Example Candidate Responses

Cambridge International AS and A Level Accounting

9706

Paper 3 – Structured Questions

Cambridge Advanced

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Contents

Introduction

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

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

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

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

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

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

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

How to use this booklet

Example candidate response – high	Examiner comments
	① It is useful, although not always necessary, to start off with a clear d...

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

> **Examiner comments** are alongside the answers, linked to specific part of the answer. These explain where and why marks were awarded. This helps you to interpret the standard of Cambridge exams and helps your learners to refine their exam technique.

How the candidate could have improved their answer

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

In addition, three benefits have been explained. Presu... rather than foreseen but the candidate has explained su... answer.

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

Common mistakes candidates made in this question

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

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

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

Assessment at a glance

For Cambridge International AS & A Level Accounting, candidates:

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

or

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

or

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

All components are externally assessed.

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

Teachers are reminded that the latest syllabus is available on our public website at **www.cie.org.uk** and Teacher Support at **https://teachers.cie.org.uk**

Paper 3 – Structured Questions

Question 1

Example candidate response – high	Examiner comments
1 (a) 1. The amount received as donation may be different ~~every~~ each year while the annual subscription received by each member is fixed every year. annual 2. A member, subscription is paid by the same person every year while ~~a~~ donations may be received by different persons or organisations. ~~3. A member subscription can be received annually or~~ 3. The two types of member subscription are annual and life membership subscription while the two types of donations are general and specific. **2** (b) Sunshine Social Club Shop trading account for the year ended 31 December 2015	**1** This script is a good example of a high-level answer. **2** No marks are awarded for the third answer. The question asked candidates to state the difference between a donation and a member subscription. This answer simply states features of each. Mark for (a) = 2/3

Sunshine Social Club
Shop trading account for the year ended 31 December 2015

	$	$
Shop takings		124 200
Less Cost of Sales		
Opening inventory	24 000	
+ Purchases (w1)	84 300	
	108 300	
- Closing inventory	(18 600)	(89 700)
Shop gross profit		34 500
Less Expenses		
Water and electricity (w2)	5640	
Insurance (w3)	2300	
Provision for depreciation on shop equipment (w4)	1800	
Shopkeeper wages (w5) **3**	27 200	(46 940)
Shop loss		(12 440)

3 No marks are awarded for the shopkeeper's wages. The candidate does not adjust the accruals and prepayments correctly.

Example candidate response – high, continued	Examiner comments

Workings:

W1: Purchases = Amount paid - Owing at start + owing at end
$= \$74500 - 54500 + 64300$
$= \$84300$

W2: W & E $= 40\% \times [14800 - 2700 + 2000]$
$= 40\% \times 14100$
$= \$5640$

W3: Insurance $= 25\% \times [9460 + 1400 - 1660]$
$= 25\% \times 9200$
$= \$2300$

W4:
	$
Net book value of shop eq at start	55 000
+ Purchase of shop equipment	4 000
	59 000

Depreciation $= 20\% \times 59000$
$= \$11800$

W5: Shopkeeper wages $= \$30400 - 3200$
$= \$27200$

Mark for (b) = 13/15

(c) 1. The chairman can try to find alternatives to the existing purchases of the gift shop, for example the supplies of the gift shop can be bought from other suppliers at a lower price. This would reduce cost of sales and increase profit. However, the quality of the gifts should also be considered as a lower quality gifts might result in lower shop takings. **4**

4 This is a good answer. The candidate recognises that there will be a possible hidden cost of lower quality, which may reduce sales if the chairman buys cheaper products.

Example candidate response – high, continued	Examiner comments
2. The chairman can also review the shopkeeper wages which has a major contribution to the shop loss. He can employ new shopkeepers at a lower wage rate. However, the cost of training the new shopkeepers should also be considered as well as their existing knowledge about the work. **5**	**5** The candidate looks closely at the impact of employing new, cheaper shop staff, by considering the training cost implications. Excellent points. Mark for (c) = 4/4

(d) $
Annual ball tickets   68 000
– Hire of ballroom and band for
    annual ball   (40 000)
– food for annual ball   (36 000)
deficit from annual ball   (16 000)
 	
Contribution by chairman = 50% × 16000 **6**
                  = $ 8000
	6 A fully correct answer.
	
	Mark for (d) = 3/3
	
	Total marks awarded = 22 out of 25

How the candidate could have improved their answer

(a) This candidate needed to provide one more difference between a donation and a member subscription to gain the third mark.

(b) The candidate needed to apply the opening and closing adjustments for the shopkeeper's wages in the correct direction.

Mark awarded = **(a) 2/3**
Mark awarded = **(b) 13/15**
Mark awarded = **(c) 4/4**
Mark awarded = **(d) 3/3**

Total marks awarded = 22 out of 25

Example candidate response – middle	Examiner comments

1 In the books of Sunshine Social Club.

Water & Electricity A/c

	φ		φ	2000	2700
Payments	14800	Balance	2000	14500	13500
Balance b/d		I & E	(15500)		
2 Balance c/d	2700	Balance c/d	I		

Equipment A/c

b/d	(6000) 5		(000)		
Adds	4000	c/d	59000		

Insurance A/c

	φ		φ	1400	1660
Balance b/d	1660	Balance c/d		9060	(9200)
Payments	9460	I & E	(9720)		
Balance c/d		Balance c/d	1400		

A/c

40000

(a) A donation is given by first funds or individuals to be used for the financement of non profit making organisations activities."

3 whereas a member subscription received is income received to to the non profit making organisation. A donation is given without any service in exchange whereas a subscription is paid by individuals as they are a member.

Examiner comments:

1 This answer is awarded 17/25. It is a good example of a middle-level script.

2 This is a good example of showing workings; doing this allows the examiner to refer to them and award marks as appropriate.

3 The candidate correctly identifies two differences between a donation and a member's subscription. However, the question asked for three differences, so only two marks can be awarded.

Mark for (a) = 2/3

Example candidate response – middle, continued	Examiner comments

(b) Trading account for the year ended 31 December 2015.

	$	$
Shop takings		124200
Opening inventory	24 000	
Add purchases	84 300	
Less closing inventory	(18600)	
Cost of sales		(89700)
Gross profit **4**		34500
Less shop expenses :-		
Water and electricity **5**	5520	
Insurance	2200	
Depreciation of shop equipment	11 800	
Shopkeeper wages	23750	
		(43370)
Loss for the year. **6**		8870

(c)

(i) Club can motivate staffs **7** by making job rotations. This will diversify their activities

(ii) Additional training can be given to employees so that they can improve their skills and creativity **8**

Examiner comments:

4 Good labelling of gross profit.

5 The figure for water and electricity is incorrect. Looking back at the workings above, it can be seen that the candidate has applied the adjustments of $2 700 and $2 000 in the wrong direction.

6 Again, good labelling, allowing the examiner to reward the own figure loss for the year.

Mark for (b) = 12/15

7 Although it is a good thing to do, motivating staff will not necessarily increase takings and reduce the shop loss.

8 No marks can be awarded for this. The candidate does not acknowledge the cost associated with training. It is also debatable whether training alone will increase takings or reduce the shop loss.

Mark for (c) = 0/4

Example candidate response – middle, continued	Examiner comments
(d) Annual ball tickets – $ 68000 less Hire of ballroom, band (48000) for annual ball and food. (36000) Deficit 16000 **9** Contribute of chairman = 50% x 16000 = $8000	**9** A perfectly correct calculation. Mark for (d) = 3/3 **Total marks awarded = 17 out of 25**

How the candidate could have improved their answer

(a) The candidate needed to give another difference here.

(b) The candidate used the wrong payment figure for the water and electricity ($14 500 rather than $14 800). This led to an incorrect calculation of the charge allocated to the shop trading account.

(c) Neither of the two suggestions for improving the shop sales was valid. Ideas which would have a direct and immediate impact on the level of sales in the shop were required here.

Mark awarded = **(a) 2/3**
Mark awarded = **(b) 12/15**
Mark awarded = **(c) 0/4**
Mark awarded = **(d) 3/3**

Total marks awarded = 17 out of 25

Example candidate response – low	Examiner comments

Example candidate response – low

(1) a) The difference between a donation and a member subscription is that a donation is made by someone who could be a member or a non-member of the club for a specific intention or for the club's activities. Where as **(2)** a member subscription is made by a member to join the club. Secondly, a donation does not have a fixed amount but a subscription has a fixed amount. Lastly, a donation could be used for multiple purposes while a subscription is to be re-invested into the club for the members benefits.

b) ~~Shop to~~ Club's shop trading account for the year ended 31 December 2015

Shop takings		124 200
Less: Cost of sales		
(3) Opening inventory	24 000	
(+) Purchases (74 500 +64300 − 54500)	84 300	
	108 300	
Less: Closing inventory	18 600	
		89 700
Gross profit **(4)**		34 500
Less: Expenses		
Shopkeeper wages (30 400 − 3200) **(5)**		27 200
Net profit		7 300

Examiner comments

(1) Overall, this answer scores 11/25 and is an example of a low-level script.

(2) This is a good answer, with the candidate identifying three clear differences between a donation and a member subscription.

Mark for (a) = 3/3

(3) Very few marks can be awarded here because the expenses for depreciation of the shop equipment, shop insurance, and shop water and electricity have not been included. The question identified the proportions of the total for insurance and electricity that should be allocated to the shop, together with accruals and prepayments in respect of them.

(4) Good labelling of gross profit.

(5) Although the candidate correctly includes the shopkeeper's wages as an expense, the adjustments for accrued and prepaid wages has not been made correctly, so no marks can be awarded.

Mark for (b) = 4/15

Example candidate response – low, continued	Examiner comments

Example candidate response – low, continued

c) Two ways to improve the performance of the gift shop is to provide better.

6 customer service. By providing better customer service such as having customer feedbacks can not only improve the performance of the shop but also retain customer loyalty and customers with also be more than willing to recommend

7 the gift shop to their other friends. Furthermore the shop can improve by bringing better quality gift products to satisfy customer needs. **8**

~~d) debit from~~

d) Debit from annual ball = 68 000 - 48 000 - 36 000 = 16 000 ————debit

9 16 000 × 50% = 8000   The chairman had to contribute $8000 to cover the

Examiner comments

6 Improving customer service is not considered a valid way to improve the profit of the shop.

7 Attempting to increase the number of customers, thereby increasing customer spending, should lead to an increase in profit.

8 Bringing in better quality goods would have a cost associated with it. Had the candidate identified this fact and pointed out that, to be of benefit, any extra revenue generated should be greater than any cost, then marks would have been awarded for this suggestion.

Mark for (c) = 1/4

9 The answer for (d) is fully correct.

Mark for (d) = 3/3

Total marks awarded = 11 out of 25

How the candidate could have improved their answer

(b) The candidate assumed that only the shopkeeper's wages should be treated as an expense in the shop trading account, but should also have taken into account the expenses for water, electricity and insurance, as well as depreciation of the shop equipment, information about which was provided in the question.

(c) Two of the candidate's points were valid here, but they needed more development and explanation to earn further marks.

Mark awarded = **(a) 3/3**
Mark awarded = **(b) 4/15**
Mark awarded = **(c) 1/4**
Mark awarded = **(d) 3/3**

Total marks awarded = 11 out of 25

Common mistakes candidates made in this question

(a) Some candidates failed to identify three differences between a donation and a member subscription.

(b) Some candidates omitted some of the relevant shop expenses or did not adjust the accruals and prepayments of them in the correct direction. Labelling was also an issue here. Often 'cost of sales', 'gross profit' and 'loss/profit for the year' or 'shop loss/profit' were not mentioned. 'Net loss' was given, but this was not accepted.

(c) Many candidates did not expand on the points they made. Simply making a valid point earned 1 mark but each point needed to be expanded by identifying how this would impact on sales or profit to earn any extra marks.

(d) Some candidates attempted to prepare an income and expenditure account, which was not needed. Candidates should have focused solely on the receipts from the sale of tickets and the costs associated with the annual ball.

Question 2

Example candidate response – high	Examiner comments
(a)(i) Workings: **1**	**1** This candidate is awarded 24/25 marks for question 2. This is a good example of a high-level response.
W1: Rent **2** $8000 Manufacturing Income Statement 75% x 8000 25% x 8000 = $6000 $2000	**2** A good example of the candidate showing their workings.

Alpha Limited
Manufacturing Account for the year ended 30 April 2016

	$	$
RAW MATERIALS		
Opening inventory		1000
+Purchases	12 200	
+Carriage inwards	1100	13 300
		14 300
–Closing inventory		(3100)
Cost of raw materials consumed		11 200
+Factory workers' wages		17 500
Prime Cost		28 700
Add Overheads		
Factory overheads	9700	
Factory supervisor's salary	8200	
Rent (W1)	6000	23 900
Cost of production		52 600
+Factory profit (25% x 52600) **3**		13 150
Transfer value to Income statement		65 750

3 An excellent example of a manufacturing account. All items are labelled and, where necessary, the candidate provides workings in brackets for the calculation of factory profit.

Mark for (a) (i) = 8/8

(ii) Income Statement for the year ended 30 April 2016

	$	$
Revenue		95000
Less Goods at transfer value		(65750)
Gross profit		29250
Less Expenses **4**		
Office salaries	8500	
Rent (W1)	2000	
General office expenses	10 000	(20500)
		8750
+Factory profit		13150
Profit for the year		21 900

4 Again, an excellent example of a well presented and labelled income statement. Note the final figure is identified as 'Profit for the year', the correct wording in line with IAS1.

Mark for (a) (ii) = 7/7

Example candidate response – high, continued	Examiner comments

(b) ❺

	$
Profit for the year ended 30 April 2016	21 900
– Decrease in sales revenue (W.2)	(9500)
+ Closing inventory at transfer value (w3)	6575
+ Decrease in general office expenses (w4)	500
– Increase in provision for unrealised profit	(1315)
Expected profit for the year ended 30 April 2017	18160

Workings:

W2: Selling price = $\frac{\$95000}{1000}$

= $95

Decrease in sales revenue = $95 × 100

= $9500

w3: Units in c/inv = 100 units

value of c/inv = $\frac{65750}{1000}$ × 100

= 6575

W4: General office expenses

$10 000

Fixed / Variable
$5000 / $5000

new general O.E = $5000 + $\frac{$5000}{1000}$ × 900

= $9500

Decrease in general O.E = $500

Examiner comments:

❺ The candidate shows whether items have been deducted from the starting profit for the year figure here. They also show their workings below, and these are fully referenced in their answer. Doing this allows the examiner to refer to the workings and award marks accordingly.

Mark for (b) = 5/5

Example candidate response – high, continued	Examiner comments
ws: ↑ in prov. for unrealised profit = → 125% = 6575 25% = $\frac{6575 \times 25}{125}$ = $1315 **6** (c) Option 1 should be implemented because it will **7** generate $3060 more profit than option 2. Alpha limited should also maximise production from its fixed overheads and $ $ can be the ext extra units produced May be later used to meet unexpected rise in sales and choosing option 1 **8** will allow the company to do so. Producing the extra units produced can also be sold at a lower price and the profitability can increase further	**6** The candidate is awarded 4 marks here. For the final mark, they needed to add something extra about option 1, such as the fact that it avoids unnecessary redundancies, or make a comment about option 2. **7** Here, a mark is awarded for a decision, and a further mark is awarded as that decision is justified. In other words, the candidate backs up their judgment. **8** The candidate goes on to fully justify their decision. Mark for (c) = 4/5 **Total marks awarded = 24 out of 25**

How the candidate could have improved their answer

(c) The candidate needed to add a further valid comment here. Selling extra units at a lower price would be unlikely to yield greater profitability. Indeed, it may result in less profit. Therefore, no mark could be awarded for this.

Mark awarded = **(a) (i) 8/8, (ii) 7/7**
Mark awarded = **(b) 5/5**
Mark awarded = **(c) 4/5**

Total marks awarded = 24 out of 25

Example candidate response – middle	Examiner comments

① a i   Manufacturing Account for the year ended 30 April 2016

	$	$
Direct costs :		
opening inventory of raw materials	1000	
Add purchases	12 200	
② less carriage inwards	(1100)	
less closing inventory of raw materials	(3100)	③ 9000
Direct labour		17500
④ PRIME COST		26500
Add indirect costs :		
factory supervisor's salary	8200	
rent	6000	
factory overheads	9700	23900
⑤ COST OF PRODUCTION		50400

a ii   income statement for the year ended 30 April 2016

	$
Revenue	95000
less : cost of production	
cost of production	(50 400)
⑥ GROSS PROFIT	44 600
less expenses & losses :	
office salaries	(8500)
rent	(2000)
general office expenses	(10 000)
⑦ Net profit	24100

Examiner comments

① This answer is awarded 15/25. A good example of a middle-range script.

② The carriage inwards has been applied in the wrong direction, so no mark can be awarded here.

③ Had the candidate labelled this figure as 'cost of raw materials used', the examiner would have been able to award an 'own figure' mark.

④ Good labelling of prime cost figure, allowing the examiner to award an 'own figure' mark.

⑤ Unfortunately, this is as far as the candidate takes the manufacturing account. An 'own figure' mark is awarded for the well-labelled cost of production. However, the question indicated that finished goods were transferred at cost plus 25 %. This has not been done by the candidate.

Mark for (a) (i) = 4/8

⑥ Good labelling of both the cost of production and the gross profit, allowing the examiner to reward both with 'own figure' marks.

⑦ No mark can be awarded for the final answer. The label of 'net profit' is not allowable under IAS1. Had the candidate labelled the figure 'profit for the year' an 'own figure' mark could have been awarded.

Mark for (a) (ii) = 5/7

Example candidate response – middle, continued	Examiner comments

b statement to calculate profit.

	$	
Net profit from (a) **8**	24100 w①	
less revenue (100 units)	(9500) w②	**9**
Add closing inventory (100 units)	5040	**10**
Appropriated profit for 900 units	19 640	

w ①

    Selling price of = $95000 = $95
    1 unit   1000 units

    100 units = $95 × 100
           = $9500

w ②   cost of
       production = $50400 = $50.40
       of 1 unit   1000 units

closing
inventory
of 100 = $50.40 × 100
units
       = $5040.

c It would be better **11** to choose option 1 as more profit is generated even though their there will be a closing inventory of 100 units. In option 2 **12** the profits decrease by a greater percentage that will not be accepted by ^the management. Also it would mean that they should change the quantity of raw materials bought, number of workers would be too much for a smaller production, therefore they would have **13** to fire them, also other expenses may change too if they choose option 2. Therefore, they should opt for option 1.

Examiner comments:

8 The correct starting position for the calculation is required here.

9 Correct calculation of lost revenue.

10 Correct calculation based on the candidate's own figure from part (a). This allows the examiner to award 'own figure' marks both for this and the final answer.

Mark for (b) = 3/5

11 A good definite decision.

12 The candidate justifies their decision, so earns a mark here.

13 A good point about the impact on workers if option 2 were chosen.

Mark for (c) = 3/5

Total marks awarded = 15 out of 25

How the candidate could have improved their answer

(a) (i) The candidate treated the carriage inwards on raw materials as income rather than an expense. The label and figure for the cost of raw material used were also missing. The manufacturing account stopped at the cost of production. The candidate should have added the factory profit element, and combined it with the cost of production, to arrive at the transfer cost.

(a) (ii) Failing to calculate the factory profit in (a) (i) meant that this was not included in the income statement. The label of 'net profit' for the final figure was not accepted; it should have been 'profit for the year' in line with International Accounting Standard 1 (IAS1).

(b) This was quite well done. The inventory adjustment was based on the candidate's own figures and so could be rewarded. The decrease in general office expenses was missed as a direct result of the candidate not calculating the factory profit so this was not adjusted here.

(c) The candidate made valid points here. However, they also needed to consider other points specific to option 1, such as not damaging relationships with suppliers. In a question where candidates are asked to choose between different options, evaluation of the alternative(s) is also likely to be rewarded. Presenting a one-sided answer will not receive full marks.

Mark awarded = **(a) (i) 4/8, (ii) 5/7**
Mark awarded = **(b) 3/5**
Mark awarded = **(c) 3/5**

Total marks awarded = 15 out of 25

Example candidate response – low	Examiner comments

Example candidate response – low

(a)(i) Manufacturing Account for the year ended 30 April 2016

	$	$
Raw Materials: opening	2000	
less: closing	(3100)	
Add: purchases	12200	10100
Add: carriage inwards		1100
Prime cost		11200
Add: Factory workers wages		17500
Prime Cost		28700
Add: indirect costs:		
Factory supervisor's Salary		5200
office Salaries, factory Overheads		4700
Rent. Rent (75% x 8000)		6000
Finished goods (n5% X 28.700)		36875
Cost of Production		80275
(a)(ii)		80275

Examiner comments

1 This receives a total of 12/25 and is an example of a low-level answer.

2 A label such as 'Cost of raw materials consumed' is required here. This would have earned a mark.

3 The candidate gives the figure and correctly labels it, earning a mark.

4 The candidate has crossed out the Factory Supervisor's salary. This should have been included as part of the indirect costs of the factory.

5 The candidate attempts to calculate the factory profit on the transfer of finished goods. However, the percentage has been calculated on the prime cost figure rather than the cost of production figure, which would include factory indirect costs. The label is also wrong; it should be 'Factory profit'. Correct label and figure were required for the mark. Had the candidate calculated a figure for factory profit based on their own factory cost of production and correctly labelled it, an 'own figure' mark would have been awarded.

6 The candidate has correctly labelled their own figure for cost of production. Thus an 'own figure' mark is awarded.

Mark for (a) (i) = 5/8

Example candidate response – low, continued	Examiner comments

Example candidate response – low, continued

(B). Income Statement for the year ended 30 April 2016

	$	$
Revenue		95000
Less: Cost of Production ⑦		(80275)
		14925
Less & expenses: ⑧		
Factory supervisor's Salary	8200	
Office Salaries	8500	
Rent (25000 × 8000) ⑨	2000	
General office expenses	10000	(28700)
Loss for the year		(13975)

Examiner comments

⑦ The candidate has not labelled this figure as 'gross profit', so no 'own figure' mark can be awarded.

⑧ This has been incorrectly included here.

⑨ An 'own figure' mark can be awarded as the candidate has correctly labelled their own figure answer.

Mark for (a) (ii) = 5/7

Example candidate response – low, continued	Examiner comments

(b). Calculation of ~~expethat~~ expected annual profit if option 1 is implemented:

10

Sat Sales ($\frac{95000}{1000}$ × 900) = 85500.

Less: Cost of Production = (80275)
$\frac{80275}{1000}$ × 1000)   35

Add: ~~Finished Goods~~ = (- 35875)2
~~Less~~ General office expenses
(50% × 10000) + (50% × 85500)
(5000 × 900) = (9500)
1000

Less: Factory Supervisor's Salary = (8200)
~~Less~~: office Salaries = (8500)
Less: Rent = 2000
Loss for the year with option 1 (22975)

(c). Option 2 brings a profit of - $15100 and
11 Option 1 brings a loss of $22975.
The General office expenses will be reduced
with option 2. There will be no finished
goods as and as a result there is no
chance of them to get damaged **12** and more
losses incurred are prevented. Less production
means less factory workers wages need to
13 be paid and hence reducing the cost of
~~the~~ prime cost ~ **14**

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10 This section earns no marks. The candidate has taken an incorrect approach to try to calculate the revised profit figure. They should have started with their own profit figure from part (a) and adjusted that by the various components to arrive at an alternative profit figure.

Mark for (b) = 0/5

11 The candidate simply repeats the answer to their earlier profit calculations here. It is not a decision, so no marks can be awarded.

12 This is a valid point.

13 This, too, is a valid point.

14 The candidate does not choose an option based on their figures, so does not get a mark here.

Mark for (c) = 2/5

Total marks awarded = 12 out of 25

How the candidate could have improved their answer

(a) (i) The cost of raw materials used was not labelled, so no mark could be awarded for the figure given here. Candidates should always label items, as marks can only be awarded if both the label and figure are present. The candidate included the factory supervisor's salary in the list of factory overheads then crossed it out, so no mark could be awarded for this. The calculation of the factory profit was worked out using the prime cost rather than the cost of production.

(a) (ii) Again, the issue here was not labelling items, in this case the gross profit. The factory profit calculated in (a) (i) needed to be included in this section as well.

(b) The candidate started their answer from the wrong point, reworking the income statement. They needed to start with their own figure of profit for the year from (a) (ii) and make adjustments to that.

(c) The candidate needed to make a recommendation to the management here. When the question asks candidates to choose an option, any comment such as 'choose option 1' will be rewarded with one easily obtained mark.

Mark awarded = **(a) (i) 5/8, (ii) 5/7**
Mark awarded = **(b) 0/5**
Mark awarded = **(c) 2/5**

Total marks awarded = 12 out of 25

Common mistakes candidates made in this question

(a) Not labelling or wrongly labelling items such as 'gross profit' or 'profit for the year'.

(b) Many candidates approached the question in the wrong way, e.g. by starting at the wrong point.

(c) Many candidates omitted to make a recommendation and/or failed to discuss both options.

Question 3

Example candidate response – high	Examiner comments

Workings:
 (a) Goodwill = Business Purchase − Net Assets taken over
 Price   at fair value
 	
 = $ 440 000 − [280 000 +14600 +29500 +
 (17200 −1200) ~~20000~~ − 11600]
 = $ ~~183500~~ 111 500
 	
 Cash and cash equivalents = $7100 − 70000
 = $(62900)
 	
            $
 Cash   70 000
 8% Debentures (2025)   120 000 — OSC $100 000
 Ordinary shares   250 000 — SP $150 000
          440 000
	1 A good example of the candidate setting out and labelling their workings before starting on their answer.

Example candidate response – high, continued	Examiner comments

FLF Limited ②
Statement of financial position as at 1 July 2016

	$	$
ASSETS		
Non-Current Assets ③		
④ Intangible: Goodwill	⑤	111 500
Tangible: Premises	1 280 000	
Equipment	205 500	
Vehicles	81 500	1 567 000
		1 678 500
		~~1 680 500~~
Current Assets		
Inventory	133 100	
Trade and other receivables ⑥	115 400	248 500
Total Assets		1 927 000
EQUITY AND LIABILITIES		
Equity		
900 000 ordinary shares at $1 each	900 000	
Revaluation reserve	184 900	
Share premium ⑦	150 000	
Retained earnings	322 500	1 637 400
General reserve	80 000	~~1 454 800~~
Total equity		~~1 130 000~~
Non-Current liability		
8% Debentures (2025) ⑧		120 000
Current liabilities		
Trade and other payables	106 700	
Cash and cash equivalents	62 900	169 600
Total equity and liabilities		1 927 000

② This excellent answer to question 3 is awarded 25/25.

③ The whole section for non-current assets is correct and properly labelled.

④ A correct label for the intangible asset of goodwill, for which a mark is awarded.

⑤ This figure is correct. The inclusion of workings at the beginning of a question allows the examiner to look back and award marks if appropriate.

⑥ Again, the correct use of the full label for trade and other receivables.

⑦ Excellent use of labels.

⑧ Here, the 8% debenture is correctly separated from the current liabilities and labelled as a non-current liability.

Mark for (a) = 16/16

Example candidate response – high, continued	Examiner comments

(b) Annual income from FLF limited

$

Interest on debenture (8% × 120 000)   9600

Dividends (3% × 250 000)   7500

17 100

+Interest on bank deposit (4% × 70 000)   2800

19 900

9 It is often a good idea to include workings before starting the written answer to a question. This allows the examiner to award marks where appropriate.

Profit for the year after appointing her nephew

$

Profit for the year   41 600

− Salary   (20,000)

21 600

might not have made

Husna did not make the right decision in selling the business because previously she could made make $ a drawings of $36 000 and now her annual return is only $19 900. Even if she employs her nephew to manage the business, the profit that her business would get is $21 600 which is still more than her annual return this profit can also rise in the future.

However, by selling her business to a company can help in return of ordinary shares can help her to obtain higher dividends in the long term as the profits of a limited company is likely to increase more than the profits $ of a sole trader. Husna can also make a capital gain by selling her shares when the market price per share will increase.

10 The candidate starts by making a tentative assessment.

11 The candidate starts to justify their decision here, using the financial data from the earlier calculations shown in their workings.

12 They now compare the two options on financial grounds.

13 The candidate now develops their argument by bringing in other factors to support their conclusion.

Example candidate response – high, continued	Examiner comments
Overall, given the difference between her 'annual return from FLF Limited and the profit from employing her nephew is not too significant and in the long run, the return from the investment in FLF Limited can also be higher than the from if the dividends yield increases. It is also more secure to invest in the company and thus, Husna made the right decision to sell her business. ⑭ ⑮	⑭ The candidate now sums up their arguments for and against Husna's decision.

⑮ Although the candidate started this answer with a rather tentative assessment in their opening paragraph, they now finish with a conclusion that is firmly based on their arguments for and against Husna's decision. This is an excellent example of a well-constructed and balanced argument and worthy of full marks.

Mark for (b) = 9/9

Total marks awarded = 25 out of 25 |

How the candidate could have improved their answer

(a) Although the layout of the statement of financial position was in line with IAS1, other layouts are also acceptable. This candidate set out their workings before writing their answer. This allowed the examiner to check through for any errors that might have appeared, and is generally recommended practice.

(b) Again, the candidate set out the calculations relevant to their answer right at the start, something which is recommended practice.

Mark awarded = **(a) 16/16**
Mark awarded = **(b) 9/9**

Total marks awarded = 25 out of 25

Example candidate response – middle	Examiner comments

In the books of Husna.

1

Goodwill = $ 490000 − (120000 + 14600 + 29500 + 17200 *

− 11600)

= $ 270300

2

Realisation Account -

Assets :	$	F.F Limited	$
Premises	380000	Trade payables	11600
Equipment	14600		
Inventory	29500		
Trade receivables	16000		
Realisation profit	11500		
	451600		451600

P.P	→	$	440	
Cash			30	—
Debentures			120	—
ord shares			100	
✓			150	→ share premium
	=	$ 250000 .		

1 This answer is awarded 14/25.

2 The candidate clearly presents their workings here; doing this allows the examiner to check the workings against the answer and award marks accordingly.

Example candidate response – middle, continued	Examiner comments

Dr   Capital Account   **Cr**

	$		$
Cash	70000	Balance b/d	162100
8% debentures	120000	Realisation profit	111500
ordinary shares at premium	250000	Goodwill	270300
Balance c/d.	103900		
	543900		543900

Statement of financial position as at 1st July 2016.

Non Current Assets $ $

	$	$
Premises (1000 + 280)		1280 000
Equipment (190900 + 14600)		205500
Vehicles		81 500
		1567000
Current Assets		
Closing inventory (29500 + 103600)	133100	
Trade Receivables (99400 + 17200 − 1200)	115400	
		248500
Total Assets		1 815 500
Equity and Liabilities		
Equity		
900000 ordinary shares at $1	900000	
Retained earnings	322500	
General reserve	80000	
Share premium	150000	
		1452500
Current Liabilities		
Trade payables (95100 + 11600)	106700	
Cash and cash equivalents	62900	
(7100 − 70000) 25		

3 The candidate worked out a value for goodwill in their workings above. Unfortunately, they have not transferred their answer to the statement of financial position, so no marks can be awarded for the workings. For workings to earn marks, the figures have to be used in the main answer.

4 Again, the candidate made an attempt in their workings to calculate a revaluation reserve, which they called Realisation profit. Unfortunately, the figure calculated has not been brought into the statement of financial position.

Example candidate response – middle, continued	Examiner comments

Example candidate response:

			169600
Non Current liabilities ⑤			
8% Debentures			120000
			289600
Total Equity and liabilities			1742100
(b)	Dividend yield = 3%. ⑥		

Husna is now an a simple individual receiving dividend yield of 3%. and bank interest of 6%. ⑦ She is now free of the business responsibility and stress. She will not have to incur losses on financial transactions. However, she will no longer receive higher profits if her business were to improve and experience higher profits. ⑧ She will not have the reputation of manager. ⑨

Examiner comments:

⑤ Good separation and labelling of the non-current liability.

Mark for (a) = 12/16

⑥ This was given in the question, so no mark awarded.

⑦ A valid point about Husna's position now the business has been sold.

⑧ Another valid point about what she has possibly given up by selling the business.

⑨ The candidate does not give a final assessment of whether or not Husna made the correct decision. Had they done so, they would have gained a mark, simply for making a judgement.

Mark for (b) = 2/9

Total marks awarded = 14 out of 25

How the candidate could have improved their answer

(a) The candidate set out their workings before attempting the statement of financial position. In doing so, they prepared what they termed a realisation account, arriving at a realisation profit of $111 500. Unfortunately, they did not identify this as the figure required in the statement for goodwill, and consequently did not include it. Thus, no marks could be awarded for their workings. Instead, they included what they believed to be goodwill in their workings for the owner's capital account. This resulted in failing to calculate the revaluation reserve which was required for the statement. These factors were the reasons for full marks not being awarded.

(b) This section was not answered well. The candidate made two valid points about Husna no longer having responsibility for running the business and not earning a higher profit if the business improved. However, they needed to support this with calculations. For example, they could have compared what Husna would earn from selling the business with what she earned from running it or would earn from getting her nephew to run it. Closer reading of the question, which specified that answers should be supported with calculations, might have helped the candidate here. The fact that nine marks were available for this question should have told the candidate that they needed to make several points, backed up by figures where appropriate. Finally, they needed to make a definite assessment about whether or not Husna made the correct decision.

Mark awarded = **(a) 12/16**
Mark awarded = **(b) 2/9**

Total marks awarded = 14 out of 25

Example candidate response – low	Examiner comments

Example candidate response – low

a)   FLF limited's Statement of financial position on 1 July 2016

1 Non-current assets

   Tangible   **2**

Premises (815 100 + 280 000)		1095 100
Equipment **3**		190 900
~~Intangible~~ Vehicles		81 500
~~Goodwill~~ Intangible **4**		
Goodwill (440 000 – 327 300)		112 700
		1480 200
current assets		
Inventory (103 600 + 29 500)	133 100	
Trade and other receivables (99 400 + 16000)	115 400	
Cash and cash equivalents (7100 – 70 000) **5**	(62 900)	
		185 600
Total assets		1665 800
Equity and liabilities		
Equity		
900 000 ordinary shares of $1 each		900 000
Retained earnings		322 500
General reserve		80 000
Total equity		1302 500
8% Debentures **6**		120 000
		1 422 500
current liabilities		
Trade and other payables (95 100 + 11 600 + 1200)		107 900
Total equity and liabilities		1530 400

b)	Profit for the year	41 600
	Add: Bank interest **7**	80
		41 680
	Less: Salary	20 000
		21 680

Examiner comments

1 This answer earns a total of 9/25 marks.

2 The candidate correctly uses this figure, but the amount of $815 100 is incorrect so no marks can be awarded for it.

3 No addition has been made for the extra equipment.

4 Good use of the correct label here.

5 Ideally, only the amount of cash held by the company should have been included here. The bank account was overdrawn and should have been shown as a current liability. In the statement of financial position, items should not be netted off.

6 The 8 % debentures require a heading of 'Non-current liabilities' in order for a mark to be awarded.

Mark for (a) = 8/16

7 No mark can be awarded here, as the calculation of bank interest is incorrect. The candidate is also mixing up the two situations. The bank interest would have been paid to Husna if she had sold the business. The salary would have been paid to her nephew if she had kept the business.

Example candidate response – low, continued	Examiner comments

Example candidate response – low, continued:

b)

Purchase consideration	440 000	
Add: Dividend received	3 000	
	443 000	
Less: Interest	9 600	⑧
	433 400	

⑨ Husna made the right decision in selling the business as she would receive a higher amount when selling the business rather than employing her nephew to run the business.

Examiner comments:

⑧ A correct calculation of debenture interest, but used in the wrong context, so no mark can be awarded.

⑨ The candidate gets a mark for making an assessment here. However, they do not go on to justify this or to consider what might have happened if Husna had not sold to the limited company.

Mark for (b) = 1/9

Total marks awarded = 9 out of 25

How the candidate could have improved their answer

The main issue with this answer was that the candidate did not set out any workings before starting their statement of financial position. Therefore, it was impossible to award any marks for wrong figures.

(a) With the non-current assets, the candidate only included the original values for premises and equipment, in the first case not taking the revalued figure of $1 000 000 and in the second not adding the new equipment of $14 600. There was a good attempt at calculating and labelling goodwill.

In the current assets, the candidate netted off the cash in hand and the bank overdraft. Netting off figures in this way should be avoided when preparing the statement. The bank overdraft should have appeared in the current liabilities as an overdraft.

As the candidate did not update the non-current assets with their purchase valuation, so too the equity did not include the revaluation reserve. However, it did through the 8 % debentures. These are non-current liabilities and should have been included as such under the appropriate heading.

(b) The calculations presented by the candidate were not relevant to the situation, other than the bank interest of $9 600. This was used incorrectly, so no marks could be awarded. The candidate made an assessment of the decision taken by the owner but would have earned more marks if they had discussed this fully.

Mark awarded = **(a) 8/16**
Mark awarded = **(b) 1/9**

Total marks awarded = 9 out of 25

Common mistakes candidates made in this question

(a) Many of the points mentioned in relation to the low-level answer were typical of the common errors made. The main issue with the statement of financial position was failing to label items. Incorrect treatment of the debentures was common. Many candidates did not show any workings and so the examiner was unable to reward some items.

(b) Many candidates did not discuss the two choices (selling or retaining the business). Likewise, failing to include any calculations, even though prompted to do so by the question, was common.

Question 4

Example candidate response – high	Examiner comments
(a) **1** Auditors will make sure accounting records are same as business activities. Auditors make sure financial statements has true and fair view, all the company assets and liabilities are included in financial statement. Auditors will make sure the accounts has no error, or else they will qualify the accounts or reports. Auditors will make sure the accounts and financial statements comply with international accounting standards. Auditors will make sure the reports or accounts are unbiased. Auditors will make sure proper accounting policies are used in preparing the accounts. A quality qualified report will be prepared by auditors if the rep accounts do not show true and fair view. **2**	**1** This is awarded 24/25 and is a good example of a high-level script.
	2 This is a good example of a full answer.
	Mark for (a) = 5/5
(b) A qualified audit report shows that the financial statements do not reflect true and fair view, there is error in it. **3**	**3** A good example of what a qualified audit report is and a reason why the report may be qualified.
	Mark for (b) = 2/2
(c) According to IAS 2, inventories should be valued at lower of cost and net realisable value. **4** The net realisable value of inventories is $750,000 – $200,000 = $550,000. This is lower than the cost of $1 million. Hence, $550,000 should be the value of inventory. **5**	**4** The candidate identifies the correct IAS and also gives the contents of the IAS.
6 According to IAS 10, the business should apply proper accounting policy. Prudence concept should be apply the value of inventories should not be overstated. The profit of business should not be overstated as well. **7**	**5** An excellent example of using the figures given in the question and linking them back to the IAS referred to in the opening sentence.
8 According to IAS 36, impairment of assets. If the recoverable amount of asset is less than its carrying value, the amount should be treated as expense and written off from the asset. The asset is said to be impaired. Hence, the inventories should be valued at $550,000 instead of $1 million. **9**	**6** This IAS is not relevant to this answer.
	7 A good example here of the application of prudence.
	8 This IAS is not relevant to the answer.
	9 A good summary of the arguments in the first paragraph.
	Mark for (c) = 8/8

Example candidate response – high, continued	Examiner comments
(d) (10) By providing a true and fair view of company's accounts, the audit report will be unqualified. (11) It gives investors confidence to invest in the company. (12) Potential investors would be interested in investing in the company as well. When shareholders are confident in the company, the (13) market share price would rise. More investors would invest and it helps the (14) company in future growth by obtaining more capital. It gives the (15) company a good image and reputation as well. It is a legal requirement to provide a true and fair view of company's accounts. (e) The audit report is not (16) valid. Aamir was an ~~unqualified~~ (17) unqualified auditor, hence he has no rights to sign the audit report. (18) There is no (19) legal validity in that report. Besides, Aamir is the brother of finance director of the company, he is related to the company, and hence, the audit report is not valid. (20)	(10) The candidate provides good examples of the effects on shareholders of a qualified audit report. (11) Giving shareholders confidence. (12) Attracting other potential investors. (13) The impact on the share price, which will definitely affect shareholders. (14) This expands on the earlier point about potentially bringing in new shareholders. (15) Here the candidate refers to the effect on the company rather than the shareholders, so no marks can be awarded for this point. Mark for (d) = 5/6 (16) A definite evaluation. (17) Justification for the earlier evaluation. (18) A well-balanced judgement of Aamir's actions. (19) The effect of the action taken by the unqualified auditor. (20) Further justification of why the audit report has no validity. Mark for (e) = 4/4 **Total marks awarded = 24 out of 25**

How the candidate could have improved their answer

(a) The candidate included five valid duties of an auditor. Although they presented them as continuous text, it would have been perfectly acceptable to present them as a numbered list or bullet points; this may save time in an examination.

(c) The candidate set out relevant calculations and discussed them with reference to the correct accounting standard (IAS2). However, IAS36 was not relevant to this question and could have been omitted.

(d) The candidate only missed out one benefit here. They could also have considered the negative effects on shareholders of not providing a true and fair view of the accounts, as this would also have earned marks.

Mark awarded = **(a) 5/5**
Mark awarded = **(b) 2/2**
Mark awarded = **(c) 8/8**
Mark awarded = **(d) 5/6**
Mark awarded = **(e) 4/4**

Total marks awarded = 24 out of 25

Example candidate response – middle	Examiner comments
1 In the books of Soames limited.	**1** This is awarded 16/25 and is a good example of a middle-range script.
(a)(i) They must check whether the company has given true value of their assets and liabilities	
(ii) They verify whether the business has stated the accounting methods that has been used.	**2** The first four points of this answer are valid and are awarded a mark each. The final point repeats point (iv).
(iii) They will go through the revenue and expenses of the business to check whether the correct figures has been given.	
(iv) The auditor will check whether the assets are in the name of the business. **2**	Mark for (a) = 4/5
(v) The auditors will verify whether the liabilities stated is really owed and owned by the business and not its manager assets	
(b) A qualified audit report means that there has been errors in the financial statements but can be corrected. , stating that the **3**	**3** One valid point. Mark for (b) = 1/2

Example candidate response – middle	Examiner comments

(c) The damage incurred, is the loss of value in assets. It is an adjusting event since it is not predictable, according to the accounting standards under **4** IAS (8). Besides, the inventory should be valued at whichever it is lower of cost and net realisable value **5** under IAS. Hence it should be valued at cost. * This will **6** reduce the current asset, eliminating the overestimation and by not overstating profit **7** in accordance with the prudence concept.

This will reduce the profit for the year, hence reducing the equity section of the business, as well as the total assets. The firm will have to recalculate its financial statements to get the correct profit. **8**

(d)

A true and fair view of the company fs shows that the business are operating according to the rules of the IAS and accounting concepts. If the auditors do not provide a true and fair view **9**, this means that there is something fishy with the business. It may be because of fraud cases. This will retain the attention of the media and **10** government which may result in a bad reputation of the business. Consequently, its sales may **11** decrease. A concrete example is the BAI in Mauritius, which has now shut down, where several frauds were detected.

4 Incorrect IAS considered, so no mark awarded.

5 Here the candidate mentions the correct IAS and indicates why it may be applicable to the case.

6 The candidate does not obtain full marks here because they do not make any reference to the figures given in the question.

7 Further development on the impact of a wrong valuation on the current assets and profit.

8 Further development here, too.

Mark for (c) = 6/8

9 Although 'something fishy' is really a slang term, the point made by the candidate is valid and is awarded a mark.

10 Here, the answer does not describe the impact on the shareholder, which is what the question asked for.

11 This *will* have a direct impact on the shareholders and is awarded a mark.

Mark for (d) = 2/6

Example candidate response – middle, continued	Examiner comments
(e) Since the auditor was an unqualified one, it was clear that the report is not valid. It has no value. Besides that the fact that he is the brother of the finance director of Soames Limited, the report he will give may not be true at all. He might cover the frauds and corruption of the business in the form of bribe. Since lastly, since he is an unqualified auditor, the report will not be recognised.	**12** Two valid points in this first sentence are both awarded a mark. **13** Good development by the candidate of their earlier comment. **14** Repetition of the first sentence. Mark for (e) = 3/4 **Total marks awarded = 16 out of 25**

How the candidate could have improved their answer

(a) The candidate gave four valid duties of an auditor. One more duty was needed for full marks in this section, e.g. providing a report containing a comment on the true and fair view of the accounts.

(b) Again, the candidate only needed to add something to the effect that the auditor had been unable to gather all the necessary audit evidence to gain the extra mark.

(c) Like many others, this candidate stated the wrong IAS here, although the points they made were valid ones. However, the candidate did not make any reference to the figures given in the question. Had they stated the net realisable value of $750 000 and the repair costs, then reached a figure at which the inventory should be recorded, it would have been possible to award full marks for the answer.

(d) This answer needed to be more specific about the effect on shareholders of not providing a true and fair view. The candidate made two valid comments, but these were general. They needed to mention effects such as: the shareholders might lose confidence in the company and sell their shares, or the shareholders might not invest further in the business.

(e) To gain the extra mark, the candidate simply needed to state the action that should have been taken, i.e. a qualified auditor should have been appointed.

Mark awarded = **(a) 4/5**
Mark awarded = **(b) 1/2**
Mark awarded = **(c) 6/8**
Mark awarded = **(d) 2/6**
Mark awarded = **(e) 3/4**

Total marks awarded = 16 out of 25

Example candidate response – low	Examiner comments

Example candidate response – low

accounts

a) i) Gather the relevant documents and information needed to check the company's ~~accounts~~

1 ii) The report must be audited based on the set standards.

iii) The auditor must provide a true and fair view of the accounts and not be biased

2 iv) The auditor is to advise the company managers on how to improve their accounts

v) The auditor is responsible to render an opinion on the audit report 3

b) A qualified report is where the auditor received the relevant documents and information to render an opinion during the audit with the exception of missing a few transactions or documents. 4

5

c) Referring to the International Accounting Standard (IAS), the necessary
6 adjustment that must be made to the financial statements is the IAS 36 7 the impairment of assets. The impairment of assets occur when the carrying amount of the asset is more than the recoverable amount. In such circumstances the adjustment that must be made is to value the assets at the lower amount following the prudence concept. 8

Examiner comments

1 This question earns a total of 10/25, an example of a low-level script.

2 This is incorrect. It is not the duty of an auditor to suggest improvements such as this to the management.

3 Both (iii) and (iv) make the same point about the auditor providing a report to the members.

Mark for (a) = 3/5

4 This statement is partly correct. The auditor may identify missing transactions and documents. However, the candidate needed to add some sort of definition of a qualified audit report, or to indicate when one is issued.

Mark for (b) = 1/2

5 Not specific enough. The candidate needed to mention IAS2 and inventory being valued at the lower of cost and net realisable value.

6 No reference in the answer to the financial data given in the question. If the candidate had used this data, it would have been possible to award more marks.

7 IAS36 is not relevant to this question.

8 This statement is too general; the candidate needed to state *which* assets.

Mark for (c) = 0/8

Example candidate response – low, continued	Examiner comments
d) The importance of ~~shareholders~~ the auditors providing a true and fair view of the accounts to the shareholders is that the shareholders themselves will be able to see how well the company has been doing. The shareholders will also be able to determine that if investing in or company is a wise decision after reviewing the audited report. The auditors providing a true and fair view of the accounts accounts will increase or decrease the confidence of the shareholders of the company depending on the verdict of the accounts. If a company has a unqualified opinion on an audit the shareholders will gain more confidence and is more likely to approve the major plans of the company. Audits also give comparison records to the shareholders. e) The audit report will be ~~rendered~~ invalid. This is because the audit report was done by a unqualified auditor who is not independent of the company.	**9** Some good points are made in the answer to this section. **10** The shareholders will obtain information on performance from the accounts rather than the audit report. **11** A good point about whether or not to invest in the company. **12** Another good point about the impact of the audit report on shareholder confidence. **13** The point relating to shareholder confidence is backed up by a specific example. Mark for (d) = 4/6 **14** Two good points. However, the answer needed to be developed by adding points such as: Aamir should not have signed the audit report, he may be biased because of his links with family members, or indicating any action that should be taken, e.g. appointing a qualified, independent auditor. Mark for (e) = 2/4 **Total marks awarded = 10 out of 25**

How the candidate could have improved their answer

(a) The candidate needed to add two additional comments in order to gain full marks. They could have stated that an auditor attends the stock count, checks trade or other payables, or verifies that the assets belong to the company.

(b) The candidate needed to state that the auditor was not able to obtain all the necessary information to enable them to make their judgement.

(c) The candidate did not demonstrate any knowledge about IAS2. A general comment about IASs was not sufficient to be rewarded. The situation is not one of impairment in respect of IAS, but of inventory valuation. A comment about the inventory being shown at the lower of cost and net realisable value and using the figures from the question to demonstrate this might have earned four marks, even without stating IAS2.

(d) This was quite a good answer containing valid points. If the candidate had considered the other side of the argument, such as the fact that auditors do not prepare the accounts or correct errors, and that the information presented did not provide a complete picture of the business's performance, they would have gained the extra two marks.

(e) Stating that a qualified auditor needs to be appointed or the existing auditor may be biased would have gained the other marks here.

Mark awarded = **(a) 3/5**
Mark awarded = **(b) 1/2**
Mark awarded = **(c) 0/8**
Mark awarded = **(d) 4/6**
Mark awarded = **(e) 2/4**

Total marks awarded = 10 out of 25

Common mistakes candidates made in this question

The most common errors were that in general candidates did not develop their answers sufficiently.

The most common issues were with part **(c)**. Some candidates had problems with valuation of inventory and the effects of not valuing it correctly on the financial statements. Many candidates stated the wrong IASs.

Candidates should be aware that numbered lists or bullet points are acceptable and will be rewarded if correct. Using bullet points instead of continuous text may allow candidates more time for other questions.

Question 5

Example candidate response – high	Examiner comments

(a) Absorption Costing Activity Based Costing **1** **2**

(b) Number of units = 5 X 50 X 200

= 50 000 units.

Overhead cost per unit = $\dfrac{\$79.000}{50\ 000}$ **3**

= $1.58 per unit ct

(c) Machine Set-up costs

4 No of working days = 5 x 50

= 250 days

Cost per day = $\dfrac{\$2000}{250}$ = $8

Cost per unit = $\dfrac{\$8}{200}$ = $0.04

Production quality inspections
Cost per week = $\dfrac{\$5000}{50}$ = $100

cost per unit = $\dfrac{\$100}{5 X 200}$ = $0.10

Production stoppage costs
4 weeks → 1 stoppage
50 weeks → ¼ x 50 = 12.5 stop.
Cost per stop = $\dfrac{\$4000}{12.5}$ = $320

cost per unit = $\dfrac{\$320}{(4 x 5 x 200)}$

= $0.08

Examiner comments

1 This candidate is awarded 21/25. A good example of a high-level script.

2 Correct identification of the method of costing used.

Mark for (a) = 1/1

3 Correct calculation of the cost per unit from the given data.

Mark for (b) = 2/2

4 Throughout their answer to (c), the candidate shows all their workings, allowing the examiner to award marks as appropriate. This section receives full marks.

Example candidate response – high, continued	**Examiner comments**

Machine Maintenance:

Cost per day = $8000 / (5 x 50)

= $32

Cost per unit = $32 / 200 = $0.16

Machine running costs

Cost per unit = $60000 / (5 x 50 x 200)

= $1.2

Statement to show total unit overhead cost for each individual overheads.

⑤

	$.
Machine set-up costs	0.04
Production quality inspections	0.10
Production stoppage costs	0.08
Machine maintenance	0.16
Machine running costs	1.20
Total overhead cost per unit	1.58

(d) **⑥** This analysis is useful because it shows which **⑦** overhead affect the total unit cost the most and Haruka Limited can pay more attention to that **⑧** overhead. This method of costing is also more accurat **⑨** because the costs of overheads are directly apportioned to the units produced. It is also more logical and easy to understand and to calculate. **⑩**

However, ~~Act~~ Activity Based costing can be expensive to implement and to maintain. It can also be **⑪** difficult to train new accountants tha ~~nna~~ or

Examiner comments:

⑤ A good summary of all the calculations.

Mark for (c) = 12/12

⑥ This is not a decision about whether or not the method of costing should be used, but simply a comment on it. Therefore no marks can be awarded for it.

⑦ The candidate correctly identifies a benefit from the use of the method, which is rewarded.

⑧ The candidate goes on to describe the action the owner can take.

⑨ The use of the phrase 'more accurate' is quite common but is incorrect and so is not rewarded. A mark would have been awarded if the candidate had said the method is more reliable or realistic than some other methods.

⑩ This is not a true statement, as the earlier calculations are quite complex. No marks awarded.

⑪ The candidate continues by indicating correctly the negative aspects of using the method. Marks are awarded for the comments on expense and the need to train staff.

Example candidate response – high, continued	Examiner comments
existing accountants this new costing method. keeping this costing method also means that exact details of all inspections, machine maintenance records will have to be kept which can increase the 12 work load and the cost as well. It is, however, advisable to Samir that this 13 costing method should be implemented because of its above discussed benefits; especially because of its accuracy in apportioning overhead costs.	12 A valid comment about an increase in workload. 13 The candidate makes a definite decision and earns marks accordingly. Mark for (d) = 6/10 **Total marks awarded = 21 out of 25**

How the candidate could have improved their answer

(d) This was the only section for which full marks were not awarded. The candidate attempted to balance their argument well and made a recommendation. However, if they had added that the benefits of Activity Based Costing (ABC) include the fact that it indicates where costs can be saved and controlled, and also mentioned cost drivers and cost pools, the extra marks would have been awarded.

Mark awarded = **(a) 1/1**
Mark awarded = **(b) 2/2**
Mark awarded = **(c) 12/12**
Mark awarded = **(d) 6/10**

Total marks awarded = 21 out of 25

Example candidate response – middle	Examiner comments

(a). absorption budgetary control costing **1**

1 Incorrect method stated, so no mark awarded.

Mark for (a) = 0/1

(b). Overhead cost per unit = $\frac{79000}{(50 \times 5)}$

$\frac{}{200}$ **2**

= $ 1·58.

2 A correct calculation.

Mark for (b) = 2/2

(c). ~~Overheads~~ **3** $

~~Overheads~~	Overheads	units	
machine set-up costs	2000	50000	0·04
production quality inspections	5000	50000	0·10
production stoppage costs	4000	50000	0·08
machine maintenance	8000	50000	0·16
machine running costs	60000	50000	1·20
Total overhead	79000		1·58

3 This is a good example of one of the alternative approaches which could have been used, as shown on the mark scheme.

Mark for (c) = 12/12

~~over~~ $

(c) | Overheads | overheads | units | |
|---|---|---|---|
| machine set-up costs | 2000 | 50000 | 0·04 |

4 A good, definite decision.

5 Good development of why the decision has been made, and the benefits this analysis should bring to the business.

6 The candidate only focuses on the positive aspects of ABC here. More marks could have been awarded if they had mentioned the cost, the time taken, and the fact that specialist staff are required.

7 Further development here.

8 And here.

Mark for (d) = 4/10

Total marks awarded = 18 out of 25

(d). Samir should **4** continue to ask for this analysis in the future years. This analysis can show Samir which parts of overheads **5** is higher and should be taken some action to reduce it and can make more profit. This also make Samir **6** can compare the overhead year by year to check whether **7** the overhead is increase or not. This ~~total~~ The problems of total overhead increase also can be ~~d m~~ check with this analysis and make a survey why that parts of overheads increases. Samir know that the overheads the are allocated well or not. **8**

How the candidate could have improved their answer

(a) The candidate named the wrong method of costing used here. However, this did not stop the rest of the answer being rewarded.

(d) Although the candidate gave a valid recommendation, their answer did not explain why ABC (Activity Based Costing) makes it possible to enable cost reduction or discuss the use of cost pools and cost drivers, which would have gained more marks. There was also no consideration of the negative side to using ABC, such as the fact that it takes time, is expensive because it requires more qualified staff, and that it may not be easily understood by Samir. Considering the negative aspects would have provided more balance to the argument as to whether or not this analysis should continue to be used, and also earned several more marks.

Mark awarded = **(a) 0/1**
Mark awarded = **(b) 2/2**
Mark awarded = **(c) 12/12**
Mark awarded = **(d) 4/10**

Total marks awarded = 18 out of 25

Example candidate response – low	Examiner comments
1 In the books of Hanuka. (a) Activity base costing. **2** (b) Overhead cost per unit = $\dfrac{\$79000}{(200 \times 5 \times 50)}$ $= \dfrac{79000}{50000}$ **3** $= \$1.59$ ◁ — (c) — 8 machine set up — 50 quality ins — 72 hrs — 13 stops **4** Analysis sheet <table><tr><td>(c)</td><td></td><td>$</td><td>$</td></tr><tr><td>Machine set-up costs **5** ($1.59 × 8) **6**</td><td></td><td></td><td>12.72 1.59</td></tr><tr><td>Production quality inspection ($1.59 × 50)</td><td></td><td></td><td>79.5</td></tr><tr><td>Production stoppage cost ($1.59 × 13)</td><td></td><td></td><td>20.67</td></tr><tr><td>Machine maintenance ($1.59 × 32) **7**</td><td></td><td></td><td>50.88</td></tr><tr><td>Total cost</td><td></td><td></td><td>163.77</td></tr></table> **8** (d) ABC is as a more precise way of calculating cost. It is well represented and is more detailed. The cost drivers **9** are directly related to their respective costs. ABC shows d exactly how overheads can be allocated according to their respective cost drivers. **10** However, it is expensive to calculate overheads using ABC since it requires a qualified	**1** Overall, this question is awarded 9/25. **2** Correct identification of the method used. Mark for (a) = 1/1 **3** A correct formula, which is rewarded. However, the candidate does not get the correct final answer, which should have been $1.58. Mark for (b) = 1/2 **4** These are not workings. The candidate is quoting the figures from the question. **5** As the candidate shows their workings here, it has been possible to award marks for any correct elements. **6** A mark is awarded for identifying $8, which must be the result of a calculation by the candidate. **7** One mark for $32. Mark for (c) = 2/12 **8** Not a valid comment. The candidate needed to specify *what* ABC is more precise than, or *how* it is more precise. **9** The method does use cost drivers, so a mark is awarded here. **10** The candidate goes on to develop the point about cost drivers, so a further mark is awarded here.

Example candidate response – low, continued	Examiner comments
[handwritten text] ...consultant. It is time consuming and it is not easy to calculate. It involves a lot of procedures which might easily result in error. Therefore it is preferable for Samir not to use ABC since it is time consuming and can be expensive if a qualified consultant is solicited	**11** Two valid points about ABC being more expensive and time-consuming than traditional methods. **12** The candidate completes their answer by giving a decision. Mark for (d) = 5/10 **Total marks awarded = 9 out of 25**

How the candidate could have improved their answer

(b) The candidate used the correct numerator and denominator for their calculation, but then miscalculated. If time allows in the examination, it is always worth double-checking workings.

(c) The candidate took the wrong approach in their calculations. They mistakenly multiplied their initial calculation by the $1.59 they had calculated in (b). They appear to have mixed up two ways of answering here, using the first method shown in the mark scheme along with the second method. Therefore, very few marks could be awarded. If they had used the second method on the mark scheme but taken their own figure of $1.59, they would have gained high marks, as, even though their figure was incorrect, they applied it correctly.

(d) There was some repetition here ('ABC is time-consuming and expensive' and comments on the use of cost drivers) and a corresponding lack of depth to the answer. When considering the positive aspects of ABC, this candidate needed to add something about it helping Samir to monitor costs more effectively and identify areas where cost savings could be made. On the negative side, they could have mentioned the fact that it is of little benefit as Samir only produces one product. The inclusion of these points would have moved the candidate a long way towards full marks for this section.

Mark awarded = **(a) 1/1**
Mark awarded = **(b) 1/2**
Mark awarded = **(c) 2/12**
Mark awarded = **(d) 5/10**

Total marks awarded = 9 out of 25

Common mistakes candidates made in this question

The wrong method of costing was often stated.

When discussing the results calculated, some candidates failed to consider both sides of an argument or develop points relating to these.

Some candidates failed to conclude their answer with a clear recommendation or decision in **(d).**

Some candidates omitted to show any workings; it is often possible to earn some marks for correct workings even if the overall answer is incorrect.

Question 6

Example candidate response – high	Examiner comments

(a)(i) ❶ A cash budget is prepared using forecasted figures while a statement of cash flows is prepared using past figures ❷

(ii) It can ~~anticipate~~ reveal future liguity problems and the management can take precautionary actions. ❸

(b)(i) Calculation of sales

❹

	January $	February $	March $
Receipts in month of sale	28 500	26 125	30 875
+Discounts allowed	1 500	1 375	1 625
Receipts in following month	30 000	27 500	32 500
Sales value	60 000	55 000	65 000

Rate of discount allowed = $\frac{1500}{30\,000} \times 100$

$\approx 5\%$.

$95\% \Rightarrow \$30\,875$

$100\% \Rightarrow \frac{30\,875}{95} \times 100 = 32\,500$

(ii)

	Jan $	Feb $	March $
Value of cash discount	1500	1375	1625

❺

(iii) Rate of cash discount = $\frac{1500}{30\,000} \times 100$

$= 5\% \Leftarrow$

Examiner comments:

❶ This candidate is awarded 22/25 for this answer.

❷ A good example of comparing a cash budget with a statement of cash flow, which is what the question asked for. Many candidates simply described each, and no marks could be awarded.

Mark for (a) (i) = 1/1

❸ A good example of the use of a cash budget.

Mark for (a) (ii) = 1/2

❹ Correct calculation of the sales figures for each month. The candidate has remembered to add back the discount when making the calculation.

Mark for (b) (i) = 3/3

❺ Correct calculation of the discount allowed, taken from the earlier answer.

Mark for (b) (ii) = 3/3

Mark for (b) (iii) = 1/1

Example candidate response – high, continued	Examiner comments

(c) Trade receivables budget

	January $	February $	March $
Opening balance	40 000	30 000	27 500
Add Credit Sales	60 000	55 000	65 000
Less Receipts	(68 500)	(56 125)	(58 375)
Cash discounts	(1 500)	(1 375)	(1 625)
Closing balance	30 000	27 500	32 500

6 Fully correct and well-labelled presentation of the trade receivables budget.

Mark for (c) = 8/8

(d) Deficit = $1600

Receipts - month of sale should increase by $1600

Increase in February's sales - $\frac{\$1600 \times 100}{95} \times 2$

$= \$1684 \times 2$

$\approx \$3368$

7 A partially correct calculation of the cash deficit. The candidate does not include the $15 000 advertising cost, which means that only 4/5 marks are awarded.

Mark for (d) = 4/5

(e) 1. The purchase of the non-current ~~assets can be sold.~~
2. The company could delay part of the

(e) 1. The company can make a rights issue to generate cash.
2. Payment to suppliers can be delayed.

8 The idea of delaying payments to suppliers is rewarded. However, the making of a rights issue would take some time to organise. The reduction/elimination of the overdraft is a short-term problem, so no marks are awarded for the comment about the rights issue.

Mark for (e) = 1/2

Total marks awarded = 22 out of 25

How the candidate could have improved their answer

(a) (ii) The candidate provided one valid benefit here. However, a second was needed, for example, that it helps managers plan and control their cash flow in the future, or that it motivates staff.

(d) The candidate correctly identified and used $1 600. The only thing they missed from their calculations is the $15 000 advertising cost. Using that would have given them full marks.

(e) Making a rights issue is not a valid way of raising cash quickly in the short term. To implement a rights issue would take time, and the company needs an immediate solution to their cash flow issues.

Mark awarded = **(a) (i) 1/1, (ii) 1/2**
Mark awarded = **(b) (i) 3/3, (ii) 3/3, (iii) 1/1**
Mark awarded = **(c) 8/8**
Mark awarded = **(d) 4/5**
Mark awarded = **(e) 1/2**

Total marks awarded = 22 out of 25

Example candidate response – middle	Examiner comments

Example candidate response – middle

1

6.ai   A. cashflow is done with current figures *and real* of the business whereas a cash budget is done with forecasted figures that are not ~~also~~ always correct

2

6 aii   ∘ It helps the business to control it's liquidity. ~~and also helps to guide~~ To know if they should consider to decrease or increase some costs or receipts. ~~Also~~

3

∘ It is also used as a guide for them to achieve *their* ~~an~~ goals that have been forecasted. It will also show whether they should improve or continue exactly what they are doing.

4

6 bi   sales of January 2017   sales of February 2017

5   = $30 000 + $28500   = $.26125 + $27500

     ~~= $ 1500 (cash discount)~~   = $ 53625

     = $ 58,500

     sales of March 2017

     = $ 30875 + $41167

     = $ 72 042

Examiner comments

1 This answer receives a total of 14/25. It is at the lower end of a middle level script.

2 A valid statement.

Mark for (a) (i) = 1/1

3 A valid point about the benefits of preparing a cash budget.

4 This is not rewarded as it repeats the first point.

Mark for (a) (ii) = 1/2

5 No marks can be awarded for this answer as the candidate has not taken into account the discount allowed.

Mark for (b) (i) = 0/3

Example candidate response – middle, continued	Examiner comments

6 bii

cash discount of January 2017
= $30 000 - $28 500
= $1 500

cash discount of February 2017
= $27 500 - $26 125
= $1 375

6 Both of these calculations are correct and are awarded a mark.

cash discount of March 2017
= $41 167 - $30 875
= $10 292

× 75% = 30 875
100% = $\frac{30875 \times 100}{75}$
= $41 167

7 This is incorrect, so no mark can be awarded.

Mark for (b) (ii) = 2/3

6. biii

cash discount rate = $\frac{\$1 500}{\$30 000} \times 100$

= 2.5%

8 A correct calculation is set out here, but with a wrong answer of 2.5% rather than 5%.

Mark for (b) (iii) = 0/1

6.c. Trade receivables budget

	Jan $	Feb. $	Mar. $
Opening balance	40 000	28 500	24 625
Add. credit sales	58 500	53 625	72 042
less receipt from debtors	(68 500)	(56 125)	(58 375)
cash discount	(1 500)	(1 375)	(10 292)
closing balance	28 500	24 625	28 000

9 The candidate correctly uses their own sales figures calculated in (b) (i). Therefore, full marks are awarded for calculations based on the candidate's own figures.

Mark for (c) = 8/8

Example candidate response – middle, continued	Examiner comments
6 d There should be an increase in February's sales by $1600 ⑩ But it should be the sales with credit customers who pay in the same month, otherwise the increase will go for the month of March as the other half the of the credit customers make payments the following month after the sales took place. But it should be an increase of $1600 and onwards without making any other expenses increase because this will create once again a deficit otherwise. Using $15000 for to only have an increase of $1600 in sales is useless and a very bad decision as this money could have been used on in another way such as expansion of the business, buying of fixed assets and other costs that could improve the business much more than only $1600 *increase in* sales.	⑩ A mark is awarded for correctly identifying $1 600. However, the candidate then writes about the decision. The question asked for a calculation of how much sales needed to increase, so no further marks can be awarded here. Mark for (d) = 1/5
6 e. • motivate workers by giving non-monetary rewards such as or by giving them more responsibilities so that they can feel more important and. ⑪ • Sto Reduce Make it compulsory for trade receivables / credit customers to pay in the ⑫ month of sales itself rather than the half of them the following month.	⑪ This is not a valid statement. This would have no effect on the business overdraft. ⑫ If the company took this action, it would have a direct positive effect on the business bank balance, so this is awarded a mark. Mark for (e) = 1/2 **Total marks awarded = 14 out of 25**

How the candidate could have improved their answer

(a) (ii) A second point, such as helping to plan cash flows, would have earned the extra mark.

(b) This was a good example of a candidate not using the discount allowed when calculating their sales figure, and was quite a common error. This was correctly identified twice in part (ii), but the calculation of the percentage was incorrect in part (iii), despite use of the correct numerator and denominator. Double-checking of answers, if time permits, might have helped to overcome this.

(d) Again, the candidate correctly identified $1 600. However, they needed to do a calculation for this answer instead of just writing about the issue.

(e) Motivating workers is not a way of reducing a cash flow problem. Reducing costs or delaying payments are valid suggestions and would have been rewarded.

Mark awarded = **(a) (i) 1/1, (ii) 1/2**
Mark awarded = **(b) (i) 0/3, (ii) 2/3, (iii) 0/1**
Mark awarded = **(c) 8/8**
Mark awarded = **(d) 1/5**
Mark awarded = **(e) 1/2**

Total marks awarded = 14 out of 25

Example candidate response – low	Examiner comments

Example candidate response – low

(a)(i) Cash budget is based on estimates but statement of cash flows is not the case.

(ii) Cash budget ~~flows~~ gives an idea of the financ posit.

Cash budget can be used for budgetory unhol, and hence can be used as a reference to unhol costs.

Cash ~~budg~~ budget can be used to have an idea of the future cash inflow and outflow.

(b)(i) Value of sales of each months January to March 2017

January   Febuary   March

Receipts month of sale 1500 January Febuary March

Receipts from month

of sale   28500   26125   30875

                       30000   27500

January = $28 500 + $30 000   = $58 300

Febuary : $26 125 + $27 500 = $53 625

March : $30 875 + $31 647 = $63,294.

(II)(ii) Value of cash descount for January to March 2017

January : $30 000 - $28 500 = $1500

Febuary : $27 500 - $26 125 = $1375

March : $31,647 - $30 875 = $772

(iii) Rate of cash discount given
= 2.5% to 2.5%.

Examiner comments

1 This answer is awarded 11/25.

2 The candidate needed to identify why being based on estimates is not the case for a statement of cash flow. Had they said 'because it uses actual historical data', it would have been possible to award a mark.

Mark for (a) (i) = 0/1

3 A correct statement about using the budget for control purposes.

4 This describes the contents of a cash budget, not what it can be used for.

Mark for (a) (ii) = 1/2

5 The candidate has only used the cash received from credit customers, without taking into account the discount allowed. The answer for January has also been incorrectly added.

Mark for (b) (i) = 0/3

6 Two correct calculations, but the one for March is incorrect.

Mark for (b) (ii) = 2/3

7 No indication of workings here, so it is impossible to determine how the candidate has arrived at this percentage figure.

Mark for (b) (iii) = 0/1

Example candidate response – low, continued	**Examiner comments**

Example candidate response – low, continued

(c). Trade Receivables Cash Budget for January to March 2017.

		January $	February $	March $
Opening balance **8**		$40,000	41500	42675
Sales on credit **9**		30000	27500	31647
~~Receipt from trade receivables~~				
Receipt from trade receivables **10**		(28500)	(26125)	(30895)
		41500	42875	43647

(d) Calculation of the required increase sales in February:

Advertising ~~(+5000)~~ **11** February ($)

12 Opening balance (17300 – 15000) 2300 ✓

~~Sales receipt – month sale (balancing figure)~~ ?

~~Receipt – month following sale~~ Receipts from month following sales 30000 ✓✓

Payment to suppliers (33000)

Wages (10125)

Other expenses (14800)

Dividend fund (8000)

Purchase of fixed asset. (9100)

 (92725)

Normal Sale = ~~27500 × 2 = $53615~~

27500 × 2 = $55000 **13**

(e) Providing more cash discount to encourage debtors to pay earlier. **14**

~~Reduce~~ Reducing expenses to the maximum possible and try to obtain cash discounts from suppliers. **15**

Examiner comments

8 The correct opening balance for January. The candidate has brought forward their own closing figures as the opening figures for February and March, so 'own figure' marks can be awarded here.

9 Only the total sales for the month are included here. If the candidate had used their own total sales figures from part (b) (i), an extra 3 marks could have been awarded.

10 Correct receipts for one month only, so 1/2 marks.

Mark for (c) = 5/8

11 Correct identification of the $15 000 advertising cost, and the candidate identifies correctly that, when paid, this will reduce the opening bank balance.

12 Marks are awarded for using the correct information in the correct manner here, even though the answer is incorrect.

13 By looking at the workings, it is possible to reward the multiplication by 2 of the candidate's figure.

Mark for (d) = 2/5

14 There is a cost associated with offering more cash discount; it is unlikely to increase the overall bank overdraft.

15 A valid point.

Mark for (e) = 1/2

Total marks awarded = 11 out of 25

How the candidate could have improved their answer

(a) (i) The candidate correctly stated that a cash budget is based on estimates. However, to add that a statement of cash flows is not, could not be rewarded. The candidate needed to state what each is based on here.

(a) (ii) The second point needed to describe what a cash budget can be used for, rather than what it shows.

(b) The candidate did not include the discount allowed when calculating their sales figures, basing them on cash received. The calculation of the discount rate was incorrect, and no workings were shown. It is essential for candidates to show workings at all times.

(c) The candidate did not use their own figures calculated for sales in part (b). Had they done so, marks would have been awarded. Also, only cash receipts for one month were used; the 'second' month's receipts also need to be accounted for in the cash budget.

(d) The candidate started their answer from the wrong point by trying to rewrite the budget to include the $15 000.

(e) Providing more cash discounts might possibly bring in more cash, but the cost of doing this may exceed the amount brought in. For a mark to be awarded, the candidate needed to consider this point.

Mark awarded = **(a) (i) 0/1, (ii) 1/2**
Mark awarded = **(b) (i) 0/3, (ii) 2/3, (iii) 0/1**
Mark awarded = **(c) 5/8**
Mark awarded = **(d) 2/5**
Mark awarded = **(e) 1/2**

Total marks awarded = 11 out of 25

Common mistakes candidates made in this question

- Not comparing and contrasting a cash budget and a statement of cash flow, only describing them.
- Not identifying a second valid use of a cash budget.
- Not taking into account the discount when calculating sales.
- Not bringing own figures into the cash budget; even incorrect figures would have earned marks, if used appropriately.
- Attempting to redraft the cash budget in part **(d)**.
- Suggesting long-term solutions, such as share issues, to a short-term cash flow problem.