increased profit (1) Over absorption could lead to a higher selling price which could lead to lower demand (1) and lower profits (1)</p>	4

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