



Cambridge International AS & A Level

ACCOUNTING

9706/22

Paper 2 Fundamentals of Accounting

February/March 2023

MARK SCHEME

Maximum Mark: 90

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 International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the February/March 2023 series for most Cambridge IGCSE™, Cambridge International A and AS Level components and some Cambridge O Level components.

This document consists of **16** printed pages.

Generic Marking Principles

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

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

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

GENERIC MARKING PRINCIPLE 2:

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

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

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

GENERIC MARKING PRINCIPLE 4:

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

GENERIC MARKING PRINCIPLE 5:

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

GENERIC MARKING PRINCIPLE 6:

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

**Social Science-Specific Marking Principles
(for point-based marking)****1 Components using point-based marking:**

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

From this it follows that we:

- a** DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)
- b** DO credit alternative answers/examples which are not written in the mark scheme if they are correct
- c** DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require n reasons (e.g. State two reasons ...).
- d** DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)
- e** DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities
- f** DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).
- g** DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:

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

4 Annotation:

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

Abbreviations and guidance

The following abbreviations may be used in the mark scheme:

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

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

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

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

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

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

Marks for figures are dependent on correct sign/direction

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

ANNOTATIONS

The following annotations are used in marking this paper and should be used by examiners.

Annotation	Use or meaning
✓	Correct and relevant point made in answering the question.
✗	Incorrect point or error made.
LNK	Two statements are linked.
REP	Repeat
A	An extraneous figure
BOD	Benefit of the doubt given.
SEEN	Noted but no credit given
OF	Own figure
Highlight	Highlight
Off page Comment	Off page comment

Question	Answer				Marks																																																																									
1(a)	<p>Prepare the statement of profit or loss for the year ended 31 December 2022.</p> <p>Nibras and Raif Statement of profit or loss for the year ended 31 December 2022</p> <table border="1"> <thead> <tr> <th></th> <th>\$</th> <th>\$</th> <th></th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td></td> <td>88 300</td> <td>(1)</td> </tr> <tr> <td>Add income:</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Allowance for irrecoverable debts</td> <td>380</td> <td></td> <td>(1)</td> </tr> <tr> <td>Rent receivable</td> <td>6 600</td> <td></td> <td>(1)</td> </tr> <tr> <td></td> <td></td> <td>6 980</td> <td></td> </tr> <tr> <td></td> <td></td> <td>95 280</td> <td></td> </tr> <tr> <td>Less expenses:</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Insurance</td> <td>13 200</td> <td></td> <td>(1)</td> </tr> <tr> <td>Interest on loan (Raif)</td> <td>900</td> <td></td> <td>(1)</td> </tr> <tr> <td>Motor vehicle expenses</td> <td>12 420</td> <td></td> <td></td> </tr> <tr> <td>Repairs and maintenance</td> <td>8 270</td> <td></td> <td></td> </tr> <tr> <td>Wages and salaries</td> <td>18 460</td> <td></td> <td></td> </tr> <tr> <td>Depreciation:</td> <td></td> <td></td> <td></td> </tr> <tr> <td> Motor vehicles</td> <td>27 700</td> <td></td> <td>(1)</td> </tr> <tr> <td> Premises</td> <td>4 400</td> <td></td> <td>(1)</td> </tr> <tr> <td></td> <td></td> <td>85 350</td> <td>(1)</td> </tr> <tr> <td>Profit for the year</td> <td></td> <td>9 930</td> <td>(1) OF</td> <td></td> </tr> </tbody> </table>					\$	\$		Revenue		88 300	(1)	Add income:				Allowance for irrecoverable debts	380		(1)	Rent receivable	6 600		(1)			6 980				95 280		Less expenses:				Insurance	13 200		(1)	Interest on loan (Raif)	900		(1)	Motor vehicle expenses	12 420			Repairs and maintenance	8 270			Wages and salaries	18 460			Depreciation:				Motor vehicles	27 700		(1)	Premises	4 400		(1)			85 350	(1)	Profit for the year		9 930	(1) OF		9
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Question	Answer				Marks
1(b)	Prepare the appropriation account for the year ended 31 December 2022.				3
Appropriation account for the year ended 31 December 2022					
		\$		\$	
	Profit for the year			9 930	
	Less: interest on capitals				
	Nibras	(18 000) }	(1) for both		
	Raif	(12 000) }			
				(30 000)	
				(20 070)	
	Less: salary (Nibras)			<u>(6 000) (1)</u>	
				<u>(26 070)</u>	
	Shares of residual loss				
	Nibras	(15 642) }	(1) OF for both		
	Raif	(10 428) }			
				<u>(26 070)</u>	

Question	Answer						Marks
1(c)	Calculate by how much Nibras' current account balance at 31 December 2022 would have been different if there had been no partnership agreement during the year ended 31 December 2022.						8
With agreement							
	\$				\$		
Opening balance	5 950	*(1) OF both *	Salary	6 000	(1) OF		
Share of loss	15 642	(1) OF	Interest on capital	18 000			
Drawings	19 200	(1)	Closing balance	16 792	* both		
	40 792			40 792			
Without agreement							
	\$			\$			
Opening balance	5 950	* (1) OF both *	Share of profit (50%)	5 190	(1)		
Drawings	19 200	(1)	Closing balance	19 960	* both		
	25 150			25 150			
Result: The current account balance would decrease by $(\$19\ 960 - \$16\ 792)$ $= \$3\ 168$ (1) OF							
1(d)	State <u>one</u> reason for including interest on drawings in a partnership agreement. Interest on drawings will deter a partner from making excessive drawings (1).						1
1(e)	State the double entry for recording interest on drawings. Debit: partners' current accounts (1) Credit: appropriation account (1)						2

Question	Answer	Marks
1(f)	<p>Advise the partners which option they should choose. Justify your answer by discussing <u>both</u> options.</p> <p>Option 1 (max 3)</p> <ul style="list-style-type: none"> • Will be a permanent source of capital (1) • Will not affect the profit before appropriation (1) • Nibras may expect greater rewards/more control (1) <p>Option 2 (max 3)</p> <ul style="list-style-type: none"> • Temporary source of finance so no longer-term adverse implications (1) • Interest charges will reduce profits (1) • Will the partnership be able to obtain a bank loan? (1) <p>Decision supported by a comment (1)</p> <p>Accept other valid responses.</p>	7

Question	Answer								Marks																																								
2(a)	<p>Prepare the kitchen equipment account for the year ended 31 December 2022.</p> <p>Kitchen equipment</p> <table border="1"> <thead> <tr> <th>2022</th> <th></th> <th>\$</th> <th></th> <th>2022</th> <th></th> <th>\$</th> <th></th> </tr> </thead> <tbody> <tr> <td>Jan 1</td> <td>Balance b/d</td> <td>3 450</td> <td>(1)</td> <td>Dec 31</td> <td>Statement of profit or loss / Depreciation</td> <td>1 180</td> <td>(1)OF</td> </tr> <tr> <td>Dec 31</td> <td>Cash</td> <td>1 680</td> <td>(1)</td> <td>Dec 31</td> <td>Balance c/d</td> <td>3 950</td> <td></td> </tr> <tr> <td></td> <td></td> <td>5 130</td> <td></td> <td></td> <td></td> <td>5 130</td> <td></td> </tr> <tr> <td>2023</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Jan 1</td> <td>Balance b/d</td> <td>3 950</td> <td>(1)</td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	2022		\$		2022		\$		Jan 1	Balance b/d	3 450	(1)	Dec 31	Statement of profit or loss / Depreciation	1 180	(1)OF	Dec 31	Cash	1 680	(1)	Dec 31	Balance c/d	3 950				5 130				5 130		2023								Jan 1	Balance b/d	3 950	(1)				
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Question	Answer	Marks																
2(b)	<p>State <u>two</u> reasons why the reducing balance method of depreciation might be chosen by a business for depreciating non-current assets.</p> <ul style="list-style-type: none"> • Takes account of the fact that some non-current assets lose most value in earlier years (1) • May equalise the charge against profits each year when maintenance costs are taken into account (1) • Matches depreciation to earlier years when non-current asset provides most benefit to business (1) <p>Max 2 Accept other valid responses.</p>	2																
2(c)	<p>Prepare a journal entry to record the charge for depreciation of vehicles for the year ended 31 December 2022. A narrative is <u>not</u> required.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="4" style="text-align: center;">Journal</th> </tr> <tr> <th></th> <th style="text-align: center;">Dr \$</th> <th style="text-align: center;">Cr \$</th> <th></th> </tr> </thead> <tbody> <tr> <td>Statement of profit or loss</td> <td style="text-align: right;">9 000</td> <td></td> <td style="text-align: right;">(1) OF</td> </tr> <tr> <td>Provision for depreciation</td> <td></td> <td style="text-align: right;">9 000</td> <td style="text-align: right;">(1) OF</td> </tr> </tbody> </table> <p>Workings</p> <p>Net book value of original delivery vehicle: $(\\$24\ 000 - \\$10\ 500) = \\$13\ 500$ (1)</p> <p>Cost of new delivery vehicle: $\\$22\ 500 + \\$13\ 500 = \\$36\ 000$ (1)</p> <p>Depreciation on new delivery vehicle: $25\% \times \\$36\ 000 = \\$9\ 000$ (1)OF</p>	Journal					Dr \$	Cr \$		Statement of profit or loss	9 000		(1) OF	Provision for depreciation		9 000	(1) OF	5
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2(d)(i)	<p>Define <u>each</u> of the following terms: capital expenditure.</p> <p>A payment to purchase a non-current asset for example purchase of property (1)</p>	1																
2(d)(ii)	<p>Define <u>each</u> of the following terms: capital receipts.</p> <p>Receipt from non-recurring activities for example sale of property (1)</p>	1																
2(e)(i)	<p>Calculate the total amount for <u>each</u> of the following: capital expenditure.</p> <p>\$94 200 (1)</p>	1																

Question	Answer	Marks
2(e)(ii)	Calculate the total amount for <u>each</u> of the following: capital receipts. \$67 800 (1)	1

Question	Answer	Marks
3(a)(i)	Calculate <u>each</u> of the following ratios for the year ended 30 November 2022. Acid test ratio (to two decimal places) $\frac{\text{Current assets less inventory}}{\text{Current liabilities}} = \frac{\$15\,850}{\$18\,300} (1) = 0.87:1 (1)$	2
3(a)(ii)	Calculate <u>each</u> of the following ratios for the year ended 30 November 2022. Trade receivables turnover (days) $\frac{\text{Trade receivables} \times 365}{\text{Credit Sales}} = \frac{\$9\,600}{\$94\,800} (1) \times 365 = 37 \text{ days (1)}$	2
3(a)(iii)	Calculate <u>each</u> of the following ratios for the year ended 30 November 2022. Trade payables turnover (days) $\frac{\text{Trade payables} \times 365}{\text{Credit purchases}} = \frac{\$6\,580}{\$88\,300} (1) \times 365 = 28 \text{ days (1)}$	2
3(b)	Explain the importance of the acid test ratio to a business. The acid test ratio indicates its ability to pay its short-term debts (1) without selling its inventory (1). Max 2 Accept other valid responses.	2
3(c)	Identify <u>two</u> ways in which the owner of a business could improve the acid test ratio. Reducing cash drawings (1) Borrowing more long-term (1) Investing more capital (1) Sale of non-current assets (1) Reduce inventory holding (1) Max 2 Accept other valid responses.	2

Question	Answer	Marks
3(d)	<p>Discuss the changes that have occurred in the trade receivables turnover ratio and the trade payables turnover ratio for Haniya's business during the year ended 30 November 2022</p> <p>The trade receivables ratio has worsened (1) reducing liquidity. There could be less control over credit customers leading to irrecoverable debts (1)</p> <p>The trade payables ratio has improved (1) reducing liquidity. This may attract more discounts received improving profits (1)</p> <p>The business may experience cash flow problems as a result of paying suppliers before receiving settlement from customers (1)</p> <p>Max 5 Accept other valid responses.</p>	5

Question	Answer	Marks
4(a)(i)	<p>Define <u>each</u> of the following terms:</p> <p>contribution per unit</p> <p>Contribution per unit is the difference between the selling price per unit and the variable costs per unit (1)</p>	1
4(a)(ii)	<p>Define <u>each</u> of the following terms:</p> <p>stepped costs.</p> <p>Stepped costs are fixed for a given level of activity and change when that level is exceeded (1)</p>	1
4(a)(iii)	<p>Define <u>each</u> of the following terms:</p> <p>margin of safety.</p> <p>Margin of safety is the difference between actual/forecast output and the break-even level of output (1)</p>	1
4(b)	<p>State <u>two</u> benefits of using marginal costing.</p> <p>Avoids the arbitrary apportionment of fixed costs (1) Avoids problems of under- or over-absorption of overheads (1) Useful for short-term decision making (1) Enables identification of breakeven point/margin of safety (1) Identifies the relative merits of each product where a variety of products are made (1)</p> <p>Max 2 Accept other valid responses.</p>	2

Question	Answer	Marks																																												
4(c)	<p>Calculate the monthly break-even point in units.</p> <p>Contribution per unit is: $\\$59 - (\\$21.60 + \\$32.80) = \\4.60 (1)</p> <p>Break-even point is: $\\$18\ 400 / \\4.60 (1) OF = 4000 units (1) OF</p>	3																																												
4(d)	<p>Prepare a marginal costing statement to show the monthly forecast profit if the improved product is made.</p> <p style="text-align: center;">G Limited</p> <p style="text-align: center;">Marginal costing statement for one month for improved product</p> <table border="1"> <thead> <tr> <th></th> <th style="text-align: center;">\$</th> <th style="text-align: center;">\$</th> <th></th> </tr> </thead> <tbody> <tr> <td>Revenue: $8640 \times \\$65$</td> <td></td> <td style="text-align: center;">561 600</td> <td>(1)</td> </tr> <tr> <td>Less variable costs</td> <td></td> <td></td> <td></td> </tr> <tr> <td> Materials $8640 \times \\$27.60$</td> <td style="text-align: center;">238 464</td> <td></td> <td>(1)</td> </tr> <tr> <td> Labour</td> <td></td> <td></td> <td></td> </tr> <tr> <td> Normal working: $8000 \times 4 \times \\$8.20$</td> <td style="text-align: center;">262 400</td> <td></td> <td>(1)</td> </tr> <tr> <td> Overtime: $640 \times 4 \times \\$12.30$</td> <td style="text-align: center;">31 488</td> <td></td> <td>(1)</td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">(532 352)</td> <td></td> </tr> <tr> <td>Contribution</td> <td></td> <td style="text-align: center;">29 248</td> <td>(1) O F</td> </tr> <tr> <td>Less fixed costs $\\$18\ 400 + \\500</td> <td></td> <td style="text-align: center;">(18 900)</td> <td>(1)</td> </tr> <tr> <td>Profit for month</td> <td></td> <td style="text-align: center;">10 348</td> <td>(1) O F</td> </tr> </tbody> </table>		\$	\$		Revenue: $8640 \times \$65$		561 600	(1)	Less variable costs				Materials $8640 \times \$27.60$	238 464		(1)	Labour				Normal working: $8000 \times 4 \times \$8.20$	262 400		(1)	Overtime: $640 \times 4 \times \$12.30$	31 488		(1)			(532 352)		Contribution		29 248	(1) O F	Less fixed costs $\$18\ 400 + \500		(18 900)	(1)	Profit for month		10 348	(1) O F	7
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4(e)(i)	<p>Calculate the profit for the 8 weeks for each option.</p> <p>Option A</p> <table border="1"> <thead> <tr> <th></th> <th>\$</th> <th></th> </tr> </thead> <tbody> <tr> <td>Contribution from 6 machines</td> <td>216 000</td> <td>(1)</td> </tr> <tr> <td>Additional contribution from overseas supplier</td> <td></td> <td></td> </tr> <tr> <td>(75% × 9600 units) × contribution (\$42 – \$34)</td> <td>57 600</td> <td>(1)</td> </tr> <tr> <td></td> <td>273 600</td> <td></td> </tr> <tr> <td>Less fixed costs (\$12000 × 8) + \$4200</td> <td>(100 200)</td> <td>(1)</td> </tr> <tr> <td>Profit for two months</td> <td>173 400</td> <td>(1)OF</td> </tr> </tbody> </table>		\$		Contribution from 6 machines	216 000	(1)	Additional contribution from overseas supplier			(75% × 9600 units) × contribution (\$42 – \$34)	57 600	(1)		273 600		Less fixed costs (\$12000 × 8) + \$4200	(100 200)	(1)	Profit for two months	173 400	(1)OF	4
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Profit for two months	173 400	(1)OF																					
4(e)(ii)	<p>Calculate the profit for the 8 weeks for each option.</p> <p>Option B</p> <table border="1"> <thead> <tr> <th></th> <th>\$</th> <th></th> </tr> </thead> <tbody> <tr> <td>Contribution from 6 machines</td> <td>216 000</td> <td></td> </tr> <tr> <td>Additional contribution from 2 hired machines</td> <td></td> <td></td> </tr> <tr> <td>(7 weeks × 2 machines × 300 units) × \$15</td> <td>63 000</td> <td></td> </tr> <tr> <td></td> <td>279 000</td> <td>(1)</td> </tr> <tr> <td>Less fixed costs W1</td> <td>(98 800)</td> <td>(2)</td> </tr> <tr> <td>Profit for two months</td> <td>180 200</td> <td>(1)OF</td> </tr> </tbody> </table> <p>W1 Fixed costs Option B: \$96 000 + hire charges (7 weeks × 2 machines × \$150, i.e. \$2 100) + training costs \$700 (1) = \$98 800 (1) OF</p>		\$		Contribution from 6 machines	216 000		Additional contribution from 2 hired machines			(7 weeks × 2 machines × 300 units) × \$15	63 000			279 000	(1)	Less fixed costs W1	(98 800)	(2)	Profit for two months	180 200	(1)OF	4
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Question	Answer	Marks
4(f)	<p>Advise the directors which option they should choose. Justify your answer by considering <u>both</u> financial and non-financial factors.</p> <p>Option A (Max 3)</p> <ul style="list-style-type: none"> • Regular customers are more likely to be supplied (1) • Will quality be maintained for goods bought in? (1) • Reliability of overseas supplier (1) • Risk losing customers if the quality is not acceptable (1) • Is delivery guaranteed? (1) • Is delivery cost guaranteed (1) • Any possibility of exchange rate problems? (1) • Possibility of damage in transit (1) • Effect on the labour force due to reduced production (1) <p>Option B (Max 3)</p> <ul style="list-style-type: none"> • Produces higher profit (1) • Regular customers may not be supplied / regular customers may go to competitors (1) • Will efficiency suffer due to working on new machines? (1) • Do they have any contingency plans for any further machinery problems (1) <p>Decision supported by a comment (1)</p> <p>Accept other valid responses.</p>	7