MARK SCHEME for the October/November 2009 question paper

for the guidance of teachers

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.

1 (a) Balance sheet immediately after implementation of option 1

	$	$	
Fixed assets		350 000 **(2)**	[100 000 **(1)** + 250 000 **(1)**]
Current assets			
Stock	38 100 **(1)**		
Debtors	24 800 **(1)**		
Bank	69 675 **(1)**		
	132 575		
Current liabilities			
Creditors	(18 850) **(1)**	113 725	
		463 725	
Long term liability			
Loan		250 000 **(1)**	
		213 725	
Capital accounts Yip		130 000 **(5)**	[80 **(1)** + 14 **(2)** + 48 **(1)** – 12 **(1)**]
Sim		75 000 **(5)**	[50 **(1)** + 7 **(2)** + 24 **(1)** – 6 **(1)**]
Danny		6 000 **(2)**	[60 **(1)** – 54 **(1)**]
Current accounts Yip		4 875 } **(1)**	
Sim		(2 150)	
		213 725	

[20]

(b) Balance sheet immediately after implementation of option 2

	$	$	
Fixed assets		350 000 **(2)**	
Goodwill		31 275 **(2of)**	
		381 275	
Current assets			
Stock	38 100*		
Debtors	24 800*	} **1** mark all 3 from **(a)**	
Bank	9 675*		
	72 575		
Current liabilities			
Creditors	(18 850) **(1)**	53 725	
		435 000	
Long term liability			
Loan		250 000 **(1)**	
		185 000	
Capital – Danny		185 000 **(1)**	[8]

(c) Option 2 $

Profits available   66 000 **(1)**
New profits   <u>50 000</u> **(1)**
              116 000

Less interest   <u>20 000</u> **(1)**
              <u>96 000</u>

All profit goes to Danny in option 2

Option 1

                      $
Split   Danny   51 750 **(3)** + 27 000 **(1)**
         Yip   11 500
         Sim   5 700   **[7]**

(d) Choose option 2 **(1)** $96 000 profit whichever option is chosen. In option 2 Danny would earn all the profit **(1)**, with option 1 he would earn only $78 750 **(1)** so $125 000 **(2)** extra investment ($185 000 rather than $60 000) will earn him $17 250 more in profits **(2)** ($96 000 rather than $78 750), plus potentially more in the future **(1)**. A 13.8% marginal return **(2)**.

Non financial factors up to 2 marks
1 mark for recognition plus 1 for development   **[max 5]**

2 (a) Do nothing if indeed the cash deficit is only for one month.
Reschedule payments.
Get debtors to pay more quickly.
Negotiate temporary overdraft facility.
Other sensible solutions to be rewarded accordingly.

1 mark for recognition plus 1 mark for development   **[max 4]**

(b) Forecast trading and profit and loss and appropriation accounts for the three months ending 31 December 2009

                          $ $
Sales   132 000 **(3)**   [37 **(1)** + 47 **(1)** + 48 **(1)**]
Less cost of sales
Stock   1 000 **(1)**
Purchases   <u>63 000</u> **(3)**   [18 **(1)** + 21 **(1)** + 24 **(1)**]
               64 000
Stock   <u>2 000</u> **(1)**   <u>62 000</u>
Gross profit (must say)   <u>70 000</u> **(1)**
General expenses   53 800 **(1)**
Loss on sale of fixed asset   1 000 **(3)**   [20 000 **(1)** – 11 000 **(1)** – 8 000 **(1)**]
Depreciation W1   <u>5 450</u> **(3of)**   <u>60 250</u>
Net profit   9 750 **(1of)**
Dividend   <u>4 000</u> **(1)**
Retained profit for the year   5 750 **(1 of)**

W1 218 000 **(1)** × 10% **(1)** × ¼ **(1)**   **[19]**

(c) Balance sheet at 31 December 2009

	$		$	
Fixed assets	218 000	**(3)**		[210 **(1)** + 17 **(1)** – 9 **(1)**]
Depreciation	5 450	**(1of)**	212 550	
Current assets				
Stock	2 000	**(1)**		
Debtors	62 000	**(2)**		[18 800 **(1)** + 43 200 **(1)**]
Bank	11 950	**(1)**		
	75 950			
Current liabilities				
Creditors	24 000 **(1)**			
Owed for fixed asset	8 500 **(2)**			
	32 500		43 450	
			256 000	

Share capital and reserves			
Ordinary share capital	200 000	**(2)**	[150 **(1)** + 50 **(1)**]
Share premium	15 000	**(2)**	[40 **(1)** – 25 **(1)**]
Profit and loss account	41 000	**(2of)**	[35 250 **(1)** + 5750 **(1of)**]
	256 000		

[17]

3 (a)

Overhead	Total $	Basis	Departments A $	B $	Canteen $
Rent and rates	10 000	Floor area **(1)**	5 200	4 000	800 **(1)**
Insurance	2 625	Cost of mach'y **(1)**	2 000	500	125 **(1)**
Heat and light	7 500	Floor area **(1)**	3 900	3 000	600 **(1)**
Supervisory wages	12 100	No of staff **(1)**	3 300	7 700	1 100 **(1)**
Power	4 800	Kwh **(1)**	3 600	900	300 **(1)**
Depreciation	9 030	Cost of mach'y **(1)**	6 880	1 720	430 **(1)**
			24 880	17 820	3 355
		(3 all of)	1 006	2 349	(3 355)
	46 055		25 886 **(1)**	20 169 **(1)**	

[17]

(b)

Department A	Machine hours	25 886 **(1of)** = $1.50 **(2) (1of)**
		17 250 **(1)**
Department B	Labour hours	20 169 **(1of)** = $1.60 **(2) (1of)**
		12 605 **(1)**

[8]

(c) Job 55/ZR

	$		
Raw materials	44.40	**(1)**	
Variable overheads	30.50	**(1)**	
Department A	21.00	**(2of)**	[14 hours **(1)** × $1.50 **(1of)**]
Department B	9.60	**(2of)**	[6 hours **(1)** × $1.60 **(1of)**]
	105.50		
Mark up	63.30	**(1of)**	
Selling price	168.80	**(1of)**	[8]

(d) Kustom Bilt car order

	$		
Raw materials	37.00	**(1)**	
Variable overheads	18.30	**(1)**	
Power	28.00	**(1)**	
	83.30		
Contribution	16.70	**(1of)**	
Selling price	100.00	**(1)**	

Accept order **(1)** it makes a positive contribution **(1of)**
Other factors mentioned i.e. future orders etc. 1 mark   [max 7]