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 must be read in conjunction with the question papers and the report on the examination.

- CIE will not enter into discussions or correspondence in connection with these mark schemes.

CIE is publishing the mark schemes for the October/November 2010 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.
1A (a) (i)

James and Gemma

Income Statement (Trading and Profit and Loss) and Appropriation Account
for the six month period ending 30 June 2009

<table>
<thead>
<tr>
<th></th>
<th>$</th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (sales)</td>
<td>90 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Less Cost of sales</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening Inventory (Stock)</td>
<td>6 300</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
<td>70 000</td>
<td></td>
<td>(1)</td>
</tr>
<tr>
<td></td>
<td>76 300</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less Closing Inventory (Stock)</td>
<td>16 300</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>60 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Profit</td>
<td>30 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Less Expenses (Working 1)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General expenses</td>
<td>6 000</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>5 100</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>Loan interest</td>
<td>1 350</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>12 450</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit for the year (Net Profit)</td>
<td>17 550</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Less Salaries:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>James</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gemma</td>
<td>3 000</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Less Interest on capital:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>James (90 000 × 8% × 6 / 12)</td>
<td>3 600</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>Gemma (60 000 × 8% × 6 / 12)</td>
<td>2 400</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>6 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>9 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>8 550</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Balance of profits shared:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>James</td>
<td>4 275</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>Gemma</td>
<td>4 275</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>8 550</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Working 1**

Total expenses: 25 525
Depreciation (1st Half of the Year): 5 100
Depreciation (2nd Half of the Year): 5 725
Loan Interest: 2 700
General Expenses: 12 000

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(ii) James and Gemma

Income Statement (Trading and Profit and Loss) and Appropriation Account
for the six month period ending 31 December 2009

<table>
<thead>
<tr>
<th></th>
<th>$</th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue (sales)</strong></td>
<td>150 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Less Cost of sales</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening Inventory (Stock)</td>
<td>16 300</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
<td>104 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>120 300</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less Closing Inventory (Stock)</td>
<td>20 300</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of Sales</td>
<td></td>
<td>100 000</td>
<td></td>
</tr>
<tr>
<td>Gross Profit</td>
<td></td>
<td>50 000</td>
<td></td>
</tr>
<tr>
<td><strong>Less Expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General expenses</td>
<td>6 000</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>Loan interest</td>
<td>1 350</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>5 725</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>13 075</td>
</tr>
<tr>
<td>Profit for the year (Net Profit)</td>
<td></td>
<td></td>
<td>36 925</td>
</tr>
<tr>
<td><strong>Less Salaries:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>James</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gemma</td>
<td>3 000</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Less Interest on capital:</strong></td>
<td>7 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>James (115 000 x 8% x 6 / 12)</td>
<td>4 600</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>Gemma (60 000 x 8% x 6 / 12)</td>
<td>2 400</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>7 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>10 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>26 925</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Balance of profits shared: (2 : 2 : 1)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>James</td>
<td>13 462.50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gemma</td>
<td>13 462.50</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>26 925</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
(b)  

<table>
<thead>
<tr>
<th></th>
<th>James</th>
<th>Gemma</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drawings</td>
<td>15 200 (1)</td>
<td>18 300 (1)</td>
</tr>
<tr>
<td>Balance b/d</td>
<td>12 000 (1)</td>
<td>9 000 (1)</td>
</tr>
<tr>
<td>Interest on capital</td>
<td>8 200 (1)</td>
<td>4 800 (1)</td>
</tr>
<tr>
<td>Salaries</td>
<td>0</td>
<td>6 000 (1)</td>
</tr>
<tr>
<td>Balance c/d</td>
<td>22 737.50</td>
<td>19 237.50</td>
</tr>
<tr>
<td>Share of Profit</td>
<td>17 737.50</td>
<td>17 737.50</td>
</tr>
<tr>
<td>Balance b/d</td>
<td>37 937.50</td>
<td>37 537.50</td>
</tr>
</tbody>
</table>

(1)  

(c) Increased skills  
- Additional capital  
- Spread risk  
- Holiday / sickness cover  
- Shared workload  
(1 each maximum of 3)  

1B  
(i) $240 000 / (18 000 + 22 000) / 2 = 12 (1) times (1)$  
(ii) $24 000 / 500 000 = 4.8 (1) % (1)$  
(iii) $63 000 / 64 000 = 0.98 (1) : 1 (1)$  
[6]  
[Total: 30]  

2  
(a) $300 units (1) @ $20 (1) = $6 000 (2 cf or 1 of)  
(b)  

Paula Bridgewater  
Income Statement (trading account) for the month of February 2009  

<table>
<thead>
<tr>
<th></th>
<th>$</th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>182 000 (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening Inventory (Stock)</td>
<td>7 000 (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
<td>97 000 (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closing Inventory (Stock)</td>
<td>6 000 (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of Sales</td>
<td></td>
<td>98 000</td>
<td></td>
</tr>
<tr>
<td>Gross Profit</td>
<td></td>
<td>84 000 (1 of)</td>
<td></td>
</tr>
</tbody>
</table>
(c) Stock should be valued at the lower of cost and net realisable value. IAS states companies should either use the FIFO or AVCO method of stock valuation. Whichever method is used should be used consistently – Consistency concept. Prudence concept states that companies should choose the lowest value when valuing their assets.

(3 × 2 marks) (1 plus 1 for development) [6]

(d) Paula Bridgewater
Income Statement (trading account) for the period ending 31 December 2009

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>362 000</td>
</tr>
<tr>
<td>Opening Inventory (Stock)</td>
<td>11 700</td>
</tr>
<tr>
<td>Purchases</td>
<td>22 600</td>
</tr>
<tr>
<td></td>
<td>34 300</td>
</tr>
<tr>
<td>Closing Inventory (Stock)</td>
<td>7 150</td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>27 150</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Gross Profit        | 9 050   | (1 of)

(Accept any other format or calculation) [6]

(e) Depreciation for the period = (6000 – 600) × 20% × 2/12 = $180 (2)
Net Book Value = 3 840 (1) – 180 (1 of) = 3 660 [4]

(f) Total Trade Receivables (debtors)

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bal b/d</td>
<td>2 400</td>
</tr>
<tr>
<td>Bad debt</td>
<td>600</td>
</tr>
<tr>
<td>Cash / bank</td>
<td>4 300</td>
</tr>
<tr>
<td>Sales</td>
<td>6 500</td>
</tr>
<tr>
<td>Bal c/d</td>
<td>4 000</td>
</tr>
<tr>
<td></td>
<td>8 900</td>
</tr>
<tr>
<td></td>
<td>8 900</td>
</tr>
</tbody>
</table>

[Total: 30]
3  (a) (i)  

<table>
<thead>
<tr>
<th>Department</th>
<th>Hours</th>
<th>Rate</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cutting Department</td>
<td>501 600</td>
<td>$6.60</td>
<td>3 311</td>
</tr>
<tr>
<td>Pressing Department</td>
<td>450 000</td>
<td>$6.25</td>
<td>2 812</td>
</tr>
<tr>
<td>Production Department</td>
<td>702 000</td>
<td>$6.75</td>
<td>4 704</td>
</tr>
<tr>
<td>Assembly Department</td>
<td>264 000</td>
<td>$6.00</td>
<td>1 584</td>
</tr>
</tbody>
</table>

(ii)  

<table>
<thead>
<tr>
<th>Department</th>
<th>Hours</th>
<th>Rate</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cutting Department</td>
<td>364 800</td>
<td>$4.80</td>
<td>1 767</td>
</tr>
<tr>
<td>Pressing Department</td>
<td>439 200</td>
<td>$6.10</td>
<td>2 695</td>
</tr>
<tr>
<td>Production Department</td>
<td>509 600</td>
<td>$4.90</td>
<td>2 475</td>
</tr>
<tr>
<td>Assembly Department</td>
<td>233 200</td>
<td>$5.30</td>
<td>1 245</td>
</tr>
</tbody>
</table>

(b)  

**Statement to show total cost for Job Number SMC20**

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct materials</td>
<td>$140 156 (1)</td>
</tr>
<tr>
<td>Direct labour</td>
<td></td>
</tr>
<tr>
<td>Cutting Department</td>
<td>13 200</td>
</tr>
<tr>
<td>Pressing Department</td>
<td>9 000</td>
</tr>
<tr>
<td>Production Department</td>
<td>16 200</td>
</tr>
<tr>
<td>Assembly Department</td>
<td>6 000</td>
</tr>
<tr>
<td>Prime cost</td>
<td>184 556 (1)</td>
</tr>
<tr>
<td>Factory overheads</td>
<td></td>
</tr>
<tr>
<td>Cutting Department</td>
<td>13 200 / 6.60 = 2 000 (1) x 4.80</td>
</tr>
<tr>
<td>Pressing Department</td>
<td>9 000 / 6.25 = 1 440 (1) x 6.10</td>
</tr>
<tr>
<td>Production Department</td>
<td>16 200 / 6.75 = 2 400 (1) x 4.90</td>
</tr>
<tr>
<td>Assembly Department</td>
<td>6 000 / 6.00 = 1 000 (1) x 5.30</td>
</tr>
<tr>
<td>Cost of production</td>
<td>220 000 (1of)</td>
</tr>
<tr>
<td>Administration costs</td>
<td>44 000 (1of)</td>
</tr>
<tr>
<td>Total cost</td>
<td>264 000</td>
</tr>
</tbody>
</table>

[4]
(c) Selling price = 264 000 (1of) × 125% (1) = $330 000 (1of) [3]

(d) Overheads tend to be related to time.
The company may be labour intensive
Using a departmental labour rate is appropriate if different grades of labour are used in each department.

(2 × 2 marks – 1 for point and 1 for development / 1 further mark for evaluation point) [5]

(e) Single factory rate
Machine hour rate
Unit cost
% prime cost
% direct labour cost
% direct material cost
Activity based costing

(2 x 1 mark) [2]

[Total: 30]