

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS General Certificate of Education Advanced Level

## ACCOUNTING

Paper 4 Problem Solving SPECIMEN MARK SCHEME 9706/04 For Examination from 2010

2 hours

# **MAXIMUM MARK: 120**

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UNIVERSITY of CAMBRIDGE International Examinations

[Turn over

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#### **General Points**

- www.papaCambridge.com 1. The mark scheme is a positive one. Marks are to be awarded for what is correct. Marks a be deducted for what is wrong.
- 2. The mark scheme cannot provide for all possible variations in candidates' answers.

If a candidate's answer satisfies the requirements of a question and general accepted accounting practice, it will be acceptable for the full range of allocated marks.

3. OWN FIGURE RULE. A candidate may not be penalised twice for the same error. A wrong figure will be penalised at its first appearance in an answer. If it is required at a later stage in the answer, it will not be penalised a second time.

The 'own figure' rule will only apply to balance brought down on an account if the balance is shown correctly as a debit balance or a credit balance as the case may be.

An item in an account or a financial statement may be shown to be acceptable under the 'own figure' rule, but will not qualify for a mark unless a mark is allocated to it in the mark scheme.

4. Where normal accounting practice requires an item to be described as a 'Cost of Sales', 'Gross Profit', 'Net Profit' or in some other appropriate way, an allocated mark should be awarded only when the nature of the item has been recognised by appropriate wording.

(a)				3		42	MM. Papac	(1) (1)	
_				Ca	apital accounts			76	
		Amal	Ushi			Amal	Ushi	Tic.	
		\$	\$			\$	\$	30	
	Debentures (see note 2)	25 000		(1)	Balance b/d	60 000	40 000	(1) .6	
	Ordinary	87 000	58,000	(1)	Current	2 000	1 350	(1)	
	shares (60/40)		0,000 (		accounts				
	(Note 3) Bank		6 675	(1)	Loan account	20 000		(1)	
	Dank		0 01 0	(')	Goodwill	14 000	14 000	(1)	
					Gain on	9 325	9 325	(1)	
					revaluation			(-)	
					(Note 1)				
	_				Bank	6 675		(1)	
	-	112 000	64 675			112 000	64 675		
		Bank account							
_		\$				\$			
	Balance b/d	9 6	650 <b>(1)</b>		aid: Ushi (see bove)	6 675			
	Received: Amal	6 6	875		alance c/d	38 650			
	(see above)		-						
	Received from		(1)						
	Djamel (note 3)	29 0							
		45 3	325			45 325			

[11]

					4742	
		4			2.0	
)	Statement of Financial Position (Balance acquisition of the partnership business of			ember 2009	9 immediates	amb
	Non-current assets at cost Intangible (Goodwill) (note 1) Tangible	\$	-	\$ 28 000 <u>85 000</u> 113 000	e immediater,	fidge.com
	Current assets Inventory Trade receivables Cash and cash equivalents	31 000 37 650 <u>38 650</u> 107 300	(2)			
	Current liabilities Trade payables	(21 300)	-	86 000 199 000		
	Non-current liabilities 8% debentures (note 2)		-	25 000 174 000	(2) (see note)	
	Share capital and reserves Ordinary shares of \$1 fully paid Share premium account		-	120 000 54 000 174 000	(2) (see note 3) (1)	[10]

	5		ANNA POX	as Cambridge . com
Note 1. Calculation of Goodv	vill			Ca
	Per partnership Balance Sheet \$	\$	Agreed takeover value \$	inbridge.cc
Non-current assets	60 000	+ 25 000	85 000	913
Inventory	34 000	- 3 000		
Trade receivables	41 000	- 3 350	36 750	
Cash and cash equivalents	9 650		9 650	
	144 650	+ 18 650	163 300	
Less Trade Payables			<u>(21 300)</u>	I
			142 000	(1)
Purchase consideration			<u>170 000</u>	(1)
Goodwill			28 000	(1)

Note 2.8% debentures:

Interest paid to Amal as a partner. 10% of \$20 000 = \$2 000	(1)
8% debentures to yield \$2 000 p.a.: \$2 000 X $\frac{10}{8}$ = \$25 000	(1)

Note 3. Issue of ordinary shares.

		\$	
Purchase	consideration	170 000	
8% deben	tures	25 000	(1)
100 000	Ordinary shares	145 000	(valued at \$1.45 per share)
20 000	Shares issued to Dix at \$1.45	29 000	(1)
120 000	shares	174 000	(including \$54 000 premium)

(c) (i) A capital instrument is a document (1) which is evidence of the provision of long term capital to a company. (1)

> The capital instruments in A & U Ltd's Balance Sheet are ordinary shares (1) and debentures. (1)

(ii) A bonus issue is an issue of shares made by transferring the reserves of a company to Share Capital account. (1)

Share certificates equal to the amount of the reserves so capitalised are issued free to the existing shareholders pro rata to the shares already held by them. (1)

[max 3]

The net assets of the company are not increased by a bonus issue, and there is no cashflow. (1)

A & U Ltd could use the share premium account to make a bonus issue of shares, possibly on the basis of five new shares for every 12 already held. (1) [max 3] (iii) A rights issue is an invitation to existing shareholders of a company to additional shares in the company. (1)

www.papaCambridge.com The issue is usually on more favourable terms than the shares can be obtained on open market. (1)

The net assets of the company are increased by the cash subscribed for the shares. (1)

A & U Ltd could increase its capital by a rights issue because, as a private company, it may not invite the public to buy its shares. (1)

Even if A & U Ltd were a public company, it might prefer to raise additional capital by a rights issue to ensure that the existing shareholders retain control. (1) [max 4]

(iv) A provision is any amount set aside out of profits (1) to provide for the diminution in value of assets (1) or provide for any known liability (1) the amount of which cannot be ascertained with substantial accuracy (1)

A reserve is any amount set aside out of a profit other than as a provision to strengthen the financing of a company (1) [max 3]

(v) A revenue reserve is created by debiting the Profit and Loss Appropriation Account and credited to an appropriate Reserve account (1)

Such reserves are revenue reserves as they are created from trading profits (1)

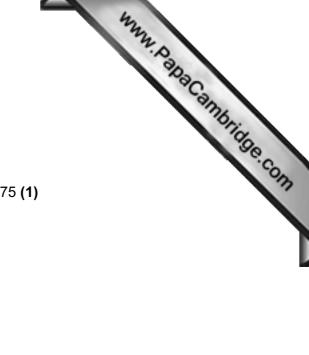
A capital reserve is created by the requirements of the Companies Act, as in the case of the Share Premium account in A & U Ltd (1)

A premium on the issue of shares must be credited to this account. Such reserves are capital reserves. (1)

As are any reserves created by revaluing fixed assets (1) [max 3]

(vi) Bonus shares (2/1/0) Paying dividends (2/1/0) (other uses may be acceptable)

[max 3]



2 (a) (i) Interest cover  $\frac{50}{2}$  = 25 times (1)

- (ii) Dividend cover  $\frac{28}{12}$  = 2.33 times (1)
- (iii) Earnings per share  $(36\,000 8\,000)/16\,0000$  = \$0.175 (1)
- (iv) Price earnings ratio  $\frac{1.80}{17.5} = 10.29$  (1)
- (v) Dividend yield  $0.075 \times \frac{1}{8} \times 100 = 4.16\%$  (1)
- (vi)  $\frac{28\,000}{(1.8x16\,0000)} \times 100 = 9.72\%$  (1)
- (vii) Gearing  $\frac{25 + 80}{372 \div 25} \times 100 = 26.45\%$  (1) Alternatively  $\frac{25 + 80}{292} \times 100 = 35.96\%$
- (viii) Fixed asset turnover  $\frac{375}{125} = 3$  times (1)

[8	1

(b) (i) Interest cover measures the ability of a company to cover for the cost of its long term borrowing out of profit. (1)

It is of interest to lenders to the company of long term loans (1)

- (ii) Dividend cover reflects the directors' dividend policy (1) and the potential ability of a company to maintain its dividends in the future (1)
- (iii) Earnings per share expresses the profit available for distribution to ordinary shareholders as the amount of such profit per ordinary share. (1)

This information is required by the Companies Act 1985 to be disclosed by a company in its annual financial statements. (1)

(iv) The price earnings ratio relates the market price of a share to the earnings per share. (1)

It indicates how many years' profits (if maintained at the current level) an investor is prepared to pay for in the price of his share. (1)

Many investors regard this ratio as a useful and easily comprehensible guide. (1)

(v) Dividend yield expresses the dividend as a percentage of the market price of the share.(1)

This is a more realistic measure for the investor than the return on the nominal value of the share. (1)

(vi) Different companies have different dividend policies which makes it difficult them on the basis of dividends paid. (1)

Earnings yield makes comparisons easier and more meaningful. (1)

www.papaCambridge.com (vii) Debenture holders are entitled to interest on their debentures, and preference shareholders are entitled to dividends, in priority to the rights of ordinary shareholders to receive dividends. (1)

The rights of ordinary shareholders are at risk if the company's profits are insufficient to meet the prior rights of fixed cost capital (i.e. debentures and preference shares). (1)

The gearing ratio measures the degree of the ordinary shareholders' risk. (1)

It is also of interest to existing and potential lenders to the company (1)

(viii) Fixed asset turnover measures how efficiently the fixed assets of the company are being used to generate revenue. (1)

The higher the rate, the greater the efficiency. (1)

### At least 1 point per ratio

[max 18]

#### (c)

Statement of Financial Position (Balance Sheet) as at 31 October 2009

	\$000	\$000
<b>(1) (1) (1)</b> Non-current assets (125-81+30-20+18) Current assets		72
Inventory (94-12) <b>(1)</b> Trade receivables (133 + 14) <b>(1)</b> Bank (141 + 40) <b>(1)</b>	82 147 <u>181</u> 410	
Current liabilities Trade payables (96 + 9) <b>(1)</b>	105	<u>355</u> 377
Non-current liabilities 8% Debentures 2008 - 2012		<u>25</u> (1) <u>352</u>
Capital and reserves Ordinary shares of $1 (160 - 20) (1)$ Preference shares of $1 (80 + 20) (1)$ Share Premium account $(40 - 4) (1)$ General reserve $(75 - 10) (1)$ Profit and Loss account $(17 - 6) (1)$		140 100 36 65 11 352

[14]

[Total: 40]

$\begin{array}{c} \mathbf{y} \\ \mathbf{x} \\ \mathbf{y} \\ \mathbf{x} \\ $							4
Actual price and rates Direct material per kilo $\frac{\$119 \ 408}{17560} = \$6.80 \ (1)$ Direct labour per hour $\frac{\$233 \ 450}{23000} = \$10.15 \ (1)$ Actual profit from 18 000 units Sales Direct materials $119 \ 408 \ (1)$ Direct labour Profit Profit expected from 10 000 units $\$ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \$			9				MAN D
Actual price and rates Direct material per kilo $\frac{\$119 \ 408}{17560} = \$6.80 \ (1)$ Direct labour per hour $\frac{\$233 \ 450}{23000} = \$10.15 \ (1)$ Actual profit from 18 000 units Sales Direct materials $119 \ 408 \ (1)$ Direct labour Profit Profit expected from 10 000 units $\$ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \$	3 (2	~)	U				apac.
Direct material per kilo $\frac{\$119 \ 408}{17 \ 560} = \$6.80 (1)$ Direct labour per hour $\frac{\$233 \ 450}{23 \ 2000} = \$10.15 (1)$ Actual profit from 18 000 units Sales Direct materials Profit Profit Profit Profit Profit Direct labour Direct materials Direct material cost per unit $\frac{\$60 \ 000 \ (1)}{10 \ 000 \ (1)} = \$6$ Direct material cost per unit $\frac{\$60 \ 000 \ (1)}{10 \ 000 \ (1)} = \$6$ Direct material cost per unit $\frac{\$132 \ 000 \ (1)}{10 \ 000 \ (1)} = \$262 \ 000 \ (1)$ Direct labour Direct materials Direct material cost per unit $\frac{\$132 \ 000 \ (1)}{10 \ 000 \ (1)} = \$262 \ 000 \ (1)$ Direct labour hours per unit $\frac{\$132 \ 000 \ (1)}{10 \ 000 \ (1)} = \$26 \ 000 \ (1)$ Direct labour Sales Sales volume $\$(124 \ 400 \ -38 \ 000) \ \$60 \ 000 \ (1)$ Direct materials Usage (18 000 - 17 \ 560 \ 36 \ 000 \ (1) \ Direct materials Usage (18 000 - 17 \ 560 \ 36 \ 000 \ (1) \ Direct materials Usage (18 000 - 17 \ 560 \ 36 \ 14 \ 048 \ (1) \ Direct materials Usage (18 000 - 17 \ 560 \ 36 \ 14 \ 048 \ (1) \ Direct materials Usage (18 000 - 17 \ 560 \ 36 \ 14 \ 048 \ (1) \ Direct materials Usage (18 000 - 17 \ 560 \ 36 \ 14 \ 048 \ (1) \ Direct materials Usage (18 000 - 17 \ 560 \ 36 \ 14 \ 048 \ (1) \ Direct materials Usage (18 000 - 17 \ 560 \ 36 \ 14 \ 048 \ (1) \ Direct materials Usage (18 000 - 17 \ 560 \ 36 \ 14 \ 048 \ (1) \ Direct materials Usage (18 000 - 17 \ 560 \ 5448 \ 108 \ 590 \ 43 \ 142 \ (1)	3 (ā	Flexed budget for 18 000 units Sales (\$30 x 18 000) Direct materials (\$6 x 18 000) Direct labour (1.2 x 18 000 x \$11) Fixed overheads			108 000 237 600	(1) (1) _ (1)	\$ 540 000 <u>415 600</u> <u>124 400</u> (1)
Direct labour per hour $\frac{2233 450}{23000} = \$10.15(1)$ Actual profit from 18 000 units Sales Direct materials Direct materials Profit Profit expected from 10 000 units Sales Profit Profit expected from 10 000 units Sales Profit Direct materials Direct materials Direct materials Direct materials Direct material cost per unit $\frac{600000(1)}{10000(1)} = \$6$ Direct material cost per unit $\frac{132000(1)}{110000(1)} = \$6$ Direct labour hours per unit $\frac{$132000(1)}{11110000(1)} = \$6$ Direct labour hours per unit $\frac{$132000(1)}{10000(1)} = \$6$ Direct labour hours per unit $\frac{$132000(1)}{111110000(1)} = \$6$ Direct labour hours per unit $\frac{$132000(1)}{10000(1)} = 1.2$ hours Statement to reconcile budgeted profit to actual profit Budgeted profit Usage (18000 - 17 560) \\$6 Usage (16 - 6.80) 17 560 Usage (16 - 0.80) 17 560 Usage (16 - 0.80) 17 560 Labour Efficiency (21 600 - 23 000) \\$1 Direct labour Efficiency (21 600 - 23 000) \\$1 Direct labour Efficiency (21 600 - 23 000) \\$1 Actual profit Efficiency (21 600 - 23 000) \\$1 Direct labour Efficiency (21 600 - 23 000) \\$1 Direct labour Efficiency (21 600 - 23 000) \\$1 Direct labour Actual profit Direct labour Direct labour Direct labour Direct labour Direct labour Direct labour Direct haterials Direct labour Direct haterials Direct labour Direct haterials Direct labour Direct haterials Direct haterials Direc							١
Actual profit from 18 000 units Sales 504 000 (1) Direct materials 119 408 (1) Direct labour 233 450 (1) Fixed overheads 234 50 (1) Profit $222 858$ Profit $222 858$ B1 142 (1) [12] (b) Profit expected from 10 000 units \$ \$ 300 000 (1) Direct materials 60 000 (1) Direct materials 60 000 (1) Direct materials 70 000 (1) 262 000 Profit Direct material cost per unit $\frac{600 000 (1)}{10 000 (1)} = \frac{6}{38 000}$ (1) Direct material cost per unit $\frac{5132 000 (1)}{10 000 (1)} = \frac{6}{38 000}$ (1) Direct material cost per unit $\frac{5132 000 (1)}{5111 \times 10 000 (1)} = 1.2$ hours Statement to reconcile budgeted profit to actual profit Budgeted profit $\frac{2}{38 000}$ (1) Direct materials $\frac{4Verse}{5}$ Favourable \$ 38 000 Sales price $\frac{5}{540 000 - 530 000}$ 36 000 (1) Direct materials $2640 (1)$ Price $\frac{5}{86 400}$ (1) Direct materials $\frac{119 408 (1)}{10 000 (1)} = 1.2$ hours Endert bour hours per unit $\frac{5132 000 (1)}{10 000 (1)} = 1.2$ hours Statement to reconcile budgeted profit to actual profit Budgeted profit $\frac{5}{86 400} (1)$ Direct materials $\frac{119 408 (1)}{10 000 - 17 560 (16)} = 2640 (1)$ Price $\frac{5}{86 - 6.30 (17 560} 14 048 (1)$ Direct labour $\frac{19 550 (1)}{65 448 (10 8 590 (1) 6550 (1)} = 31 142 (1)$							
Sales 504 000 (1) Direct materials 119 408 (1) Direct halour 233 450 (1) Fixed overheads 70 000 (1) $\frac{422858}{81142}$ (1) [12] (b) Profit expected from 10 000 units \$ \$ 3000 000 (1) Direct materials 60 000 (1) Direct halour 132 000 (1) Fixed overheads 70 000 (1) $\frac{262 000}{38 000}$ (1) Direct material cost per unit $\frac{60 000 (1)}{10 000 (1)} = \frac{6}{38 000}$ (1) Direct material cost per unit $\frac{132 000 (1)}{511 \times 10 000 (1)} = 1.2$ hours Statement to reconcile budgeted profit to actual profit Budgeted profit $\frac{5}{38 000}$ $\frac{64 000 (1)}{38 000}$ (1) Sales price $\frac{5}{4000} - 504 000$ $\frac{14 048 (1)}{10 000 (1)}$ Direct materials $\frac{5}{14 048 (1)}$ Direct halour $\frac{132 000 (1)}{10 000 (1)} = 555 (1)$ Efficiency (21 600 - 23 000) $\frac{15 400 (1)}{65 448 (10 5590 (1)} = 555 (1)$ Actual profit $\frac{51142 (1)}{12 (1)}$		Direct labour per hour \$233 45	0/23 000 =	= \$10.	15 <b>(1)</b>		
Fixed overheads Profit $\frac{70\ 000}{1}$ $\frac{422\ 858}{81\ 142}$ (1) [12] (b) Profit expected from 10 000 units \$\$ \$\$ Sales \$300\ 000 (1) Direct materials $60\ 000 (1)$ Direct materials $60\ 000 (1)$ Fixed overheads $70\ 000 (1)$ $262\ 000$ Profit $12\ 262\ 000 (1)$ Direct material cost per unit $60\ 000 (1)$ Direct material cost per unit $5132\ 000 (1)$ $11\ 262\ 000 (1)$ Direct material cost per unit $5132\ 000 (1)$ $11\ 262\ 000 (1)$ Direct material cost per unit $5132\ 000 (1)$ $11\ 11\ 10\ 000 (1) = 1.2\ 10\ 10\ 10\ 11\ 11\ 10\ 000 (1) = 1.2\ 12\ 12\ 12\ 12\ 12\ 12\ 12\ 12\ 12\ 1$		Sales Direct materials					504 000 <b>(1)</b>
Profit expected from 10 000 units       \$       \$       \$       300 000 (1)         Direct materials $60 000 (1)$ $132 000 (1)$ $132 000 (1)$ $262 000$ Profit $70 000 (1) = $6$ $70 000 (1) = $6$ $38 000 (1)$ $11 \times 10 000 (1) = $6$ Direct material cost per unit $$132 000 (1) / 10 000 (1) = $6$ $12 \text{ hours}$ $8 \times 100 \text{ fm}$ Statement to reconcile budgeted profit to actual profit $$ \times 38 000 \text{ fm}$ $$ \times 38 000 \text{ fm}$ Statement to reconcile budgeted profit to actual profit $$ \times 38 000 \text{ fm}$ $$ \times 38 000 \text{ fm}$ Statement to reconcile budgeted profit to actual profit $$ \times 38 000 \text{ fm}$ $$ \times 38 000 \text{ fm}$ Sales volume \$(124 400 - 38 000) $$ \times 6 \text{ fm}$ $$ \times 38 000 \text{ fm}$ Sales price \$(540 000 - 504 000) 36 000 (1) $$ \times 5 \text{ fm}$ $$ \times 5 \text{ fm}$ Direct materials $$ \times 5 \text{ fm}$ $$ \times 5 \text{ fm}$ Usage (18 000 - 17 560 )\$6 fm       2 640 (1) \text{ fm} $$ \times 5 \text{ fm}$ Direct labour $$ \times 5 \text{ fm}$ $$ \times 5 \text{ fm}$ Efficiency (21 600 - 23 000)\$11 mode (1) $$ \times 5 \text{ fm}$ $$ \times 5 \text{ fm}$ Efficiency (21 600 - 23 000)\$11 mode (1) $$ \times 5 \text{ fm}$ $$ \times 5 \text{ fm}$		Fixed overheads					81 142 <b>(1)</b>
Direct labour hours per unit $\frac{132\ 000\ 1}{11\ 11\ 000\ 1} = 1.2\ hours$ Statement to reconcile budgeted profit to actual profit Budgeted profit $\frac{1}{38\ 000}$ Variances Adverse Favourable Sales volume $\frac{124\ 400\ -38\ 000}{36\ 000\ 1}$ Sales price $\frac{5\ 400\ (1)}{52\ 50\ 12\ 000\ -504\ 000)}$ Sales price $\frac{5\ 2\ 640\ (1)}{10\ 10\ 10\ 10\ 10\ 10\ 10\ 10\ 10\ 10\ $	(t	Profit expected from 10 000 units Sales Direct materials Direct labour Fixed overheads			60 000 132 000	(1)	300 000 <b>(1)</b>
Direct labour hours per unit $\frac{132\ 000\ 1}{11\ 11\ 000\ 1} = 1.2\ hours$ Statement to reconcile budgeted profit to actual profit Budgeted profit $\frac{38\ 000}{Variances}$ Adverse Favourable Sales volume $\frac{124\ 400\ -38\ 000}{36\ 000\ 1}$ Sales price $\frac{5\ 400\ (1)}{548\ 000\ -504\ 000)}$ Direct materials Usage (18\ 000\ -17\ 560\ 14\ 048\ (1) Direct labour Efficiency (21\ 600\ -23\ 000) (1) Direct labour Efficiency (21\ 600\ -23\ 000) (1) Carbon 15\ 400\ (1) Rate $11\ -10.15\ 23\ 000\ 15\ 05\ 14\ 048\ 108\ 590\ 43\ 142\ 11\ 142\ 142$		Direct material cost per unit $^{\$6}$	0 000 <b>(1)</b>	, 0 000	(1) = \$6		
Statement to reconcile budgeted profit to actual profit       \$         Budgeted profit $38\ 000$ Variances       Adverse         Adverse       Favourable         \$       \$         Sales volume \$(124\ 400\ -38\ 000) $36\ 000\ (1)$ Sales price \$(540\ 000\ -504\ 000) $36\ 000\ (1)$ Direct materials       2 640\ (1)         Price \$(6\ -6.80)\ 17\ 560\ 14\ 048\ (1)       15 400\ (1)         Direct labour       19 550\ (1)         Efficiency (21\ 600\ -23\ 000)\$11\ 15\ 400\ (1)       19 550\ (1)\ 65\ 448\ 108\ 590\ 43\ 142\ 81\ 142\ (1)		Direct labour hours per unit <sup>\$13</sup>	32 000 (1)	/ \$11x1	0 000 <b>(1)</b> =	1.2 h	iours
$\begin{array}{cccccccccccccccccccccccccccccccccccc$		Statement to reconcile budgeted profit to	o actual pr	ofit			-
Sales volume $\$(124\ 400\ -\ 38\ 000)$ 86 400 (1)Sales price $\$(540\ 000\ -\ 504\ 000)$ 36 000 (1)Direct materials2 640 (1)Usage (18\ 000\ -\ 17\ 560)14 048 (1)Price $\$(6\ -\ 6.80)\ 17\ 560$ 14 048 (1)Direct labour15 400 (1)Efficiency (21\ 600\ -\ 23\ 000)15 400 (1)Rate $\$(11\ -\ 10.15)\ 23\ 000$ 19 550 (1)65 448108 59043 142Actual profit81 142 (1)			Adver		Favoura	ble	
Price $(6 - 6.80)$ 17 56014 048 (1)Direct labour Efficiency (21 600 - 23 000)\$11 Rate $(11 - 10.15)$ 23 00015 400 (1) 19 550 (1) 65 448Actual profit14 048 (1)		Sales price \$(540 000 – 504 000)		(1)		(1)	
Efficiency (21 600 – 23 000)\$11 15 400 (1) Rate \$(11 – 10.15) 23 000 19 550 (1) 65 448 108 590 43 142 Actual profit 81 142 (1)		Price \$(6 – 6.80) 17 560	14 048	(1)	2 640	(1)	
		Efficiency (21 600 – 23 000)\$11		(1)		(1)	
		Actual profit					81 142 <b>(1)</b> [16]

(c) Report format: From ... (1) To ... (1) Subject matter (1)

The sales volume variance is favourable (1) but the sales price variance is adverse. (1)

www.papacambridge.com This suggests that the increased volume of sales has been achieved by a reduction in price charged to customers. (1)

The materials usage is favourable (1) and the price variance is adverse. (1)

This suggests that the materials purchased may have been of better quality than those budgeted for. (1)

The labour efficiency variance is adverse (1) while the rate variance is favourable. (1)

This suggests that a less skilled labour was employed than budgeted for. (1)

The labour efficiency variance may often be expected to be favourable (1) if better quality materials are used (1) because of a reduction in spoilt production and less time wasted. (1)

This is not the case in this instance presumably because of the lower grade of labour. (1)

To a maximum of 10 marks

[max 12]

[Total: 40]