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 2014 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.
1 (a) Sales Ledger Control Account

\[
\begin{array}{lrrrr}
\text{2013} & & & & \\
1 \text{Jul} & \text{Balance b/f} & 40 & (1) & \text{1 Jul–Dec 31} \\
& & & & \text{Cash} \\
& & & & 3320 & (1) \\
& & & & \text{Sales returns} & 60 & (1) \\
& & & & \text{Bad debts} & 80 & (1) \\
\hline
1 \text{Jul–Dec 31} & \text{Sales} & 3474 & (1of) & 31 \text{Dec} \\
& & & & \text{Bal c/f} \\
& & 3514 & & 54 \\
\hline
2014 & 1 \text{Jan} & \text{Balance b/f} & 54 & (1) \\
\end{array}
\]

(b) Manufacturing Account for the 6 months ended 31 December 2013

Raw materials
Inventory at 1 July 2013 80
Purchases 780
Carriage in 128 908

Inventory at 31 December 2013 112
Cost of raw materials consumed 876 (1cf)

Manufacturing wages 480 (1)
Factory power 88 (1) 568
Prime cost (must be labelled) 1444 (1of)

Factory overheads
Electricity (138 \times 2/3) 92 (1)
Rent and rates (326 – 26) \times 3/5 180 (1)
Factory expenses 56
Depreciation on machinery (160 \times 20\%)/2 16 (1) 344

Work in progress (110 (1) – 146 (1)) 1788 (36)
Cost of production 1752 (1) of
### Income statement for 6 months ended 31 December 2013

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>3,474</td>
</tr>
<tr>
<td>less returns</td>
<td>60</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,414</strong> (1)</td>
</tr>
<tr>
<td>Finished goods</td>
<td></td>
</tr>
<tr>
<td>Inventory at 1 July 2013</td>
<td>204</td>
</tr>
<tr>
<td>Purchases</td>
<td>150 (1)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>354</strong> (1of)</td>
</tr>
<tr>
<td>Cost of production</td>
<td>1,752</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,106</strong></td>
</tr>
<tr>
<td>Inventory at 31 December 2013</td>
<td>210</td>
</tr>
<tr>
<td>Gross profit</td>
<td>1,896</td>
</tr>
<tr>
<td>Depreciation on motor vehicles (6 months)</td>
<td>7 (1)</td>
</tr>
<tr>
<td>Electricity</td>
<td>46 (1)</td>
</tr>
<tr>
<td>Rent</td>
<td>120 (1)</td>
</tr>
<tr>
<td>General expenses</td>
<td>45</td>
</tr>
<tr>
<td>Bad debts</td>
<td>80 (1)</td>
</tr>
<tr>
<td><strong>Profit for the year (must be labelled)</strong></td>
<td><strong>1,220 (1 cf)</strong></td>
</tr>
</tbody>
</table>

[8]
(d) (i) Matching ensures that all income (1) and expenditure (1) are recognised in the financial (1) period in which they occur. The timing of payment (1) is irrelevant, i.e. if goods are sold in year one but not paid for until year two, then the sale is recognised in year one (1).

(ii) Materiality allows that if the amount of a transaction is insignificant 1, then the accepted treatment of that transaction may be disregarded (1). For example, the purchase of a stapler, which may last for several years, would tend to be treated as revenue rather than capital expenditure, and the stapler itself would not be included in non-current assets (1).

Materiality is decided on the following factors:
Will the cost of using the normal treatment of an item outweigh the benefit obtained? (1)
Will the disclosure of an item (e.g., the stapler mentioned above) make any difference to the decisions made by the person reading the financial statement? (1)

[Max 3]

[Total: 30]

2 (a) (i)

<table>
<thead>
<tr>
<th>Motor vehicles account</th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance b/d</td>
<td>12000</td>
<td>12000</td>
</tr>
<tr>
<td>Cash</td>
<td>21400</td>
<td>24000</td>
</tr>
<tr>
<td>Disposal (PE)</td>
<td>2600</td>
<td>36000</td>
</tr>
<tr>
<td>Balance b/d</td>
<td>24000</td>
<td>36000</td>
</tr>
</tbody>
</table>

[5]

(ii)

<table>
<thead>
<tr>
<th>Provision for depreciation of motor vehicles account</th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disposal</td>
<td>5280</td>
<td>3600</td>
</tr>
<tr>
<td>Balance c/d</td>
<td>2400</td>
<td>7680</td>
</tr>
<tr>
<td>Income Statement (1)</td>
<td>4080</td>
<td>7680</td>
</tr>
<tr>
<td>Balance b/d</td>
<td>2400</td>
<td>7680</td>
</tr>
</tbody>
</table>

[5]

(iii)

<table>
<thead>
<tr>
<th>Disposal of motor vehicles account</th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor vehicles</td>
<td>12000</td>
<td>5280</td>
</tr>
<tr>
<td>Motor vehicles (PE)</td>
<td>2600</td>
<td>4120</td>
</tr>
<tr>
<td>Income statement (1)</td>
<td>4120</td>
<td>12000</td>
</tr>
</tbody>
</table>

[5]
(b) **Non-current assets**

<table>
<thead>
<tr>
<th>Depreciation charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freehold land and buildings</td>
</tr>
<tr>
<td>Machinery</td>
</tr>
<tr>
<td>$18,000 \times 25% \times 9/12 (1) = 3,375 (1\text{ of })</td>
</tr>
<tr>
<td>Motor vehicle</td>
</tr>
</tbody>
</table>

Total charge for year $25\,455 (1\text{ of }) [6]

(c) Goodwill is an intangible non current asset (1) which can arise due to a business’s reputation, (1) location, (1) staff quality (1)

It is the excess of the value of the business over the book value of the net assets (1) [5]

(d) As this is not purchased goodwill (1) it is not shown in the books of account (1) and must be written off against the capital accounts (1) of the partners in their profit sharing ratios (1). [4]

[Total: 30]

3 (a) $ | $ 
--- | ---
Selling price | 32.00
Variable costs
Direct materials | 6.50
Direct labour | 8.50
Factory overheads | 3.00
Selling and administration overheads | 2.50 20.50 (1)
Contribution | \[11.50\]

Fixed costs = $3.50 + $5.00 = $8.50 (1) \times 18\,000 = $153\,000

Breakeven point = $153\,000 (1) / $11.50 (1) = 13\,305\text{ units} (1\text{ of }) [5]

(b) Breakeven as % of capacity = (13\,305 (1) / 24\,000 (1) ) \times 100 = 55.44\% (1) [3]

(c) $ | $
--- | ---
Sales (18\,000 \times $32) | 576\,000
Variable costs
Direct materials (18\,000 \times $6.50) | 117\,000
Direct labour (18\,000 \times $8.50) | 153\,000
Factory overheads (18\,000 \times $3.00) | 54\,000
Selling and administration overheads (18\,000 \times $2.50) | 45\,000 369\,000
Contribution (1) | 207\,000 (1)
Less: Fixed overheads ($3.50 + $5.00 \times 18\,000) | 153\,000
Profit | 54\,000 (1\text{ of }) [3]
(d) Workings
Revised capacity = 24,000 × 1.1 = 26,400 units
Revised demand = 18,000 × 1.5 = 27,000 units
Revised selling price = $32.00 × 0.875 = $28.00
Machinery depreciation = ($45,000 − $5,000) / 5 = $8,000 per annum
Revised fixed selling and administration costs = ($3.50 × 18,000) × 1.1 = $69,300
Revised total fixed overheads = $153,000 + $8,000 + $6300 = $167,300
Revised contribution = $28.00 − $20.50 = $7.50

Breakeven point = $167,300 / $7.50 = 22,307 units

(e) Breakeven as % of capacity = 22,307 / 26,400 = 84.5%

(f) Sales
Sales (26,400 × $28) $739,200

Variable costs
Direct materials (26,400 × $6.50) 171,600
Direct labour (26,400 × $8.50) 224,400
Factory overheads (26,400 × $3.00) 79,200
Selling and administration overheads (26,400 × $2.50) 66,000
Contribution 198,000

Less: Fixed overheads 167,300
Profit 30,700

(g) The directors should not go ahead with their plans.
- Profit falls from $54,000 to $30,700
- Breakeven point increases from 13,305 units to 22,307 units
- Unit contribution falls from $11.50 to $7.50
- Investment may cause cash flow problems
- Estimate of 50% increase in demand may be over-optimistic

2 marks for each valid point – Max 6

[Total: 30]