

Consignment and joint ventures

Questions and Answers

Question 1

March 2017

- 4 Sachin is a trader buying and selling electrical appliances which cost \$150 per unit. His brother, Tajid, is located overseas and it was planned that he would sell some of the appliances. During the year ended 31 December 2016 Sachin sent 1000 appliances to Tajid.

The following information is also available.

- 1 The rate of commission charged by Tajid is 10% on sales.
- 2 Tajid planned to sell the appliances at a mark-up of 40%.
- 3 All appliances were sold. However, the final 250 units of the consignment could only be sold for \$180 per unit.
- 4 Sachin paid transportation costs of \$3000.
- 5 Tajid paid selling expenses of \$4000 and \$1500 import duty.
- 6 On 31 December 2016 Tajid made a full remittance to Sachin to settle the account.

REQUIRED

- (a) Prepare the consignment account in Sachin's books for the year ended 31 December 2016. [9]
- (b) Prepare Tajid's account in the books of Sachin for the year ended 31 December 2016. [3]
- (c) Prepare the goods sent on consignment account in the books of Sachin for the year ended 31 December 2016. [2]
- (d) Prepare Sachin's account in the books of Tajid for the year ended 31 December 2016. [5]
- (e) Identify **two** possible reasons for the fall in the selling price of the appliances. [2]

Additional information

Sachin has an additional \$150 000 to invest. He is considering whether to send an identical consignment to Tajid or to invest in a new project in his home country which would guarantee a return of 12% on the investment.

REQUIRED

- (f) Discuss whether Sachin should send a further consignment to Tajid or invest in the new project. Justify your answer by giving **three** reasons for your decision. [4]

[Total: 25]

Question	Answer	Marks																																																
4(a)	<div>Consignment Account</div> <table><tr><td></td><td>\$</td><td></td><td>\$</td><td></td><td>\$</td></tr><tr><td>Goods sent on consignment</td><td></td><td>150 000</td><td>(1)</td><td>Tajid W1</td><td>202 500 (3)</td></tr><tr><td>Tajid – Commission</td><td>20 250</td><td>(1)</td><td></td><td></td><td></td></tr><tr><td>Selling</td><td>4 000</td><td>(1)</td><td></td><td></td><td></td></tr><tr><td>Import duty</td><td>1 500</td><td>(1)</td><td>25 750</td><td></td><td></td></tr><tr><td>Bank</td><td></td><td></td><td>3 000</td><td></td><td></td></tr><tr><td>Income statement</td><td></td><td></td><td>23 750</td><td></td><td></td></tr><tr><td></td><td></td><td></td><td><u>202 500</u></td><td></td><td><u>202 500</u></td></tr></table> <p>W1: Tajid (sale proceeds): 157 500 (1) + 45 000 (1) = 202 500 (1)of</p>		\$		\$		\$	Goods sent on consignment		150 000	(1)	Tajid W1	202 500 (3)	Tajid – Commission	20 250	(1)				Selling	4 000	(1)				Import duty	1 500	(1)	25 750			Bank			3 000			Income statement			23 750						<u>202 500</u>		<u>202 500</u>	9
	\$		\$		\$																																													
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Income statement			23 750																																															
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4(b)	<div>Tajid Account</div> <table><tr><td></td><td>\$</td><td></td><td>\$</td></tr><tr><td>Consignment account</td><td>202 500</td><td>(1)of</td><td>Consignment account 25 750 (1)of</td></tr><tr><td></td><td><u>202 500</u></td><td></td><td>Bank 176 750 (1)of</td></tr><tr><td></td><td></td><td></td><td><u>202 500</u></td></tr></table>		\$		\$	Consignment account	202 500	(1)of	Consignment account 25 750 (1)of		<u>202 500</u>		Bank 176 750 (1)of				<u>202 500</u>	3																																
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4(e)	Newer version of appliance may be available. (1) Appliances may be damaged. (1) There may be competitors selling appliances at a cheaper price. (1) Max 2	2																																																

Question	Answer	Marks
4(f)	<p>There will be a profit of \$23 750 (consignment) or \$18 000 (home). (1) Therefore, based on these figures, Sachin should make the consignment. (1)of Tajid may not be able to accept the consignment (1) and/or may not be able to maintain the commission rate. (1) Overseas selling price may continue to fall. (1) There may be further investment opportunities at home as a result of pursuing this project. (1)</p> <p>Decision 1 Max 3 justification</p>	4
		25

Question 2

May june 2018

Y Limited is based in Mauritius and has recently sent a consignment of goods to Mahood who lives in Egypt. They agreed the following terms:

- 1 Mahood has to make an advance payment before the goods are delivered to him.
- 2 Mahood is entitled to a commission of 5% on all sales made by him. The commission is calculated on the sales value **after** the deductions of the commission.

The following transactions took place during the year ended 31 December 2017.

Y Limited:

sent 1000 units to Mahood and invoiced him at \$175 each
paid freight of \$15 400 and insurance of \$3200.

Mahood:

made an advance payment of \$55 000 to Y Limited
made cash sales of 480 units at \$257.50 each
made credit sales of 320 units at \$270 each
paid the following:

	\$
import duty	1600
advertising	9700
carriage inwards	2800
carriage outwards	3300

All customers who bought on credit from Mahood settled their accounts in full at 31 December 2017 except a customer who bought 16 units. It was confirmed that nothing will be recovered from this customer.

At the year-end 60 units with minor faults were discovered by Mahood. Their net realisable value was \$150 each.

Mahood paid the balance owing to Y Limited by cheque.

Answer the following questions in the Question Paper. Questions are printed here for reference only.

- (a) Calculate the cost per unit to be used when valuing inventory. [2]
- (b) Prepare the consignment account in the books of Y Limited for the year ended 31 December 2017. [13]
- (c) Prepare Mahood's account in the books of Y Limited for the year ended 31 December 2017. [5]

Additional information

The directors of Y Limited are thinking of opening a branch overseas to sell its goods rather than having a consignment agreement with Mahood.

- (d) Suggest whether Y Limited should continue consigning goods to Mahood or open a branch overseas. Justify your answer.

[5]

[Total: 25]

Question	Answer	Marks
3(a)	<div style="text-align: right;"> \$ Purchase cost 175 000 Freight 15 400 Insurance 3 200 Import duty 1 600 Carriage inwards 2 800 <hr/> 198 000 (1) Cost per unit = $\frac{198\,000}{1000}$ = \$198 (1) OF </div>	2

Question	Answer				Marks
3(b)	Consignment account				13
		\$		\$	
Goods sent on consignment	175 000	(1)	Cash sales 480 · \$257.5	123 600)	
Bank			Credit sales 320 · \$270	86 400)(1)	
Freight	15 400)	Balance c/d (W1)	36 720 (4) OF	
Insurance	3 200)(1)			
Mahood					
Carriage inwards	2 800)			
Import duty	1 600)(1)			
Advertising	9 700)			
Carriage outwards	3 300)(1)			
Bad debt 16 · \$270	4 320	(1)			
Commission (W2)	10 000	(2)			
Income statement	21 400	(1) OF			
	<u>246 720</u>			<u>246 720</u>	

Question	Answer	Marks																																							
3(c)	<table><tr><td colspan="2">The consignee – Mahood</td><td></td></tr><tr><td></td><td>\$</td><td>\$</td></tr><tr><td>Cash sales</td><td>123 600)</td><td></td></tr><tr><td>Credit sales</td><td>86 400)(1) OF</td><td></td></tr><tr><td></td><td></td><td>Bank – Advance payment 55 000 (1)</td></tr><tr><td></td><td></td><td>Import duty 1 600</td></tr><tr><td></td><td></td><td>Carriage inwards 2 800</td></tr><tr><td></td><td></td><td>Advertising 9 700</td></tr><tr><td></td><td></td><td>Carriage outwards 3 300</td></tr><tr><td></td><td></td><td>Bad debt 4 320 (1) OF</td></tr><tr><td></td><td></td><td>Commission 10 000 (1) OF</td></tr><tr><td></td><td></td><td>Bank to Y Limited (balance) 123 280 (1) OF</td></tr><tr><td></td><td><u>210 000</u></td><td><u>210 000</u></td></tr></table>	The consignee – Mahood				\$	\$	Cash sales	123 600)		Credit sales	86 400)(1) OF				Bank – Advance payment 55 000 (1)			Import duty 1 600			Carriage inwards 2 800			Advertising 9 700			Carriage outwards 3 300			Bad debt 4 320 (1) OF			Commission 10 000 (1) OF			Bank to Y Limited (balance) 123 280 (1) OF		<u>210 000</u>	<u>210 000</u>	5
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3(d)	<p>Consigning goods to Mahood</p> <p>can test the overseas market before investing heavily</p> <p>there would be no initial set up costs of a branch</p> <p>the current consignment arrangements are profitable</p> <p>existing customer base/reputation/knowledge of existing market is already established</p> <p>less risk in terms of overseas economic, political, cultural and social environment</p> <p>Opening a branch overseas</p> <p>would have complete control of the business activities, i.e. marketing strategy</p> <p>there would be a saving of commission to Mahood</p> <p>allows expansion overseas if local market is saturated.</p> <p>(Max 2 marks) for discussing consigning goods and (Max 2 marks) for discussing overseas branch; (1 mark) for recommendation.</p>	5																																							

Question 3

May June 2019

Roberto and Sasha formed a joint venture. They sold sports equipment from a market stall in the month before a major sporting event took place in their hometown. They shared profits and losses equally.

The following transactions took place.

- 1 Roberto and Sasha introduced cash to open the joint venture bank account.
- 2 Sasha paid the rent on the stall.
- 3 Roberto paid for some fixtures to be used on the stall.
- 4 The joint venture bank account was used to buy inventory.

These transactions were recorded in the books of the joint venture.

The joint venture account and the joint venture bank account appeared as follows:

Joint venture account

		\$			\$
June 1	Sasha	200			
	Roberto	120			
	Joint venture bank account	1700			

Joint venture bank account

		\$			\$
May 31	Roberto	1000	June 1	Joint venture account	1700
	Sasha	1000			

Answer the following questions in the Question Paper. Questions are printed here for reference only.

- (a) Explain what took place on 31 May. [2]
- (b) Explain why the transactions which took place on 31 May were not recorded in the joint venture account. [2]

Additional information

By the end of the month all the sports equipment was sold and sales had totalled \$2500. Of this amount, \$1800 was paid into the joint venture bank account. Roberto kept the remainder for personal use.

At the end of the month the fixtures were sold for \$50 and the proceeds paid into the joint venture bank account.

The profit was then calculated and the bank account closed.

(c) Calculate the share of profit for **each** party to the joint venture. [3]

(d) Prepare the ledger accounts as they would appear in the books of the joint venture for:

(i) Roberto [5]

(ii) Sasha. [4]

Additional information

The major sporting event which took place will become an annual event. Both parties wish to repeat the joint venture but Roberto is insisting that the mark-up applied should be 75%.

(e) Advise Sasha whether or not she should agree to repeat the joint venture. Justify your answer using **both** financial and non-financial factors. [5]

(f) Explain how a business selling sports equipment differs from a sports club which also sells equipment to its members. [4]

[Total: 25]

Question	Answer	Marks
4(a)	Roberto and Sasha each contributed \$1000 to start the joint venture. (1) This represented the capital of the joint venture. (1)	2
4(b)	Because they are capital transfers (1) and do not affect the profit of the joint venture. (1)	2
4(c)	(2500 + 50) (1) – 2020 (1) = \$530 Roberto \$265, Sasha \$265 (1) OF (correct split)	3

Question	Answer	Marks																														
4(d)(i)	<div><div>Roberto account</div><table><tr><td></td><td>\$</td><td></td><td></td><td>\$</td><td></td></tr><tr><td>JV account (sales)</td><td>700</td><td>(1)</td><td>JV bank</td><td>1000</td><td>(1)</td></tr><tr><td>JV bank (balancing)</td><td>685</td><td>(1) OF</td><td>JV account (costs)</td><td>120</td><td>(1)</td></tr><tr><td></td><td></td><td></td><td>JV account (profit)</td><td>265</td><td>(1) OF</td></tr><tr><td></td><td><u>1385</u></td><td></td><td></td><td><u>1385</u></td><td></td></tr></table></div>		\$			\$		JV account (sales)	700	(1)	JV bank	1000	(1)	JV bank (balancing)	685	(1) OF	JV account (costs)	120	(1)				JV account (profit)	265	(1) OF		<u>1385</u>			<u>1385</u>		5
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			JV account (profit)	265	(1) OF																											
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4(d)(ii)	<div><div>Sasha account</div><table><tr><td></td><td>\$</td><td></td><td></td><td>\$</td><td></td></tr><tr><td>JV bank (balancing)</td><td>1465</td><td>(1) OF</td><td>JV bank</td><td>1000</td><td>(1)</td></tr><tr><td></td><td></td><td></td><td>JV account (costs)</td><td>200</td><td>(1)</td></tr><tr><td></td><td></td><td></td><td>JV account (profit)</td><td>265</td><td>(1) OF</td></tr><tr><td></td><td><u>1465</u></td><td></td><td></td><td><u>1465</u></td><td></td></tr></table></div>		\$			\$		JV bank (balancing)	1465	(1) OF	JV bank	1000	(1)				JV account (costs)	200	(1)				JV account (profit)	265	(1) OF		<u>1465</u>			<u>1465</u>		4
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4(e)	<p>The increase in mark-up could increase Sasha’s share of profit (1) by \$237.50 (1)</p> <p>Increasing the prices may not result in all inventory being sold (1)</p> <p>Unsold goods may have to be sold off at discounted prices (1)</p> <p>The experience of previously working together may be beneficial (1)</p> <p>Annual event might encourage competition from other stalls selling sports equipment (1)</p> <p>Competitors may be charging lower prices that would reduce sales (1)</p> <p>It would be better if Roberto had done market research to justify his increase in mark-up (1)</p> <p>This joint venture may lead to future business opportunities between the two (1)</p> <p>(1) for decision, max (4) for comments</p> <p>Accept other valid points.</p>	5																														

Question	Answer	Marks
4(f)	<p><i>Business</i> – seeks to make a profit (1) and operates for the benefit of owners (1)</p> <p><i>Club</i> – not for profit (1), primarily seeks to provide a service to its members (1), may sell at subsidised prices (1)</p> <p>Max (2) for each organisation</p>	4

Question 4

March 2018

ce AZ

Raj and John enter into a joint venture to share profits and losses equally.

Both take an active role in the business which sells bicycles.

Each records his own transactions.

There is no joint bank account.

During May 2017 the following transactions took place.

- May 1 Raj purchased 12 bicycles for \$900 and also paid carriage of \$90.
- 2 Raj paid \$160 for repairs to the bicycles.
- 4 John paid garage rental of \$100 and advertising costs of \$70.
- 10 Raj sold all the bicycles he purchased for \$1850.
- 14 Raj paid John \$500.
- 15 John purchased 4 bicycles for \$200 and also paid carriage of \$50.
- 20 Raj paid \$120 for repairs to the bicycles which John had purchased.
- 26 John kept one bicycle for his daughter. This bicycle was valued at \$60.
The rest of the bicycles were sold by Raj for \$340.
- 30 The amounts due from one party to the other were paid in full.
The joint venture was then dissolved.

Answer the following questions in the Question Paper. Questions are printed here for reference only.

- (a) Prepare a statement to calculate the profit or loss from the venture. [6]
- (b) Prepare the:
 - (i) joint venture account with John in Raj's books of account [5]
 - (ii) joint venture account with Raj in John's books of account. [7]
- (c) State **one** benefit to **both** Raj and John of setting up a joint venture. [2]

Additional information

John is interested in working with Raj again but is proposing that they form a partnership, sharing profits and losses equally. Raj is unsure whether he should take this action.

- (d) Advise Raj whether or not he should enter into a partnership with John. Justify your advice and support your answer with calculations, where appropriate. [5]

[Total: 25]

Question	Answer	Marks
2(a)	<div style="display: flex; justify-content: space-between;"> <div> Sales (1850 + 340) Purchases (900 + 200 – 60) Repairs (160 + 120) Carriage (90 + 50) Rental Advertising Profit </div> <div> \$ 2 190 (1) (1 040) (1) (280) (1) (140) (1) (100) * (70) *(1) both* <u>560</u> (1) OF </div> </div>	6

Question	Answer	Marks																																
2(b)	<div><div>Raj's books</div><div>Joint venture with John account</div><table><tr><td></td><td>\$</td><td></td><td>\$</td></tr><tr><td>Purchases</td><td>900</td><td>Sales</td><td>2 190 (1)</td></tr><tr><td>Repairs</td><td>280 (1)</td><td></td><td></td></tr><tr><td>Carriage</td><td>90 (1)</td><td></td><td></td></tr><tr><td>Share of profit</td><td>280 (1) OF</td><td></td><td></td></tr><tr><td>Cash to John</td><td>500 (1)</td><td></td><td></td></tr><tr><td>Cash in settlement to John</td><td>140</td><td></td><td></td></tr><tr><td></td><td><u>2 190</u></td><td></td><td><u>2 190</u></td></tr></table></div>		\$		\$	Purchases	900	Sales	2 190 (1)	Repairs	280 (1)			Carriage	90 (1)			Share of profit	280 (1) OF			Cash to John	500 (1)			Cash in settlement to John	140				<u>2 190</u>		<u>2 190</u>	5
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	<div><div>John's books</div><div>Joint venture with Raj account</div><table><tr><td></td><td>\$</td><td></td><td>\$</td></tr><tr><td>Rental</td><td>100 *(1)</td><td>Cash in settlement from Raj</td><td>140 (1) OF in both ac</td></tr><tr><td>Advertising</td><td>70 *</td><td>Bicycle for daughter</td><td>60 (1)</td></tr><tr><td>Purchases</td><td>200 (1)</td><td>Cash from Raj</td><td>500 (1)</td></tr><tr><td>Carriage</td><td>50 (1)</td><td></td><td></td></tr><tr><td>Share of profit</td><td>280 (1) OF</td><td></td><td></td></tr><tr><td></td><td><u>700</u></td><td></td><td><u>700</u></td></tr></table></div>		\$		\$	Rental	100 *(1)	Cash in settlement from Raj	140 (1) OF in both ac	Advertising	70 *	Bicycle for daughter	60 (1)	Purchases	200 (1)	Cash from Raj	500 (1)	Carriage	50 (1)			Share of profit	280 (1) OF				<u>700</u>		<u>700</u>	7				
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Share of profit	280 (1) OF																																	
	<u>700</u>		<u>700</u>																															
2(c)	In a joint venture one person may have the skills and another the contacts. (1) In this instance Raj has the selling contacts and can repair bicycles, whereas John is able to pay the overheads. (1)	2																																
2(d)	<p>Raj appears to be doing most of the work repairing and selling the bicycles. (1) The bicycles purchased by John were not as profitable as the ones he purchased. (1) Raj purchased bicycles for \$990 plus repairs of \$160 = \$1150 but sold for \$1850 so profit of \$700 / 12 = \$58.33 each (1) whereas the bicycles John purchased only made a profit of \$30 (\$250 +\$120= \$370 but sold for \$400). This is \$30 / 4 = \$7.50 each (1).</p> <p>It may be more beneficial for Raj to work on his own rather than enter into a partnership with John (1)</p> <p>Decision (1) plus 4 marks</p>	5																																

Question 5

March 2019

SH Limited sent goods on consignment to Maureen on 1 November 2018.

The consignment consisted of 30 containers, invoiced to Maureen at \$7200 each.

On 5 November SH Limited paid shipping expenses on the containers of \$11 600.

On 6 November Maureen paid customs charges of \$7800 on the consignment.

By 31 December 2018 Maureen had sold 24 containers for a total of \$244 800 and she had remitted 90% of this to SH Limited.

Maureen is entitled to a 5% commission from SH Limited on all containers sold.

Answer the following questions in the Question Paper. Questions are printed here for reference only.

- (a) Calculate the value of the closing inventory. [4]

- (b) Prepare the following accounts in the books of account of SH Limited.
 - (i) Consignment account [7]
 - (ii) Maureen account [5]

- (c) Calculate the profit per container. [2]

- (d) Explain what the closing balance on Maureen account represents. [3]

- (e) Explain **two** differences between a consignment and a joint venture. [4]

[Total: 25]

Question	Answer	Marks															
3(a)	<p>The closing inventory is valued at:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td><td style="text-align: right;">\$</td><td></td></tr> <tr> <td>unsold containers $6 \times 7\,200$</td><td style="text-align: right;">43 200</td><td style="text-align: right;">(1)</td></tr> <tr> <td>shipping expenses $\frac{1}{5} \times 11\,600$</td><td style="text-align: right;">2 320</td><td style="text-align: right;">(1)</td></tr> <tr> <td>customs charges $\frac{1}{5} \times 7\,800$</td><td style="text-align: right;">1 560</td><td style="text-align: right;">(1)</td></tr> <tr> <td>closing inventory valuation.</td><td style="text-align: right;"><u>47 080</u></td><td style="text-align: right;">(1) OF</td></tr> </table>		\$		unsold containers $6 \times 7\,200$	43 200	(1)	shipping expenses $\frac{1}{5} \times 11\,600$	2 320	(1)	customs charges $\frac{1}{5} \times 7\,800$	1 560	(1)	closing inventory valuation.	<u>47 080</u>	(1) OF	4
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3(b)(i)	<div>Consignment account</div> <table><tr><td></td><td>\$</td><td></td><td>\$</td></tr><tr><td>Goods on consignment</td><td>216 000 (1)</td><td>Sales</td><td>244 800 (1)</td></tr><tr><td>Shipping expenses</td><td>11 600 (1)</td><td></td><td></td></tr><tr><td>Commission</td><td>12 240 (1)</td><td></td><td></td></tr><tr><td>Customs charges</td><td>7 800 (1)</td><td></td><td></td></tr><tr><td>Income statement</td><td>44 240 (1) OF</td><td>Balance c/d</td><td>47 080</td></tr><tr><td></td><td><u>291 880</u></td><td></td><td><u>291 880</u></td></tr><tr><td>Balance b/d</td><td>47 080 (1) OF</td><td></td><td></td></tr></table>		\$		\$	Goods on consignment	216 000 (1)	Sales	244 800 (1)	Shipping expenses	11 600 (1)			Commission	12 240 (1)			Customs charges	7 800 (1)			Income statement	44 240 (1) OF	Balance c/d	47 080		<u>291 880</u>		<u>291 880</u>	Balance b/d	47 080 (1) OF			7
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3(b)(ii)	<div>Maureen account</div> <table><tr><td></td><td>\$</td><td></td><td>\$</td></tr><tr><td>Consignment a/c -sales</td><td>244 800 (1)</td><td>Consignment a/c-commission</td><td>12 240 (1) OF</td></tr><tr><td></td><td></td><td>Bank</td><td>220 320 (1)</td></tr><tr><td></td><td></td><td>Consignment a/c- customs</td><td>7 800 (1)</td></tr><tr><td></td><td></td><td>Balance c/d</td><td>4 440</td></tr><tr><td></td><td><u>244 800</u></td><td></td><td><u>244 800</u></td></tr><tr><td>Balance b/d</td><td>4 440 (1) OF</td><td></td><td></td></tr></table>		\$		\$	Consignment a/c -sales	244 800 (1)	Consignment a/c-commission	12 240 (1) OF			Bank	220 320 (1)			Consignment a/c- customs	7 800 (1)			Balance c/d	4 440		<u>244 800</u>		<u>244 800</u>	Balance b/d	4 440 (1) OF			5				
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3(c)	44 240 / 24 (1) = \$1843.33 (1) OF	2																																
3(d)	The debit balance (1) on Maureen’s account shows the amount payable by Maureen (trade receivable – the consignee) (1) to SH Limited (the consignor). (1)	3																																

Question	Answer		Marks
3(e)	Consignment	Joint venture	4
	Long-term trading relation (1)	Short-term, specific purpose (1)	
	Profit usually commission (1)	Joint venture total profit shared (1)	
	Involves consigner and consignee (1)	Involves co-venturers (1)	
	Control exercised by consignor (1)	Both parties have control over decisions (1)	
	Accept other valid points. Max 4		

Question 6

October 2018

Alice and Belinda formed a joint venture to make and sell greeting cards. Alice was responsible for the production and Belinda for the selling and distribution. They agreed to share the profit equally.

A separate set of books of account was maintained to record the transactions of the joint venture.

The following took place relating to the joint venture.

- 1 Alice and Belinda paid \$500 each into the joint venture bank account.
- 2 Equipment costing \$700 was bought and paid for from the joint venture bank account.
- 3 Alice paid \$900 for materials from her own bank account.
- 4 Belinda paid selling and distribution costs of \$850 from her own bank account.
- 5 Belinda made sales to the value of \$4100 and paid the money into her own bank account.
- 6 At the end of the joint venture Alice sold the equipment for \$450 and paid the money into her own bank account.
- 7 The profit was calculated and the bank account closed.

Answer the following questions in the Question Paper. Questions are printed here for reference only.

(a) Prepare the following ledger accounts:

- | | |
|---------------------------------|-----|
| (i) Joint venture account | [5] |
| (ii) Alice account | [4] |
| (iii) Belinda account | [3] |
| (iv) Joint venture bank account | [4] |

Additional information

Belinda is now considering repeating the joint venture. She could repeat it with Alice, in which case all cash flows could be expected to be the same as before. Alternatively she could enter into a joint venture with Veena.

Veena creates higher quality greeting cards. The selling price would be double that of Alice's greeting cards and material costs would be 50% higher than with Alice. Veena would want a profit share of 80%. Belinda assumes the number of greeting cards sold would be unchanged and that all other costs would be the same as before.

- (b) (i)** Calculate Belinda's profit share if she enters into a joint venture with Veena. [4]
- (ii)** Advise Belinda whether or not she should enter into the joint venture with Veena. Justify your answer. [5]

[Total: 25]

Question	Answer	Marks																																			
3(a)(i)	<div>Joint venture account</div> <table><tr><td></td><td>\$</td><td></td><td></td><td>\$</td></tr><tr><td>JV bank</td><td>700</td><td>(1)</td><td>Alice (equipment)</td><td>450 (1)</td></tr><tr><td>Alice (costs)</td><td>900</td><td>}</td><td>Belinda (sales)</td><td>4 100 (1)</td></tr><tr><td>Belinda (costs)</td><td>850</td><td>}(1)</td><td></td><td></td></tr><tr><td>Alice (profit)</td><td>1 050</td><td>}</td><td></td><td></td></tr><tr><td>Belinda (profit)</td><td>1 050</td><td>}(1) OF</td><td></td><td></td></tr><tr><td></td><td><u>4 550</u></td><td></td><td></td><td><u>4 550</u></td></tr></table>		\$			\$	JV bank	700	(1)	Alice (equipment)	450 (1)	Alice (costs)	900	}	Belinda (sales)	4 100 (1)	Belinda (costs)	850	}(1)			Alice (profit)	1 050	}			Belinda (profit)	1 050	}(1) OF				<u>4 550</u>			<u>4 550</u>	5
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Question	Answer	Marks																		
3(b)(i)	<p style="text-align: center;">Belinda's share of profit</p> <table> <tr> <td></td><td>\$</td><td></td></tr> <tr> <td>Sales (4 100 · 2)</td><td>8 200</td><td>(1)</td></tr> <tr> <td>Materials (900 · 1.5)</td><td>1 350</td><td>(1)</td></tr> <tr> <td>Selling and distribution</td><td>850</td><td>}</td></tr> <tr> <td>Depreciation</td><td>250</td><td>}(1)</td></tr> <tr> <td></td><td><u>5 750</u></td><td></td></tr> </table> <p><u>5 750</u> · 20% = \$1150 (1) OF</p>		\$		Sales (4 100 · 2)	8 200	(1)	Materials (900 · 1.5)	1 350	(1)	Selling and distribution	850	}	Depreciation	250	}(1)		<u>5 750</u>		4
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3(b)(ii)	<p>Doubling the price is likely to adversely affect demand. (1)</p> <p>Selling and distribution costs may rise if more effort is needed to sell. (1)</p> <p>The JV with Alice is 'tried and tested' so less risky. (1)</p> <p>There is only a small increase in profit. (1)</p> <p>The share of profit has decreased to 20%. (1)</p> <p>The figures for Veena are based on assumptions that may not be realised. (1)</p> <p>1 mark for advice + Max 4 marks for comments</p> <p>Accept other valid points.</p> <p>Note: Comments on the increase/decrease in profit relate to own figures in 3(a).</p>	5																		

Question 7

October 2019

Liam is a trader based in Ireland. His draft income statement for the year ended 31 December 2018 was as follows.

	\$	\$	\$
Revenue			750 000
Inventory at 1 January 2018		28 000	
Purchases	420 000		
Less: goods on consignment	<u>50 000</u>	<u>370 000</u>	
		398 000	
Inventory at 31 December 2018		<u>32 500</u>	
Cost of sales			<u>365 500</u>
Gross profit			384 500
Profit on consignment			15 000
Distribution costs		103 200	
Administrative expenses		<u>136 300</u>	
			<u>239 500</u>
Profit for the year			<u>160 000</u>

During the year Liam had sent 1000 machines with a cost of \$50 each to his agent Clarissa in Puerto Rico, where they had a selling price of \$80 each. By the end of the year only 750 machines had been sold.

Liam had paid \$4000 to ship the machines to Puerto Rico. He had in error entered this in his carriage outwards account and included it in distribution costs, instead of entering it in the consignment account.

Answer the following questions in the Question Paper. Questions are printed here for reference only.

- (a) (i) Explain the effect of this error on the profit on consignment. Support your answer with figures. [3]
- (ii) Explain the effect of this error on the profit for the year. Support your answer with figures. [3]

Additional information

Clarissa was entitled to a commission equal to 10% of sales. She paid import duties of \$2000 when the goods arrived in Puerto Rico.

- (b) Prepare the consignment account for the year ended 31 December 2018 with the error corrected. [10]
- (c) Calculate the correct **total** value of inventory to be included in Liam's statement of financial position at 31 December 2018. [3]

Additional information

Liam has the opportunity to enter into **another** consignment in a country which is much closer. The machines could only be sold there for \$74 each.

(d) Discuss the benefits to Liam if he enters into this new consignment. Justify your answer. [4]

(e) Explain **one** difference between an agent in a consignment and a party in a joint venture. [2]

[Total: 25]

Question	Answer	Marks																																								
2(a)(i)	Expenses are understated / will increase by \$4000 (1) Inventory is understated / will increase by \$1000 Profit on consignment is overstated / will decrease (1) by \$3000 (1)	3																																								
2(a)(ii)	Distribution costs are overstated / will decrease by \$4000 (1) Profit on consignment is overstated / will decrease by \$3000 Profit for the year is understated / will increase (1) by \$1000 (1)	3																																								
2(b)	<table><tr><td colspan="4">Consignment account</td></tr><tr><td></td><td>\$</td><td></td><td>\$</td></tr><tr><td>Goods on consignment</td><td>50 000 (1)</td><td>Clarissa (750 × 80)</td><td>60 000 (1)</td></tr><tr><td>Bank</td><td>4 000 (1)</td><td>Balance c/d (1)</td><td>14 000 (1)</td></tr><tr><td>Clarissa</td><td>2 000 (1)</td><td></td><td></td></tr><tr><td>Clarissa (10% of 60 000)</td><td>6 000 (1) OF</td><td></td><td></td></tr><tr><td>Income statement (1)</td><td>12 000 (1) OF</td><td></td><td></td></tr><tr><td></td><td><u>74 000</u></td><td></td><td><u>74 000</u></td></tr><tr><td colspan="4"> </td></tr><tr><td>Balance b/d</td><td>14 000 (1) OF</td><td></td><td></td></tr></table>	Consignment account					\$		\$	Goods on consignment	50 000 (1)	Clarissa (750 × 80)	60 000 (1)	Bank	4 000 (1)	Balance c/d (1)	14 000 (1)	Clarissa	2 000 (1)			Clarissa (10% of 60 000)	6 000 (1) OF			Income statement (1)	12 000 (1) OF				<u>74 000</u>		<u>74 000</u>					Balance b/d	14 000 (1) OF			10
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Balance b/d	14 000 (1) OF																																									
2(c)	\$32 500 (1) + \$14 000 (1) OF = \$46 500 (1) OF	3																																								

Question	Answer	Marks
2(d)	<p>Possible answers:</p> <p>Each machine sold may still bring in a profit (1)</p> <p>Assuming that sales in other countries are maintained, total profit should increase (1)</p> <p>New consignment could increase total sales due to wider market (1)</p> <p>As this country is closer then transport costs should be lower / less scope for damage in transit (1)</p> <p>Liam might be able to negotiate a lower rate of commission (1)</p> <p>Accept other valid points. Max 4 for comments</p>	4
2(e)	An agent in a consignment earns commission / bears no risk / has a long-term relationship (1) while a party in a joint venture earns a share of profit / bears most of the risk / has a short-term relationship (1)	2