
ACCOUNTING

9706/32

Paper 3 Structured Questions

May/June 2017

MARK SCHEME

Maximum Mark: 150

Published

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2017 series for most Cambridge IGCSE[®], Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

PUBLISHED

Question	Answer	Marks																																																																																
1(a)	<div>Richard Ang</div> <div>Manufacturing account for year ended 31 July 2016</div> <table><tr><td></td><td>\$</td><td>\$</td><td></td></tr><tr><td>Opening inventory of raw materials</td><td></td><td>14 800</td><td></td></tr><tr><td>Purchases</td><td></td><td>207 600</td><td></td></tr><tr><td>Carriage inwards</td><td></td><td><u>6 800</u></td><td></td></tr><tr><td></td><td></td><td>229 200</td><td></td></tr><tr><td>Closing inventory of raw materials</td><td></td><td><u>16 400</u></td><td></td></tr><tr><td>Cost of raw materials consumed</td><td></td><td>212 800</td><td>(1)</td></tr><tr><td>Direct wages</td><td></td><td><u>171 500</u></td><td>(1)</td></tr><tr><td>Prime cost</td><td></td><td>384 300</td><td>(1)OF</td></tr><tr><td>Indirect wages</td><td></td><td>51 400</td><td></td></tr><tr><td>Factory overhead</td><td></td><td><u>161 000</u></td><td>(1)</td></tr><tr><td></td><td></td><td>596 700</td><td></td></tr><tr><td>Opening work in progress</td><td>23 500</td><td></td><td></td></tr><tr><td>Closing work in progress</td><td><u>20 200</u></td><td><u>3 300</u></td><td>(1)</td></tr><tr><td>Cost of goods manufactured</td><td></td><td>600 000</td><td></td></tr><tr><td>Factory profit 20%</td><td></td><td><u>120 000</u></td><td>(1)OF</td></tr><tr><td>Transferred to (Trading section of) the Income Statement</td><td></td><td><u>720 000</u></td><td>(1)OF</td></tr></table> <div>Workings</div> <table><tr><td>Direct wages</td><td>\$168 000+\$3500=\$171 500</td></tr><tr><td>Factory overheads:</td><td></td></tr><tr><td>Total rent:</td><td>\$24 000+\$16 000=\$40 000</td></tr><tr><td>Revised allocation rate 3:</td><td>1</td></tr><tr><td>Factory overheads:</td><td>\$40 000×3/4=\$30 000</td></tr><tr><td>Factory overheads</td><td>=\$155 000+(\$30 000–\$24 000)=\$161 000</td></tr></table>		\$	\$		Opening inventory of raw materials		14 800		Purchases		207 600		Carriage inwards		<u>6 800</u>				229 200		Closing inventory of raw materials		<u>16 400</u>		Cost of raw materials consumed		212 800	(1)	Direct wages		<u>171 500</u>	(1)	Prime cost		384 300	(1)OF	Indirect wages		51 400		Factory overhead		<u>161 000</u>	(1)			596 700		Opening work in progress	23 500			Closing work in progress	<u>20 200</u>	<u>3 300</u>	(1)	Cost of goods manufactured		600 000		Factory profit 20%		<u>120 000</u>	(1)OF	Transferred to (Trading section of) the Income Statement		<u>720 000</u>	(1)OF	Direct wages	\$168 000+\$3500=\$171 500	Factory overheads:		Total rent:	\$24 000+\$16 000=\$40 000	Revised allocation rate 3:	1	Factory overheads:	\$40 000×3/4=\$30 000	Factory overheads	=\$155 000+(\$30 000–\$24 000)=\$161 000	7
	\$	\$																																																																																
Opening inventory of raw materials		14 800																																																																																
Purchases		207 600																																																																																
Carriage inwards		<u>6 800</u>																																																																																
		229 200																																																																																
Closing inventory of raw materials		<u>16 400</u>																																																																																
Cost of raw materials consumed		212 800	(1)																																																																															
Direct wages		<u>171 500</u>	(1)																																																																															
Prime cost		384 300	(1)OF																																																																															
Indirect wages		51 400																																																																																
Factory overhead		<u>161 000</u>	(1)																																																																															
		596 700																																																																																
Opening work in progress	23 500																																																																																	
Closing work in progress	<u>20 200</u>	<u>3 300</u>	(1)																																																																															
Cost of goods manufactured		600 000																																																																																
Factory profit 20%		<u>120 000</u>	(1)OF																																																																															
Transferred to (Trading section of) the Income Statement		<u>720 000</u>	(1)OF																																																																															
Direct wages	\$168 000+\$3500=\$171 500																																																																																	
Factory overheads:																																																																																		
Total rent:	\$24 000+\$16 000=\$40 000																																																																																	
Revised allocation rate 3:	1																																																																																	
Factory overheads:	\$40 000×3/4=\$30 000																																																																																	
Factory overheads	=\$155 000+(\$30 000–\$24 000)=\$161 000																																																																																	

PUBLISHED

Question	Answer	Marks																																													
1(b)	<p style="text-align: center;">Richard Ang Income statement for year ended 31 July 2016</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th><th style="text-align: right;">\$</th><th style="text-align: right;">\$</th></tr> </thead> <tbody> <tr> <td>Revenue</td><td></td><td style="text-align: right;">986 000</td></tr> <tr> <td>Return inwards</td><td></td><td style="text-align: right;"><u>12 000</u></td></tr> <tr> <td></td><td></td><td style="text-align: right;">974 000 (1)</td></tr> <tr> <td>Opening inventory of finished goods</td><td style="text-align: right;">38 400 (1)</td><td></td></tr> <tr> <td>Transferred from Manufacturing Account</td><td style="text-align: right;"><u>720 000</u></td><td></td></tr> <tr> <td></td><td style="text-align: right;">758 400</td><td></td></tr> <tr> <td>Closing inventory of finished goods</td><td style="text-align: right;"><u>54 000</u></td><td style="text-align: right;">704 400</td></tr> <tr> <td>Gross profit</td><td></td><td style="text-align: right;">269 600 (1)OF</td></tr> <tr> <td>Office overheads</td><td></td><td style="text-align: right;">188 000 (1)</td></tr> <tr> <td>Carriage outwards</td><td></td><td style="text-align: right;"><u>17 500</u></td></tr> <tr> <td></td><td></td><td style="text-align: right;">64 100</td></tr> <tr> <td>Factory profit</td><td style="text-align: right;">120 000</td><td></td></tr> <tr> <td>Increase in provision for unrealised profit (54 000×20/120)(1)–(\$38 400×20/120)(1)</td><td style="text-align: right;"><u>2 600</u></td><td style="text-align: right;">117 400</td></tr> <tr> <td>Profit for the year</td><td></td><td style="text-align: right;"><u>181 500 (1)OF</u></td></tr> </tbody> </table> <p>* Must include the item of 'Transferred from Manufacturing Account' ** Must include the item of 'Factory profit'</p> <p>Workings</p> <p>Finished goods 01 Aug 2015, \$32 000×120%=\$38 400</p> <p>Office overheads \$194 000–(\$16 000 – \$40 000 × $\frac{1}{4}$)=\$188 000</p>		\$	\$	Revenue		986 000	Return inwards		<u>12 000</u>			974 000 (1)	Opening inventory of finished goods	38 400 (1)		Transferred from Manufacturing Account	<u>720 000</u>			758 400		Closing inventory of finished goods	<u>54 000</u>	704 400	Gross profit		269 600 (1)OF	Office overheads		188 000 (1)	Carriage outwards		<u>17 500</u>			64 100	Factory profit	120 000		Increase in provision for unrealised profit (54 000×20/120)(1)–(\$38 400×20/120)(1)	<u>2 600</u>	117 400	Profit for the year		<u>181 500 (1)OF</u>	7
	\$	\$																																													
Revenue		986 000																																													
Return inwards		<u>12 000</u>																																													
		974 000 (1)																																													
Opening inventory of finished goods	38 400 (1)																																														
Transferred from Manufacturing Account	<u>720 000</u>																																														
	758 400																																														
Closing inventory of finished goods	<u>54 000</u>	704 400																																													
Gross profit		269 600 (1)OF																																													
Office overheads		188 000 (1)																																													
Carriage outwards		<u>17 500</u>																																													
		64 100																																													
Factory profit	120 000																																														
Increase in provision for unrealised profit (54 000×20/120)(1)–(\$38 400×20/120)(1)	<u>2 600</u>	117 400																																													
Profit for the year		<u>181 500 (1)OF</u>																																													

PUBLISHED

Question	Answer	Marks																																			
1(c)	<table><tr><td></td><td>\$</td><td>\$</td><td></td></tr><tr><td>Current Assets</td><td></td><td></td><td></td></tr><tr><td>Inventory</td><td></td><td></td><td></td></tr><tr><td>Raw materials</td><td></td><td>16 400</td><td rowspan="2">}(1) for both</td></tr><tr><td>Work in progress</td><td></td><td>20 200</td></tr><tr><td>Finished goods</td><td>54 000</td><td></td><td></td></tr><tr><td>Less: Provisions for</td><td></td><td></td><td></td></tr><tr><td>Unrealised profit</td><td><u>(9 000)</u></td><td><u>45 000</u></td><td>(1)OF</td></tr><tr><td></td><td></td><td><u>81 600</u></td><td>(1)OF</td></tr></table>		\$	\$		Current Assets				Inventory				Raw materials		16 400	}(1) for both	Work in progress		20 200	Finished goods	54 000			Less: Provisions for				Unrealised profit	<u>(9 000)</u>	<u>45 000</u>	(1)OF			<u>81 600</u>	(1)OF	3
	\$	\$																																			
Current Assets																																					
Inventory																																					
Raw materials		16 400	}(1) for both																																		
Work in progress		20 200																																			
Finished goods	54 000																																				
Less: Provisions for																																					
Unrealised profit	<u>(9 000)</u>	<u>45 000</u>	(1)OF																																		
		<u>81 600</u>	(1)OF																																		
1(d)	<p>To remove unrealised profit from income statement (1) otherwise profits are overstated (1) by amount of unrealised profit.</p> <p>In accordance with the prudence concept (1), to ensure inventories are not overvalued (1) and are valued at cost and not cost plus a mark-up (1).</p> <p>Max 4</p>	4																																			
1(e)	<p>Responses could include:</p> <p>Advantages</p> <p>Family help</p> <p> Potential for new market</p> <p> Less risk of obsolete stock</p> <p>Disadvantages</p> <p> Less inventory to sell/may not be able to respond to increase in demand</p> <p> More competition</p> <p> May undercut him</p> <p> If doesn't charge sister he will lose profit</p> <p> If sister's business fails he might not get paid</p> <p>1 mark for each advantage. Max 2</p> <p>1 mark for each disadvantage. Max 2</p>	4																																			
	Total:	25																																			

PUBLISHED

Question	Answer	Marks																																	
2(a)	<p>(i) Return on capital employed $\frac{\\$400\,000^*}{\\$6\,300\,000} = 6.35\%$ (1)OF</p> <p>*Profit from ops for 2016 $\\$160\,000 \div (1-60\%) = \\$400\,000$</p> <p>(ii) Earnings per share $\frac{\\$400\,000}{1\,000\,000} = \\0.40 (1)OF</p> <p>(iii) Price earnings ratio $\frac{\\$6.4}{\\$0.4} = 16.00$ (1)OF</p> <p>(iv) Dividend cover $\frac{\\$400\,000}{\\$240\,000} = 1.67 \text{ times}$ (1)OF</p> <p>(v) Dividend yield $\frac{\\$240\,000}{1\,000\,000} = \\0.24 (1)OF</p> <p>$\frac{\\$0.24}{\\$6.4} = 3.75\%$ (1)OF</p>	8																																	
2(b)	<p>Share capital and reserves at 31 December 2017</p> <table> <tr> <td></td><td>\$000</td><td></td></tr> <tr> <td>Ordinary shares capital</td><td>6000</td><td>(1)</td></tr> <tr> <td>Share premium</td><td>700</td><td>(1)</td></tr> <tr> <td>Retained earnings (W1)</td><td><u>1034</u></td><td></td></tr> <tr> <td></td><td><u>7734</u></td><td></td></tr> </table> <table> <tr> <td>W1</td><td>\$000</td><td></td></tr> <tr> <td>Retained earnings at 1.1.2017</td><td>800</td><td>(1)</td></tr> <tr> <td>Profit for the year for 2017</td><td>585</td><td>(1)OF</td></tr> <tr> <td>(400+185)</td><td></td><td></td></tr> <tr> <td>Dividend paid $585 \times 60\%$</td><td><u>(351)</u></td><td>(1)OF</td></tr> <tr> <td>Retained earnings at 31.12.2017</td><td>1034</td><td>(1)OF</td></tr> </table>		\$000		Ordinary shares capital	6000	(1)	Share premium	700	(1)	Retained earnings (W1)	<u>1034</u>			<u>7734</u>		W1	\$000		Retained earnings at 1.1.2017	800	(1)	Profit for the year for 2017	585	(1)OF	(400+185)			Dividend paid $585 \times 60\%$	<u>(351)</u>	(1)OF	Retained earnings at 31.12.2017	1034	(1)OF	6
	\$000																																		
Ordinary shares capital	6000	(1)																																	
Share premium	700	(1)																																	
Retained earnings (W1)	<u>1034</u>																																		
	<u>7734</u>																																		
W1	\$000																																		
Retained earnings at 1.1.2017	800	(1)																																	
Profit for the year for 2017	585	(1)OF																																	
(400+185)																																			
Dividend paid $585 \times 60\%$	<u>(351)</u>	(1)OF																																	
Retained earnings at 31.12.2017	1034	(1)OF																																	

PUBLISHED

Question	Answer	Marks
2(c)	<p>(i) Return on capital employed $\frac{\\$585\,000}{\\$7\,734\,000} \times 100 = 7.56\%$ (1)OF (1)OF</p> <p>(ii) Earnings per share $\frac{\\$585\,000}{1\,200\,000} = \\0.49 (1)OF (1)</p>	6
2(d)	<p>Responses could include:</p> <ul style="list-style-type: none"> • Better/higher/increased return on capital employed • Better/higher/increased earnings per share • Share price may increase due to improved profitability • Share price may decrease with more shares in circulation • The project return is higher than the 2016 return on capital employed <p>(1 mark) for the recommendation + (1 mark × 4 reasons)</p>	5
	Total:	25

Question	Answer	Marks
3(a)	<p>Responses may include:</p> <ul style="list-style-type: none"> • Financial statements need to be understandable by different interested stakeholders; • Financial statements need to be relevant for decision making • Financial statements need to be reliable • Financial statements need to be comparable • Accounting policies adopted are appropriate • Accounting concepts/assumptions are adhered to, i.e. Prudence, accrual, going concern and consistency • To ensure fair representation and to show true and fair view • Form the basis of auditor's opinion <p>Accept any reasonable alternative (1 mark) × 4 valid points</p>	4

PUBLISHED

Question	Answer	Marks																																																															
3(b)	The directors manage the company on behalf of the owners (shareholders) (1) . They are accountable and report to the owners (shareholders) (1)	2																																																															
3(c)	<p style="text-align: center;">Z Limited Statement of financial position at 31 December 2016</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th><th style="text-align: right;">\$</th><th></th></tr> </thead> <tbody> <tr> <td>Non-current assets</td><td></td><td></td></tr> <tr> <td>Property, plant and equipment</td><td style="text-align: right;">491 500</td><td style="text-align: right;">(1)OF (\$478 000+21 000 (1)–7500 (1))</td></tr> <tr> <td></td><td style="text-align: right;"><u>491 500</u></td><td></td></tr> <tr> <td>Current assets</td><td></td><td></td></tr> <tr> <td>Inventories</td><td style="text-align: right;">124 000</td><td></td></tr> <tr> <td>Trade receivables</td><td style="text-align: right;">187 000</td><td style="text-align: right;">(1) (\$217 000–30 000)</td></tr> <tr> <td>Cash and cash equivalents</td><td style="text-align: right;"><u>132 000</u></td><td></td></tr> <tr> <td></td><td style="text-align: right;"><u>443 000</u></td><td></td></tr> <tr> <td> Total assets</td><td style="text-align: right;"> <u>934 500</u></td><td></td></tr> <tr> <td>Equity and liabilities</td><td></td><td></td></tr> <tr> <td>Equity</td><td></td><td></td></tr> <tr> <td>Ordinary shares of \$1 each</td><td style="text-align: right;">500 000</td><td></td></tr> <tr> <td>Retained earnings</td><td style="text-align: right;"><u>164 500</u></td><td style="text-align: right;">(\$210 000–29 000 (1)–9000 (1)</td></tr> <tr> <td>Total equity</td><td style="text-align: right;"><u>664 500</u></td><td style="text-align: right;">–7500 (1))</td></tr> <tr> <td>Current liabilities</td><td></td><td></td></tr> <tr> <td>Trade payables</td><td style="text-align: right;">188 000</td><td></td></tr> <tr> <td>Provision for compensation</td><td style="text-align: right;">29 000</td><td style="text-align: right;">(1)</td></tr> <tr> <td>Taxation</td><td style="text-align: right;"><u>53 000</u></td><td></td></tr> <tr> <td></td><td style="text-align: right;"><u>270 000</u></td><td></td></tr> <tr> <td> Total equity and liabilities</td><td style="text-align: right;"> <u>934 500</u></td><td></td></tr> </tbody> </table>		\$		Non-current assets			Property, plant and equipment	491 500	(1)OF (\$478 000+21 000 (1) –7500 (1))		<u>491 500</u>		Current assets			Inventories	124 000		Trade receivables	187 000	(1) (\$217 000–30 000)	Cash and cash equivalents	<u>132 000</u>			<u>443 000</u>		 Total assets	 <u>934 500</u>		Equity and liabilities			Equity			Ordinary shares of \$1 each	500 000		Retained earnings	<u>164 500</u>	(\$210 000–29 000 (1) –9000 (1)	Total equity	<u>664 500</u>	–7500 (1))	Current liabilities			Trade payables	188 000		Provision for compensation	29 000	(1)	Taxation	<u>53 000</u>			<u>270 000</u>		 Total equity and liabilities	 <u>934 500</u>		8
	\$																																																																
Non-current assets																																																																	
Property, plant and equipment	491 500	(1)OF (\$478 000+21 000 (1) –7500 (1))																																																															
	<u>491 500</u>																																																																
Current assets																																																																	
Inventories	124 000																																																																
Trade receivables	187 000	(1) (\$217 000–30 000)																																																															
Cash and cash equivalents	<u>132 000</u>																																																																
	<u>443 000</u>																																																																
 Total assets	 <u>934 500</u>																																																																
Equity and liabilities																																																																	
Equity																																																																	
Ordinary shares of \$1 each	500 000																																																																
Retained earnings	<u>164 500</u>	(\$210 000–29 000 (1) –9000 (1)																																																															
Total equity	<u>664 500</u>	–7500 (1))																																																															
Current liabilities																																																																	
Trade payables	188 000																																																																
Provision for compensation	29 000	(1)																																																															
Taxation	<u>53 000</u>																																																																
	<u>270 000</u>																																																																
 Total equity and liabilities	 <u>934 500</u>																																																																

PUBLISHED

Question	Answer	Marks
3(d)	<p>Treatment of compensation (reference IAS 37) (1) There is a 90% probability(1) of losing the case. Therefore a provision for compensation (\$29 000) should be shown as a current liability/other payable (1)</p> <p>Treatment of trade receivables Z Limited only recovered \$21 000 in the form of non-current assets. (1) The remaining \$9000 which is irrecoverable debt should be written off as bad debt (or a specific provision) against retained earnings (1). The full \$30 000 has been deducted from trade receivables (1).</p> <p>Treatment of machinery (reference IAS 36) (1) According to IAS 36, an asset is impaired when its carrying amount (\$40 000) is more than its recoverable amount (\$32 500). (1). Recoverable amount is the higher of its fair value (\$32 500) and value in use (\$19 500)(1). The impaired loss of the piece of machinery is \$7500 (\$40 000–\$32 500) which has to be written off against retained earnings. (1)</p> <p>Max 2 marks for each adjustment</p>	6
3(e)	<p>Advantages</p> <ul style="list-style-type: none"> • increase the credibility/reliability of accounts • maybe helpful if Jack wants to apply for a bank loan/investment from 3rd parties • help identify weaknesses in the internal procedures <p>Disadvantages</p> <ul style="list-style-type: none"> • high cost of audit fee • no segregation of ownership and management in Jack's business • no need for audit as sole trader <p>Max 3 marks for the advantages and Max 2 marks for the disadvantages</p>	5
	Total:	25

PUBLISHED

Question	Answer	Marks																																																			
4(a)	Goodwill is the amount paid for the acquisition of a business in excess of the acquired business' separable net assets at fair value	1																																																			
4(b)	<p>Purchase consideration</p> <table> <tr> <td>Profit before appropriation:</td><td></td><td></td></tr> <tr> <td>Residual profit (36 000+24 000)</td><td>60 000</td><td></td></tr> <tr> <td>Partners' salaries (30 000+45 000)</td><td>75 000</td><td></td></tr> <tr> <td>Interest on capital (15 000+10 000)</td><td><u>25 000</u></td><td></td></tr> <tr> <td></td><td><u>160 000</u></td><td>(1)</td></tr> <tr> <td>× 5</td><td></td><td>800 000 (1) OF</td></tr> <tr> <td>Fair value of net assets taken over</td><td></td><td></td></tr> <tr> <td></td><td>\$</td><td></td></tr> <tr> <td>Land and buildings</td><td>450 000</td><td></td></tr> <tr> <td>Plant and machinery</td><td>120 000</td><td></td></tr> <tr> <td>Motor vehicles</td><td>60 000</td><td></td></tr> <tr> <td>Inventory</td><td>49 000</td><td></td></tr> <tr> <td>Trade receivables</td><td><u>52 000</u></td><td></td></tr> <tr> <td></td><td>731 000</td><td></td></tr> <tr> <td>Trade payable</td><td><u>(39 000)</u></td><td></td></tr> <tr> <td></td><td></td><td><u>692 000</u> (1)</td></tr> <tr> <td>Goodwill</td><td></td><td><u>108 000</u> (1) OF</td></tr> </table>	Profit before appropriation:			Residual profit (36 000+24 000)	60 000		Partners' salaries (30 000+45 000)	75 000		Interest on capital (15 000+10 000)	<u>25 000</u>			<u>160 000</u>	(1)	× 5		800 000 (1) OF	Fair value of net assets taken over				\$		Land and buildings	450 000		Plant and machinery	120 000		Motor vehicles	60 000		Inventory	49 000		Trade receivables	<u>52 000</u>			731 000		Trade payable	<u>(39 000)</u>				<u>692 000</u> (1)	Goodwill		<u>108 000</u> (1) OF	4
Profit before appropriation:																																																					
Residual profit (36 000+24 000)	60 000																																																				
Partners' salaries (30 000+45 000)	75 000																																																				
Interest on capital (15 000+10 000)	<u>25 000</u>																																																				
	<u>160 000</u>	(1)																																																			
× 5		800 000 (1) OF																																																			
Fair value of net assets taken over																																																					
	\$																																																				
Land and buildings	450 000																																																				
Plant and machinery	120 000																																																				
Motor vehicles	60 000																																																				
Inventory	49 000																																																				
Trade receivables	<u>52 000</u>																																																				
	731 000																																																				
Trade payable	<u>(39 000)</u>																																																				
		<u>692 000</u> (1)																																																			
Goodwill		<u>108 000</u> (1) OF																																																			

PUBLISHED

Question	Answer						Marks																																																																																																																													
4(c)	<table><tr><td></td><td></td><td></td><td>\$</td><td></td><td>\$</td><td></td></tr><tr><td>Purchase consideration</td><td></td><td></td><td></td><td></td><td>800 000</td><td>(1) OF</td></tr><tr><td>Value of motor vehicle taken over</td><td></td><td></td><td></td><td></td><td><u>28 000</u></td><td>(1)</td></tr><tr><td></td><td></td><td></td><td></td><td></td><td>828 000</td><td></td></tr><tr><td>Book value of net assets</td><td></td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>Land and buildings</td><td></td><td></td><td>320 000</td><td></td><td></td><td></td></tr><tr><td>Plant and machinery</td><td></td><td></td><td>135 000</td><td></td><td></td><td></td></tr><tr><td>Motor vehicles</td><td></td><td></td><td>110 000</td><td></td><td></td><td></td></tr><tr><td>Inventory</td><td></td><td></td><td>38 000</td><td></td><td></td><td></td></tr><tr><td>Trade receivables</td><td></td><td></td><td>54 000</td><td></td><td></td><td></td></tr><tr><td>Trade payables</td><td></td><td></td><td><u>(39 000)</u></td><td></td><td><u>618 000</u></td><td>(1)</td></tr><tr><td>Profit on realisation</td><td></td><td></td><td></td><td></td><td><u>210 000</u></td><td>(1) OF</td></tr></table>									\$		\$		Purchase consideration					800 000	(1) OF	Value of motor vehicle taken over					<u>28 000</u>	(1)						828 000		Book value of net assets							Land and buildings			320 000				Plant and machinery			135 000				Motor vehicles			110 000				Inventory			38 000				Trade receivables			54 000				Trade payables			<u>(39 000)</u>		<u>618 000</u>	(1)	Profit on realisation					<u>210 000</u>	(1) OF	4																																									
			\$		\$																																																																																																																															
Purchase consideration					800 000	(1) OF																																																																																																																														
Value of motor vehicle taken over					<u>28 000</u>	(1)																																																																																																																														
					828 000																																																																																																																															
Book value of net assets																																																																																																																																				
Land and buildings			320 000																																																																																																																																	
Plant and machinery			135 000																																																																																																																																	
Motor vehicles			110 000																																																																																																																																	
Inventory			38 000																																																																																																																																	
Trade receivables			54 000																																																																																																																																	
Trade payables			<u>(39 000)</u>		<u>618 000</u>	(1)																																																																																																																														
Profit on realisation					<u>210 000</u>	(1) OF																																																																																																																														
4(d)	<table><tr><td></td><td>Alex</td><td></td><td>Brown</td><td></td><td>Alex</td><td></td><td>Brown</td></tr><tr><td></td><td>\$</td><td></td><td>\$</td><td></td><td>\$</td><td></td><td>\$</td></tr><tr><td>Motor vehicle taken over</td><td>28 000</td><td>(1)</td><td></td><td>Balance b/d</td><td>300 000</td><td>)</td><td>200 000</td><td>) (1)</td></tr><tr><td>C Ltd -Debs – 8% debentures</td><td>187 500</td><td>(1)</td><td>125 000</td><td>(1)</td><td>Current A/cs</td><td>76 000</td><td>)</td><td>61 000</td><td>) (1)</td></tr><tr><td>C Ltd - Shares – ordinary shares</td><td>216 000</td><td>(1)OF</td><td>144 000</td><td>(1)OF</td><td>Profit</td><td>126 000</td><td>(1)OF</td><td>84 000</td><td>(1)OF</td></tr><tr><td>Cash/bank</td><td><u>70 500</u></td><td>(1)OF</td><td><u>76 000</u></td><td>(1)OF</td><td></td><td></td><td></td><td></td><td></td></tr><tr><td></td><td><u>502 000</u></td><td></td><td><u>345 000</u></td><td></td><td><u>502 000</u></td><td></td><td><u>345 000</u></td><td></td><td></td></tr></table> <p>Workings:</p> <table><tr><td></td><td></td><td></td><td>\$</td><td></td><td>\$</td></tr><tr><td>Purchase consideration</td><td></td><td></td><td></td><td></td><td>800 000</td></tr><tr><td>Cash</td><td></td><td></td><td></td><td></td><td>(127 500)</td></tr><tr><td>8% Debentures</td><td></td><td></td><td></td><td></td><td></td></tr><tr><td> Alex \$15 000÷8%</td><td></td><td></td><td>187 500</td><td>(1)</td><td></td></tr><tr><td> Brown \$10 000÷8%</td><td></td><td></td><td>125 000</td><td>(1)</td><td><u>(312 500)</u></td></tr><tr><td>Settled by ordinary shares</td><td></td><td></td><td></td><td></td><td>360 000</td></tr><tr><td> Alex \$360 000×60%</td><td></td><td></td><td>216 000</td><td>(1)OF</td><td></td></tr><tr><td> Brown \$360 000×40%</td><td></td><td></td><td>144 000</td><td>(1)OF</td><td><u>(360 000)</u></td></tr><tr><td></td><td></td><td></td><td></td><td></td><td><u>0</u></td></tr></table>							Alex		Brown		Alex		Brown		\$		\$		\$		\$	Motor vehicle taken over	28 000	(1)		Balance b/d	300 000)	200 000) (1)	C Ltd -Debs – 8% debentures	187 500	(1)	125 000	(1)	Current A/cs	76 000)	61 000) (1)	C Ltd - Shares – ordinary shares	216 000	(1)OF	144 000	(1)OF	Profit	126 000	(1)OF	84 000	(1)OF	Cash/bank	<u>70 500</u>	(1)OF	<u>76 000</u>	(1)OF							<u>502 000</u>		<u>345 000</u>		<u>502 000</u>		<u>345 000</u>						\$		\$	Purchase consideration					800 000	Cash					(127 500)	8% Debentures						Alex \$15 000÷8%			187 500	(1)		Brown \$10 000÷8%			125 000	(1)	<u>(312 500)</u>	Settled by ordinary shares					360 000	Alex \$360 000×60%			216 000	(1)OF		Brown \$360 000×40%			144 000	(1)OF	<u>(360 000)</u>						<u>0</u>	11
	Alex		Brown		Alex		Brown																																																																																																																													
	\$		\$		\$		\$																																																																																																																													
Motor vehicle taken over	28 000	(1)		Balance b/d	300 000)	200 000) (1)																																																																																																																												
C Ltd -Debs – 8% debentures	187 500	(1)	125 000	(1)	Current A/cs	76 000)	61 000) (1)																																																																																																																											
C Ltd - Shares – ordinary shares	216 000	(1)OF	144 000	(1)OF	Profit	126 000	(1)OF	84 000	(1)OF																																																																																																																											
Cash/bank	<u>70 500</u>	(1)OF	<u>76 000</u>	(1)OF																																																																																																																																
	<u>502 000</u>		<u>345 000</u>		<u>502 000</u>		<u>345 000</u>																																																																																																																													
			\$		\$																																																																																																																															
Purchase consideration					800 000																																																																																																																															
Cash					(127 500)																																																																																																																															
8% Debentures																																																																																																																																				
Alex \$15 000÷8%			187 500	(1)																																																																																																																																
Brown \$10 000÷8%			125 000	(1)	<u>(312 500)</u>																																																																																																																															
Settled by ordinary shares					360 000																																																																																																																															
Alex \$360 000×60%			216 000	(1)OF																																																																																																																																
Brown \$360 000×40%			144 000	(1)OF	<u>(360 000)</u>																																																																																																																															
					<u>0</u>																																																																																																																															

PUBLISHED

Question	Answer	Marks
4(e)	<p>The responses may include:</p> <ul style="list-style-type: none"> • ROCE before the acquisition is 7.79% (\$352 000/\$4 516 000) • Additional return from this acquisition is 23.5% <(\$540 000–\$352 000)/\$800 000> • Shareholders may receive higher dividend • Improvement through the synergy effect, e.g. greater buying power, discounts from suppliers • Economy of scale • Alex and Brown's skills, experience and methods may bring additional benefits • Goodwill of partnership brings additional revenue/customers • Efficiency in operation • Access to wider market <p>(1 mark) × 5 valid points</p>	5
	Total:	25

Question	Answer	Marks																												
5(a)	<div>Flexed budget for April</div> <table><tr><td></td><td>\$</td><td>\$</td><td></td></tr><tr><td>Sales</td><td></td><td>270 000</td><td>(1)</td></tr><tr><td>Direct labour</td><td>75 600</td><td>(1)</td><td></td></tr><tr><td>Direct materials</td><td>65880</td><td>(1)</td><td></td></tr><tr><td>Variable overheads</td><td>18000</td><td>(1)</td><td></td></tr><tr><td>Fixed overheads</td><td><u>19300</u></td><td>(1)</td><td><u>178 780</u></td></tr><tr><td>Profit</td><td></td><td><u>91220</u></td><td>(1)OF</td></tr></table>		\$	\$		Sales		270 000	(1)	Direct labour	75 600	(1)		Direct materials	65880	(1)		Variable overheads	18000	(1)		Fixed overheads	<u>19300</u>	(1)	<u>178 780</u>	Profit		<u>91220</u>	(1)OF	6
	\$	\$																												
Sales		270 000	(1)																											
Direct labour	75 600	(1)																												
Direct materials	65880	(1)																												
Variable overheads	18000	(1)																												
Fixed overheads	<u>19300</u>	(1)	<u>178 780</u>																											
Profit		<u>91220</u>	(1)OF																											
5(b)(i)	LEV = 1050 (1) A (1)	2																												
5(b)(ii)	LRV = 18 980 (1) A (1)	2																												
5(b)(iii)	MUV = 1220 (1) A (1)	2																												
5(b)(iv)	MPV = 3850 (1) F (1)	2																												

PUBLISHED

Question	Answer	Marks
5(c)	<p>MUV – extra hours meant staff were demotivated/tired which increased wastage (1) inefficient use of material (1) MPV – quantity discount given (1) purchased materials from cheaper supplier (1)</p> <p>Maximum 1 for MUV and 1 for MPV</p>	2
5(d)	<p>The suggestion appears sound (1) because the actual labour costs are higher (1) by \$11 390 (2)* than labour costs under the suggestion.</p> <p>* (\$95 630 (1)–\$84 240 (1))=\$11 390</p> <p>But inexperienced staff might make more errors (1) leading to an increase in the adverse materials usage variance. (1). Although labour costs are saved there will be higher training costs (1) which will impact on production/profit (1).</p> <p>Decision (1) Justification (5)</p>	6
5(e)	<p>Helps preparation of budgets. Helps calculation of quotes/prices. Highlights the activities giving rise to the variances. Enables responsibility accounting.</p> <p>Any three comments × (1 mark)</p>	3

PUBLISHED

Question	Answer							Marks
6(a)		Year 0	Year 1	Year2	Year 3	Year 4	Year 5	5
		\$	\$	\$	\$	\$	\$	
	Initial outlay	(125 000)						(1)OF
	One-off service cost		(1 000)					} (1) both
	Resale value						65 000	
	Sales price increase		10 000	10 000	10 000	10 000	10000	(1) row
	Variable cost decrease		20000	20000	20000	20000	20000	(1) row
	Maintenance costs		(5000)	(5 000)	(5000)	(5000)	(5000)	(1) row
	Total cash flows	<u>(125 000)</u>	<u>24 000</u>	<u>25000</u>	<u>25 000</u>	<u>25 000</u>	<u>90 000</u>	
6(b)	Year	Net cash flow						2
		\$						
	1	24 000	} \$99 000					
	2	25 000						
	3	25000						
	4	25000						
	5	90000						

PUBLISHED

Question	Answer								Marks																																																																
6(d)	<table><thead><tr><th></th><th>Year 0</th><th>Year 1</th><th>Year2</th><th>Year 3</th><th>Year 4</th><th>Year 5</th><th>NPV</th></tr><tr><th></th><th>\$</th><th>\$</th><th>\$</th><th>\$</th><th>\$</th><th>\$</th><th>\$</th></tr></thead><tbody><tr><td>Total cash flows</td><td>(125 000)</td><td>24 000</td><td>25 000</td><td>25 000</td><td>25 000</td><td>90 000</td><td></td></tr><tr><td>Discount factor</td><td>1</td><td>0.909</td><td>0.826</td><td>0.751</td><td>0.683</td><td>0.621</td><td></td></tr><tr><td>Discounted cash flow</td><td>(125 000)</td><td>21 816</td><td>20 650</td><td>18 775</td><td>17 075</td><td>55 890</td><td>9206</td></tr><tr><td></td><td>(1)OF</td><td></td><td></td><td></td><td></td><td></td><td>(1)OF</td></tr><tr><td></td><td></td><td>⌋</td><td>⌋</td><td>⌋</td><td>⌋</td><td>⌋</td><td></td></tr><tr><td></td><td></td><td colspan="6">all 5 years (1)OF</td></tr></tbody></table>									Year 0	Year 1	Year2	Year 3	Year 4	Year 5	NPV		\$	\$	\$	\$	\$	\$	\$	Total cash flows	(125 000)	24 000	25 000	25 000	25 000	90 000		Discount factor	1	0.909	0.826	0.751	0.683	0.621		Discounted cash flow	(125 000)	21 816	20 650	18 775	17 075	55 890	9206		(1)OF						(1)OF			⌋	⌋	⌋	⌋	⌋				all 5 years (1)OF						3
	Year 0	Year 1	Year2	Year 3	Year 4	Year 5	NPV																																																																		
	\$	\$	\$	\$	\$	\$	\$																																																																		
Total cash flows	(125 000)	24 000	25 000	25 000	25 000	90 000																																																																			
Discount factor	1	0.909	0.826	0.751	0.683	0.621																																																																			
Discounted cash flow	(125 000)	21 816	20 650	18 775	17 075	55 890	9206																																																																		
	(1)OF						(1)OF																																																																		
		⌋	⌋	⌋	⌋	⌋																																																																			
		all 5 years (1)OF																																																																							
6(e)	$10\% (1) + \left[20 - 10(1) \times \frac{9206}{9206 + 24953} (1OF) \right] = 12.695\% (1)OF$								4																																																																
6(f)	NPV Both are positive but alternative machine has the better/higher NPV (1) IRR First machine has the better/higher IRR (1) Payback First machine has the better/shorter payback (1) Cost First machine has the lower initial outlay which helps as Tisha has limited capital available (1) Choose the first machine (1) 1 For decision + Maximum 3 for reasons								4																																																																
6(g)	Cash flow patterns (1) how reliable are they? (1) Which one is closest to current ROCE (1) Cost of capital (1) Source of capital/funding (1) Quality of output (1) Training time/costs (1) Environmental issues (1) 1 mark for valid point, Max 4								4																																																																
	Total:								25																																																																