Published

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

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1 (a)  
Maneesh
Income statement for the year ended 31 December 2015

\[
\begin{array}{cc}
\text{\$} & \text{\$} \\
\text{Revenue (184 190 + (W1) 8 490)} & 192 680 \hspace{1cm} (1) \\
\text{Cost of sales} & 115 608 \hspace{1cm} (1) \\
\text{Gross profit (must be labelled)} & 77 072 \hspace{1cm} (1) \\
\text{General expenses} & 14 160 \\
\text{Rent} & 24 600 \\
\text{Depreciation ((83 400 + 5 200) \times 20\%)} & 17 720 \hspace{1cm} (1) \\
\text{Irrecoverable debt written off} & 900 \hspace{1cm} (1) \\
\text{Profit for the year (must be labelled)} & 19 692 \hspace{1cm} (1) \\
\end{array}
\]

**Workings:**  W1 Cash sales: 7 450 + 1 040 = 8 490 [6]

(b)  
Maneesh
Statement of financial position at 31 December 2015

\[
\begin{array}{cc}
\text{\$} & \\
\text{Non-current assets (83 400 + 5 200 – 17 720)} & 70 880 \hspace{1cm} (1) \\
\text{Current assets} & \\
\text{Inventory (W2)} & 39 314 \hspace{1cm} (1) \\
\text{Trade receivables (W3)} & 29 000 \hspace{1cm} (1) \\
\text{Prepayments (W4)} & 4 400 \hspace{1cm} (1) \\
\text{Cash in hand} & 180 \\
\text{Total assets} & 72 894 \\
\text{Capital account} & \\
\text{Balance at 1 January 2015} & 106 710 \\
\text{Profit for the year} & 19 692 \hspace{1cm} (1) \\
\text{Drawings (14 120 + 1 040)} & 126 402 \hspace{1cm} (1) \\
\text{Current liabilities} & 111 242 \\
\text{Trade payables (W5)} & 11 060 \hspace{1cm} (1) \\
\text{Accruals} & 4 200 \hspace{1cm} (1) \\
\text{Cash at bank} & 17 272 \hspace{1cm} (1) \\
\text{Total capital and liabilities} & 32 532 \\
\end{array}
\]
Workings

W2  Closing inventory
Opening inventory 18 500
Purchases 136 422
Cost of sales((184 190 + 8 490) × 60%) (115 608)
Closing inventory 39 314 (1o1f)

W3  Trade receivables
Balance b/d 22 460
Credit sales 184 190
Bank (176 750)
Bad debt written off (900)
Closing trade receivables 29 000 (1)

W4  Prepayment
Balance b/d 1 900
Bank 27 100
Income statement (24 600)
Closing prepayments 4 400 (1)

W5  Trade payables
Balance b/d 12 770
Purchases 136 422
Bank (138 132)
Closing trade payables 11 060 (1)

(c)  Inventory increased by almost $21 000 (1)
Trade receivables increased from $22 460 to $29 000 (1)
Trade payables reduced from $12 770 to $11 060 (1)
Non-current assets expenditure of $5 200 (1)
Prepayments increased from $1 900 to $4 400 (1)

Max 4 [4]

(d)  Decision (1)

Loan (Max 3)
Will cost $5 000 in interest over the 5 years
Means Maneesh will keep all future profit earned
Loan has to be repaid

Partnership (Max 3)
Brother may bring in additional expertise
Will be able to share workload
Maneesh will lose 10% of profits earned
Brother will bear 10% of any losses
Capital does not have to be repaid [7]
(e) **Affect appropriation account**

- Interest on capital
- Partners' salaries
- Interest on drawings

1 mark × 2

**Will not affect appropriation account**

- Interest on loans
- Amount of fixed capital
- Annual limit on drawings

1 mark × 2

[Total: 30]

2 (a) (i) Selling price less cost to completion less selling expenses. [1]

(ii) To give the benefit of the change in value of the business to the existing partners and any partner who may be retiring. (1)

So that the statement of financial position on the entry of the new partner shows a true and fair view. (1) [2]

(iii) On the introduction of a new partner. (1)

On the retirement of an existing partner. (1)

On a change in the profit sharing ratio. (1)

Max 2 [2]

(b) **Capital accounts**

<table>
<thead>
<tr>
<th></th>
<th>Alice</th>
<th>Eve</th>
<th>Jean</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Goodwill</td>
<td>12 150</td>
<td>8 100</td>
<td>(1)</td>
</tr>
<tr>
<td>Revaluation</td>
<td>19 345</td>
<td>11 607</td>
<td>7 738</td>
</tr>
<tr>
<td>Current a/c</td>
<td>14 112</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>Bank</td>
<td>53 168</td>
<td>(1 of)</td>
<td></td>
</tr>
<tr>
<td>Balance b/d</td>
<td>45 318</td>
<td>15 212</td>
<td>(1 of)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Alice</th>
<th>Eve</th>
<th>Jean</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Goodwill</td>
<td>76 500</td>
<td>63 000</td>
<td>27 000</td>
</tr>
<tr>
<td>Revaluation</td>
<td>10 125</td>
<td>6 075</td>
<td>4 050</td>
</tr>
<tr>
<td>Current a/c</td>
<td>10 125</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>Bank</td>
<td>45 318</td>
<td>(1 of)</td>
<td></td>
</tr>
<tr>
<td>Balance b/d</td>
<td>86 625</td>
<td>69 075</td>
<td>31 050</td>
</tr>
</tbody>
</table>

Marks are for the full line

**Workings:**

Goodwill old ratio: \( 20 250 \times 5 / 10, 3 / 10 \) and \( 2 / 10 = 10 125, 6 075 \) and \( 4 050 \)

Goodwill new ratio: \( 20 250 \times 3 / 5 \) and \( 2 / 5 = 12 150 \) and \( 8 100 \)
Revaluation account

<table>
<thead>
<tr>
<th>Non-current assets</th>
<th>32400</th>
<th>Alice</th>
<th>19345</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory</td>
<td>4300</td>
<td>Eve</td>
<td>11607</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>1990</td>
<td>Jean</td>
<td>7738</td>
</tr>
</tbody>
</table>

38690 38690

Split: $38690 \times \frac{5}{10}, \frac{3}{10} \text{ and } \frac{2}{10} = 19345, 11607 \text{ and } 7738. \quad [6]

(c) Possible answers could include:

- Reduced cash flow after paying Alice to leave the business in view of the current overdraft (1)
- Having to raise additional finance to pay Alice off (1)
- Impacts on profitability having to raise additional capital (1)
- Lower capital investment in the business (1)
- Difficult to raise additional finance to pay to Alice due to the current overdraft (1)

Max 4 \quad [4]

[Total: 15]

3 (a) Bank account

| Application for shares 150000 (1) | Application for shares 25000 (1) |
| Application for shares 137500 (1) |

Application of shares account

| Bank 25000 (1) | Bank 150000 (1) |
| Share premium 12500 (1) | Bank 137500 (1) |
| OSC 250000 (1) | |

| Share Premium account | $ |
| Application for share 12500 (1) |

Ordinary Share Capital account

| Balance b/d 600000 | |
| Application for shares 250000 (1)

[10]

(b) **Preference shares:**
- Receive a fixed rate of dividend
- No voting rights
- Not owner of the company
- Priority for dividend

**Ordinary shares:**
- Dividend varies
- Have voting rights
- Are owners of the company
- Receive dividend after preference shareholders

Any 2 differences 2 marks \quad [4]
(c) Share premium
Revaluation reserve
1 mark for any 1

[Total: 15]

4 (a) Total Production cost centres Service cost centres
Machining Assembly Stores Canteen

<table>
<thead>
<tr>
<th></th>
<th>Machining</th>
<th>Assembly</th>
<th>Stores</th>
<th>Canteen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>$8,750</td>
<td>$5,625</td>
<td>$1,875</td>
<td>$750</td>
</tr>
<tr>
<td>Machinery maintenance</td>
<td>$27,000</td>
<td>$22,728</td>
<td>$4,272</td>
<td>$750</td>
</tr>
<tr>
<td>Power</td>
<td>$15,370</td>
<td>$7,950</td>
<td>$5,300</td>
<td>$1,590</td>
</tr>
<tr>
<td>Rent of premises</td>
<td>$63,510</td>
<td>$32,850</td>
<td>$21,900</td>
<td>$6,570</td>
</tr>
<tr>
<td>Re-apportionment of canteen</td>
<td>$0</td>
<td>$1,215</td>
<td>$1,823</td>
<td>$182</td>
</tr>
<tr>
<td>Re-apportionment of stores</td>
<td>$0</td>
<td>$6,061</td>
<td>$3,031</td>
<td>$9,092</td>
</tr>
<tr>
<td>Total overhead cost</td>
<td>$114,630</td>
<td>$76,429</td>
<td>$38,201</td>
<td>$3,220</td>
</tr>
</tbody>
</table>

[8]

(b) Machining
Overhead cost $76,429 = $5.42 (1 of) per machine hour (1)
Machine hours 14,100

Assembly
Overhead cost $38,201 = $2.75 (1 of) per direct labour hour (1)
labour hours 13,900

[4]

(c) Overhead cost calculation:

Product A
Machining 1.5 hrs × $5.42 8.13
Assembly 0.5 hrs × $2.75 1.37

9.50 (1 of)

Product B
Machining 0.3 hrs × $5.42 1.63
Assembly 2.0 hrs × $2.75 5.50

7.13 (1 of)

<table>
<thead>
<tr>
<th></th>
<th>Product A</th>
<th>Product B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct costs</td>
<td>$5.75</td>
<td>$8.25</td>
</tr>
<tr>
<td>Overhead costs</td>
<td>$9.50</td>
<td>$7.13</td>
</tr>
<tr>
<td>Total cost</td>
<td><strong>$15.25</strong></td>
<td><strong>$15.38</strong></td>
</tr>
</tbody>
</table>

[4]
(d)  

<table>
<thead>
<tr>
<th>Machining</th>
<th>Assembly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual hrs × OAR</td>
<td>$</td>
</tr>
<tr>
<td>16210 × $5.42</td>
<td>87,858</td>
</tr>
<tr>
<td>Less: actual overhead</td>
<td>76,750</td>
</tr>
<tr>
<td>Over absorbed (1)</td>
<td>11,108 (1) of</td>
</tr>
<tr>
<td></td>
<td>Under absorbed (1)</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(e) The process of charging whole costs directly to a cost unit or cost centre. (1) [1]

(f) Answers may include:

- a cost incurred which cannot be traced directly (1) to a product, service or department (1)
- an indirect cost (1) (max 2) [2]

(g) So that each unit of production (1) contains a share of total overhead costs. (1) [2]

(h) Decision (1 mark)

Reasons to change to marginal costing: (max 2)

- simple and quick to operate
- no apportionment of fixed costs
- fixed costs are treated as period costs and so remain unchanged at different activity levels
- no over/under absorption of overhead costs to calculate
- no further adjustment needed in the income statement for over/under absorption
- closing inventory is realistically valued at variable production cost
- allows easy calculation of profit when changes in activity occur
- great aid in decision making/pricing/make or buy situation.

Reasons to keep absorption costing: (max 2)

- it shares fixed production costs to units of production, which is fair as these costs are incurred in order to make the output
- it is easier to determine profitability of several products as they include a share of fixed overheads.
- it values closing inventory fairly [5]

[Total: 30]