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

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

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2017 series for most Cambridge IGCSE®, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.
<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1(a)</td>
<td>Adjusted net profit: 232,000–4000 (1) –9000 (3) =219,000</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Workings: 15,000×2=30,000 (1) ×20%=6000 (1) OF 15,000–6000=9000 (1) OF</td>
<td></td>
</tr>
</tbody>
</table>
| 1(b)     | Adjusted Net Profit  
Add Interest on drawings  
Less Interest on capital  
Salary  
Share of profit  
Fair value of assets may be greater than book value. (1) 
Partners are rewarded for their efforts in building up the business. (1) 
It is only fair that the retiring partner is compensated in this way. (1) | 6     |
|          | Ramadhin 400  
Statham 400  
Trueman 400  
Ramadhin 18,000  
Statham 12,000  
Trueman 6,000 (36,000) (1)  
Trueman (12,000) (1)  
Ramadhin 86,100 (1) OF  
Statham 57,400 (1) OF  
Trueman 28,700 (1) OF |       |
|          | 219,000                                                  |       |
|          | Ramadhin 400  
Statham 400  
Trueman 400  
Ramadhin 18,000  
Statham 12,000  
Trueman 6,000 (36,000) (1)  
Trueman (12,000) (1)  
Ramadhin 86,100 (1) OF  
Statham 57,400 (1) OF  
Trueman 28,700 (1) OF |       |
|          | 219,000                                                  |       |
| 1(c)     | Fair value of assets may be greater than book value. (1) 
Partners are rewarded for their efforts in building up the business. (1) 
It is only fair that the retiring partner is compensated in this way. (1) | 3     |
|          | 219,000                                                  |       |
| 1(d)     | Capital  
Goodwill to Trueman  
Revaluation loss  
Current account  
× 60%  
\*28,700 (1) OF + 6,000 (1) OF + 12,000 (1) OF – 400 (1) OF – 10,000 (1) | 8     |
|          | 100,000                                                  |       |
|          | 2,000 (1)                                                |       |
|          | (1,250) (1)                                              |       |
|          | 36,300 (5)                                               |       |
|          | 137,050                                                  |       |
|          | 82,230 (1) OF                                           |       |
| 1(e)     | Decision. (1)                                            | 5     |
|          | Financial (Maximum 3) 
Trueman would receive more / less income. (1)OF  
Interest will be earned on the loan. (1)  
The decision may be affected by the interest rate which could be obtained externally on the capital invested. (1) |       |
|          | Non-financial (Maximum 3)  
Level of risk. (1)  
Degree of responsibility / decision making. (1)  
Security of employment. (1)  
1 mark for decision plus maximum 4 marks for justification |       |
### Question 1(f)
**Decision. (1)**

Partnership may not have funds available. (1)

It may be able to take a loan to repay at a lower interest thereby increasing the profit of the remaining partners. (1)

Taking a loan will increase the risk to the business. (1)

Loan may require a security. (1)

1 mark for decision plus maximum 3 marks for justification

---

### Question 2(a)
**WX Limited**  
Statement of Changes in equity for the year ended 28 February 2017

<table>
<thead>
<tr>
<th>Share capital</th>
<th>Share premium</th>
<th>Retained earnings</th>
<th>Revaluation reserve</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

| Balance b/d   | 150 000       | 60 000            | 40 000              | –                      |
| Revaluation   |               |                   |                     | 50 000 (1)             |
| Bonus issue   | 45 000        | (45 000)          | (1)                 | (1)OF                  |
| Rights issue  | 24 375        | 14 625            | (1)OF               | (1)OF                  |
| Dividends paid|               |                   |                     | (17 550) (1)OF         |
| Profit for the year | 50 500 (1) | | | |
| Balance c/d   | 219 375       | 29 625            | 72 950              | 50 000 (1)OF           |

**Workings:**

- Bonus issue: $150 000/0.5=300 000 (1) / 10×3=90 000×$0.50=45 000
- Rights issue: $300 000+90 000=390 000 (1)OF 8=48 750
  - $48 750×$0.50=24 375
  - $48 750×$0.30=14 625
- Dividends $300 000+90 000+48 750=438 750 (1)OF ×$0.04=17 550

---

### Question 2(b)
**Advantages (Maximum 3)**

- Can be issued instead of paying dividends and so cash flow is not reduced. (1)
- Keeps existing shareholders satisfied as there is no dilution of ownership. (1)
- Retains cash in the business for reinvestment. (1)
- Gives a positive sign to potential shareholders. (1)
- Enables company to release its capital reserves. (1)

**Disadvantage**

- No cash raised from selling the shares.  
  (1 mark for a valid point up to a maximum of 4 marks)

---

Total: 30

Total: 15
**Question 3(a)**
Trade receivables / credit sales × 365 (1)
16 500/167 175×365=37 days (1)OF
Credit sales: 37 150×100/20=185 750 (1)–18 575=167 175 (1)OF

**Question 3(b)**
Cost of goods sold: 37 150×80/20 (1) =148 600 (1)OF
Cost of goods sold / average inventory
148 600/(25 200 + closing inventory)/2 (1)OF =5
Closing inventory: 148 600/5×2–25 200=34 240 (1)OF

**Question 3(c)**
Trade payables / credit purchases × 365 (1)
Credit purchases = 148 600+(34 240–25 200)=157 640 (1)OF
(9500/157 640) (1)OF ×365=22 days (1)OF

**Question 3(d)**
Shows trend / previous years. (1)
Helps to compare with competitors. (1)
Help to compare with industry averages. (1)
Set targets for the next period. (1)
(1 mark for a valid point up to 3 marks maximum)

**Question 4(a)**
<table>
<thead>
<tr>
<th></th>
<th>Exe</th>
<th>Wye</th>
<th>Zed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling price</td>
<td>96.00</td>
<td>128.00</td>
<td>140.00</td>
</tr>
<tr>
<td>Variable costs</td>
<td>54.40</td>
<td>71.20</td>
<td>95.20</td>
</tr>
<tr>
<td>Contribution</td>
<td>41.60 (1)</td>
<td>56.80 (1)</td>
<td>44.80 (1)</td>
</tr>
</tbody>
</table>

**Question 4(b)**
<table>
<thead>
<tr>
<th></th>
<th>Exe</th>
<th>Wye</th>
<th>Zed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exe</td>
<td>$41.60×100</td>
<td>$4 160</td>
<td></td>
</tr>
<tr>
<td>Wye</td>
<td>$56.80×120</td>
<td>$6 816</td>
<td></td>
</tr>
<tr>
<td>Zed</td>
<td>$44.80×60</td>
<td>$2 688</td>
<td></td>
</tr>
<tr>
<td>Contribution</td>
<td>13 664 (1)OF</td>
<td>7 000 (1)</td>
<td></td>
</tr>
<tr>
<td>Fixed costs</td>
<td>6 664 (1)OF</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit</td>
<td>6 664 (1)OF</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Question 4(c)**
<table>
<thead>
<tr>
<th></th>
<th>Exe</th>
<th>Wye</th>
<th>Zed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exe</td>
<td>1×100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Wye</td>
<td>2.5×120</td>
<td>300</td>
<td></td>
</tr>
<tr>
<td>Zed</td>
<td>5×60</td>
<td>300</td>
<td></td>
</tr>
<tr>
<td>Total machine hours</td>
<td>700 (1)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Question 4(d)

<table>
<thead>
<tr>
<th>Unit contribution</th>
<th>Exe</th>
<th>Wye</th>
<th>Zed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>41.60</td>
<td>56.80</td>
<td>44.80</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Machine hours</th>
<th>1</th>
<th>2.5</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution per machine hour</td>
<td>41.60</td>
<td>22.72</td>
<td>8.96</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ranking</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
</table>

Production plan
- Exe $\times 100$ (1OF) 100 hours
- Wye $\times 120$ (1OF) 300 hours
- Zed $\times 20$ (1OF) 100 hours
- Total 500 hours

<table>
<thead>
<tr>
<th></th>
<th>Exe</th>
<th>Wye</th>
<th>Zed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>$41.60 \times 100$</td>
<td>$56.80 \times 120$</td>
<td>$44.80 \times 20$</td>
</tr>
<tr>
<td>Total</td>
<td>4160 (1OF)</td>
<td>6816 (1OF)</td>
<td>896 (1OF)</td>
</tr>
</tbody>
</table>

**Contribution**: $11,872 (1OF)$
**Fixed costs**: $7,000
**Profit**: $4,872 (1OF)

### Question 4(e)

**Decision. (1)**

**Advantages (Maximum 2)**
- Will enable company to fulfil maximum demand. (1)
- Will enable full utilisation of resources. (1)

**Disadvantages (Maximum 2)**
- Will reduce profit. (1)
- Forecast maximum demand may not be achieved thus reducing profit even further. (1)

**1 mark for decision plus maximum 3 marks for justification**

### Question 4(f)

**Make or buy decisions. (1)**

**Special order decisions. (1)**

**Decide whether or not to cease manufacturing of a product. (1)**

**Decide whether to close a department. (1)**

**Maximum 3 marks**

### Question 4(g)

**Department 1**: $560,000/140,000 = $4.00 per labour hour (1)

**Department 2**: $304,000/160,000 = $1.90 per machine hour (1)

### Question 4(h)

**Department 1**: $(124,000 \times $4.00) = 496,000 - 533,000 = $37,000 (1)OF under absorbed (1)OF

**Department 2**: $(151,000 \times $1.90) = 286,900 - 294,000 = $7100 (1)OF under absorbed (1)OF

**Total**: 30