
ACCOUNTING

9706/32

Paper 3 Structured Questions

May/June 2019

MARK SCHEME

Maximum Mark: 150

Published

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 International will not enter into discussions about these mark schemes.

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This document consists of **18** printed pages.

Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

Question	Answer	Marks																																										
1(a)(i)	Prime cost is the direct (1) cost of a manufactured product. It is the total of direct materials, direct labour and direct overheads/expenses. (1)	2																																										
1(a)(ii)	Units of production which are only part completed (1) with regard to materials and / or labour. (1)	2																																										
1(b)	<p style="text-align: center;">Manufacturing Account For the year ended 31 December 2018</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th><th></th><th style="text-align: right;">\$000</th></tr> </thead> <tbody> <tr> <td>Prime cost</td><td></td><td style="text-align: right;">385 (1)</td></tr> <tr> <td>Add:</td><td></td><td></td></tr> <tr> <td>Indirect wages</td><td style="text-align: right;">40 (1)</td><td></td></tr> <tr> <td>General expenses</td><td style="text-align: right;">29 (2) W1</td><td></td></tr> <tr> <td>Power</td><td style="text-align: right;">24 (2) W2</td><td></td></tr> <tr> <td>Depreciation</td><td style="text-align: right;"><u>120</u> (2) W3</td><td style="text-align: right;"><u>213</u></td></tr> <tr> <td></td><td></td><td style="text-align: right;">598</td></tr> <tr> <td>Add: opening work-in-progress</td><td></td><td style="text-align: right;"><u>23</u> (1)</td></tr> <tr> <td></td><td></td><td style="text-align: right;">621</td></tr> <tr> <td>Less: closing work-in-progress</td><td></td><td style="text-align: right;"><u>(31)</u> (1)</td></tr> <tr> <td>Cost of production</td><td></td><td style="text-align: right;">590 (1) OF</td></tr> <tr> <td>Factory profit/mark-up</td><td></td><td style="text-align: right;"><u>118</u> (1) OF</td></tr> <tr> <td>Transferred to income statement</td><td></td><td style="text-align: right;"><u>708</u> (1) OF</td></tr> </tbody> </table> <p>W1 General expenses $64 - 6 = 58$ (1) $\times 50\% = 29$ (1) OF</p> <p>W2 Power $36 + 4 = 40$ (1) $\times 60\% = 24$ (1) OF</p> <p>W3 Depreciation $450 \times 25\% = 112.5$ (1) $30 \times 25\% = \underline{7.5}$ (1) <u>120.0</u></p>			\$000	Prime cost		385 (1)	Add:			Indirect wages	40 (1)		General expenses	29 (2) W1		Power	24 (2) W2		Depreciation	<u>120</u> (2) W3	<u>213</u>			598	Add: opening work-in-progress		<u>23</u> (1)			621	Less: closing work-in-progress		<u>(31)</u> (1)	Cost of production		590 (1) OF	Factory profit/mark-up		<u>118</u> (1) OF	Transferred to income statement		<u>708</u> (1) OF	13
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1(c)	<p>The inventory should not have been included at that figure (1) because the figure contains unrealised / factory profit. (1)</p> <p>Realisation concept (1) – transaction is accounted for when converted into money. (1)</p> <p>Prudence concept (1) – inventory and profit should not be overstated/inventory valued at lower of cost and NRV per IAS 2. (1)</p> <p>Correct value should be $\\$33\,000 \times \frac{100}{120}$ (1) = \$27 500 (1) <u>or</u> $\\$33\,000 - \\$5\,500$ (1) = \$27 500 (1)</p> <p>The value after reduction of the unrealised profit is the value to be shown in the statement of financial position. (1)</p> <p>A provision for unrealised profit is created (1)</p> <p>Max 2 for concept identification; Max 2 for calculation; Max 3 for explanation and 1 mark for correct decision.</p>	8

Question	Answer	Marks
2(a)	<p>Profit for the year ended 31 December 2018</p> <p>Dividend yield = 5%</p> <p>Dividend per share = $\\$2.4 \times 5\% = \\0.12 (1)</p> <p>Total dividend paid = $\\$0.12 \times 450\,000 = \\$54\,000$ (1) OF</p> <p>Dividend cover = 2.5 times</p> <p>Profit = $\\$54\,000 \times 2.5 = \\$135\,000$ (1) OF</p> <p><u>Alternative approach</u> (market value)</p> <p>450 000 shares $\times \\$2.40 = \\$1\,080\,000$ (1)</p> <p>Dividend = $\\$1\,080\,000 \times 5\% = \\$54\,000$ (1) OF</p> <p>Dividend cover = 2.5 times</p> <p>Profit = $\\$54\,000 \times 2.5 = \\$135\,000$ (1) OF</p>	3

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2(b)	<p style="text-align: center;">V plc Statement of financial position at 31 December 2018</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td><td style="text-align: right;">\$</td><td></td></tr> <tr> <td>Non-current assets</td><td style="text-align: right;"><u>505 272</u></td><td></td></tr> <tr> <td>Current assets</td><td></td><td></td></tr> <tr> <td>Inventory</td><td style="text-align: right;">W1 80 295</td><td>(4)</td></tr> <tr> <td>Trade and other receivables</td><td style="text-align: right;">W2 120 000</td><td>(2)</td></tr> <tr> <td>Cash at bank (balancing)</td><td style="text-align: right;">54 297</td><td>(1) OF</td></tr> <tr> <td></td><td style="text-align: right;"><u>254 592</u></td><td></td></tr> <tr> <td>Total assets</td><td style="text-align: right;"><u>759 864</u></td><td></td></tr> <tr> <td>Equity and liabilities</td><td></td><td></td></tr> <tr> <td>Equity</td><td></td><td></td></tr> <tr> <td>Ordinary shares of \$1 each</td><td style="text-align: right;">450 000</td><td rowspan="2">} (1) both</td></tr> <tr> <td>Share premium</td><td style="text-align: right;">70 000</td></tr> <tr> <td>Retained earnings</td><td style="text-align: right;">W3 155 000</td><td>(3) OF</td></tr> <tr> <td>Total equity</td><td style="text-align: right;"><u>675 000</u></td><td></td></tr> <tr> <td>Liabilities</td><td></td><td></td></tr> <tr> <td>Trade and other payables</td><td style="text-align: right;">W4 84 864</td><td>(3)</td></tr> <tr> <td>Total equity and liabilities</td><td style="text-align: right;"><u>759 864</u></td><td>(1) OF</td></tr> </table>		\$		Non-current assets	<u>505 272</u>		Current assets			Inventory	W1 80 295	(4)	Trade and other receivables	W2 120 000	(2)	Cash at bank (balancing)	54 297	(1) OF		<u>254 592</u>		Total assets	<u>759 864</u>		Equity and liabilities			Equity			Ordinary shares of \$1 each	450 000	} (1) both	Share premium	70 000	Retained earnings	W3 155 000	(3) OF	Total equity	<u>675 000</u>		Liabilities			Trade and other payables	W4 84 864	(3)	Total equity and liabilities	<u>759 864</u>	(1) OF	
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2(b)	<p>Workings:</p> <p>W1 Cost of sales = \$876 000 × 55% = \$481 800 (1) Opening inventory = \$78 105 Inventory turnover = 60 days</p> <p>Closing inventory = 2 × [(\$481 800 × 60) / 365] (1) OF – \$78 105 (1) = \$80 295 (1) OF</p> <p>W2 Credit sales \$876 000 Trade receivables turnover 50 days</p> <p>Trade receivables = $\frac{(\\$876\,000 \times 50)}{365}$ (1) = \$120 000 (1) OF</p> <p>W3</p> <table> <tr> <td></td><td>\$</td><td></td></tr> <tr> <td>Retained earnings 1 January 2018</td><td>74 000</td><td></td></tr> <tr> <td>Profit for the year (from 2(a))</td><td>135 000</td><td>(1) OF</td></tr> <tr> <td>Dividend paid (from 2(a))</td><td>(54 000)</td><td>(1) OF</td></tr> <tr> <td></td><td><u>155 000</u></td><td>(1) OF</td></tr> </table> <p>W4 Cost of sales = \$876 000 × 55% = \$481 800 Purchases = \$481 800 + \$80 295 – \$78 105 = \$483 990 (1) OF Trade payables turnover = 64 days</p> <p>Trade payables = (\$483 990 × 64) / 365 (1) OF = \$84 864 (1) OF</p>		\$		Retained earnings 1 January 2018	74 000		Profit for the year (from 2(a))	135 000	(1) OF	Dividend paid (from 2(a))	(54 000)	(1) OF		<u>155 000</u>	(1) OF	15
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2(c)	<p>Earnings per share = \$135 000 / 450 000 = \$0.30 (1) OF</p> <p>Price earnings ratio = $\frac{\\$2.40}{\\$0.30} = 8$ (1) OF</p> <p><u>Alternative approach</u> (market value)</p> <p>\$1 080 000 / \$135 000 (1) OF = 8 (1) OF</p>	2															

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2(d)	<p>The gross margin / profitability of V plc is better than that of T plc. (1) This suggests that the selling price of V plc is higher / the cost of sales is lower (1) than T plc.</p> <p>V plc is more efficient / has a better inventory turnover period than T plc. (1) This suggests that V plc can sell goods at a faster rate (1) or its inventory level is kept at a lower level / has lower storage costs. (1)</p> <p>Accept other valid points. Max 5</p>	5

Question	Answer	Marks
3(a)	<p>The answers may include:</p> <p>Increases the credibility of the financial statements which ensures they are fair and true Helps detect errors and frauds which increases the confidence of shareholders Represents an independent review of the financial statements which increases their reliability</p> <p>1 mark for identifying one benefit and 1 further mark for development, up to a maximum of 2 marks. Accept other valid points.</p>	2
3(b)	<p>Item 1 – IAS 36 (1) <i>Impairment of assets</i> suggests that an impairment loss should be made if the carrying amount of an asset is more than its recoverable amount. (1) The carrying amount of the equipment is \$140 000 which is more than the recoverable amount \$136 000, (1) (the higher of \$132 000 fair value and \$136 000 value in use), impairment of \$4000 should be made. (1)</p> <p>Item 2 – IAS 10 (1) <i>Events after the reporting period</i> is relevant as a proposed dividend is a non-adjusting event (1). In this case, the proposed dividend is not a liability at the year-end and will be disclosed as a note to the accounts. (1)</p> <p>Item 3 – IAS 37 (1) <i>Provision, contingent liabilities and contingent assets</i> suggests that a provision is made only when there is a present obligation arising from a past event. (1) Therefore no provision is recognised for costs that will be incurred in the future. (1)</p> <p>Item 1: Max 3 marks Item 2: Max 2 marks Item 3: Max 2 marks</p>	7

Question	Answer	Marks																											
3(c)	<p>Revised retained profits at 31 December 2018</p> <table> <tr><td></td><td>\$</td><td></td></tr> <tr><td>Retained earnings</td><td>184 000</td><td></td></tr> <tr><td>Impairment loss</td><td>(4000)</td><td>(1)</td></tr> <tr><td>Proposed dividend</td><td>12 000</td><td>(1)</td></tr> <tr><td>Provision for advertising expenses</td><td>25 000</td><td>(1)</td></tr> <tr><td>Deposit</td><td>3000</td><td>(1)</td></tr> <tr><td>Sales – sale or return basis</td><td>(7000)</td><td>)</td></tr> <tr><td>Inventory – sale or return basis</td><td>5400</td><td>) (1)</td></tr> <tr><td>Revised retained earnings</td><td><u>218 400</u></td><td>(1) OF</td></tr> </table>		\$		Retained earnings	184 000		Impairment loss	(4000)	(1)	Proposed dividend	12 000	(1)	Provision for advertising expenses	25 000	(1)	Deposit	3000	(1)	Sales – sale or return basis	(7000))	Inventory – sale or return basis	5400) (1)	Revised retained earnings	<u>218 400</u>	(1) OF	6
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3(e)	<p><i>Arguments for increasing the dividend</i></p> <p>Existing shareholders will be satisfied resulting in them retaining their shares (1)</p> <p>Higher dividend policy may convey a strong message to shareholders leading to a possible increase in share value (1)</p> <p>Increased dividends may be attractive to potential new investors providing investment for growth (1)</p> <p><i>Arguments for not increasing the dividend</i></p> <p>Company may be short of cash (1)</p> <p>Directors are retaining earnings for future development (1)</p> <p>Higher retained earnings may lead to a higher share value in the long run (1)</p> <p>Max 4 for comments plus 1 mark for recommendation Accept other valid points.</p>	5

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)	<p>$(2500 + 50) \text{ (1)} - 2020 \text{ (1)} = \\530</p> <p>Roberto \$265, Sasha \$265 (1) OF (correct split)</p>	3

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4(d)(i)	<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>		\$			\$		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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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																														

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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	Answer					Marks
5(a)(i)		2020	2021	2022		5
		\$	\$	\$		
	Cash inflows from sales	840 000	882 000	926 100	(1) for all	
	Cash outflows for cost of sales	420 000	441 000	463 050	(1) for all	
	Machine maintenance cost	10 000	20 000	30 000	(1) for all	
	Other operating costs	120 000	120 000	120 000	(1) for all	
	Net cash flow	<u>290 000</u>	<u>301 000</u>	<u>313 050</u>	(1) OF for all	
5(a)(ii)	2 years + [(\$600 000 – \$591 000) / \$313 050 × 365] = 2 years (1) OF 11 days (2) OF					3
5(a)(iii)						5
		\$				
	2020	290 000				
	2021	301 000				
	2022	313 050				
		<u>904 050</u>				
	Total depreciation	600 000	(1)			
	Total profit	<u>304 050</u>	(1) OF			
	Average profit	101 350	(1) OF			
	(\$101 350 / \$300 000*) (1) OF = 33.78% (1) OF					
	* = \$600 000 / 2					

Question	Answer	Marks																																			
5(b)	<p><i>Advantages:</i></p> <p>Easy to compute (1)</p> <p>Easy to understand (1)</p> <p>Good for initial screening (1)</p> <p>Good for business which requires short time to recover its investment (1)</p> <p><i>Disadvantages:</i></p> <p>Does not consider time value of money (1)</p> <p>Does not consider cash flows after the payback period (1)</p> <p>Projects may have different patterns of cash inflows (1)</p> <p>Max 2 for advantages max 2 for disadvantages. Accept other valid points.</p>	4																																			
5(c)	<table><tr><td></td><td></td><td>Inflows</td><td>PV</td><td></td></tr><tr><td></td><td></td><td>\$</td><td></td><td></td></tr><tr><td>Year 0</td><td>1</td><td>(600 000)</td><td>(600 000)</td><td>(1)</td></tr><tr><td>Year 1</td><td>0.909</td><td>290 000</td><td>263 610</td><td>)</td></tr><tr><td>Year 2</td><td>0.826</td><td>301 000</td><td>248 626</td><td>) (1) OF</td></tr><tr><td>Year 3</td><td>0.751</td><td>313 050</td><td>235 101</td><td>)</td></tr><tr><td></td><td></td><td>NPV</td><td><u>147 337</u></td><td>(1) OF</td></tr></table>			Inflows	PV				\$			Year 0	1	(600 000)	(600 000)	(1)	Year 1	0.909	290 000	263 610)	Year 2	0.826	301 000	248 626) (1) OF	Year 3	0.751	313 050	235 101)			NPV	<u>147 337</u>	(1) OF	3
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Question	Answer	Marks
5(d)	<p>Machine X should be purchased (1) because it has a positive NPV (1) OF</p> <p>The payback is less than the useful life of the machine (1) OF</p> <p>The ARR is more than the cost of capital (1) OF</p> <p>The quality of the product is better (1)</p> <p>The maintenance costs should be lower than Machine B (1)</p> <p>Machine X may have a positive environmental impact (1)</p> <p>There may be additional training costs incurred with machine X (1)</p> <p>1 mark for decision Max 2 for financial factors Max 2 for non-financial factors</p> <p>Accept other valid points.</p>	5

Question	Answer	Marks
6(a)	<p>Allows targets to be set (1)</p> <p>Helps to plan / control the use of resources (1)</p> <p>Helps with decision-making (1)</p> <p>Enables regular variance analysis (1)</p> <p>Identifies limiting factors (1)</p> <p>Informs all departments of a common goal (1)</p> <p>Improves communication between managers and departments (1)</p> <p>Improves co-ordination between departments (1)</p> <p>Provides clear areas of responsibility (1)</p> <p>Helps to motivate employees (1)</p> <p>Max 2 Accept other valid points.</p>	2

Question	Answer	Marks
6(b)	<p><i>Workings:</i></p> <p><u>Semi-variable overheads – using high / low method</u></p> <p>$\begin{array}{rclclcl} \\$7500 & - & \\$4000 & = & \\$3500 & = \\$1.75 \text{ (1)} \times 3000 \text{ units} = & \\$5250 \text{ variable cost} \\ 3000 \text{ units} & - & 1000 \text{ units} & = & 2000 \text{ units} & \text{or} \times 1000 \text{ units} = & \\$1750 \end{array}$</p> <p>Total cost </p>	

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Question	Answer	Marks																																																
6(c)	<table><tr><td></td><td>\$</td><td>\$</td><td></td></tr><tr><td>Profit from flexed budget</td><td>2500 units</td><td>23 375</td><td>(1) OF both profits</td></tr><tr><td>Add favourable variances:</td><td></td><td></td><td></td></tr><tr><td>Selling price</td><td></td><td>500</td><td>(1)</td></tr><tr><td>Direct material</td><td></td><td>500</td><td>(1)</td></tr><tr><td></td><td></td><td><u>24 375</u></td><td></td></tr><tr><td>Deduct adverse variances:</td><td></td><td></td><td></td></tr><tr><td>Direct labour</td><td>300</td><td></td><td>(1)</td></tr><tr><td>Semi-variable overheads</td><td>625</td><td></td><td>(1)</td></tr><tr><td>Fixed costs</td><td>200</td><td>1125</td><td></td></tr><tr><td></td><td></td><td><u>23 250</u></td><td></td></tr><tr><td>Actual profit</td><td></td><td></td><td></td></tr></table>		\$	\$		Profit from flexed budget	2500 units	23 375	(1) OF both profits	Add favourable variances:				Selling price		500	(1)	Direct material		500	(1)			<u>24 375</u>		Deduct adverse variances:				Direct labour	300		(1)	Semi-variable overheads	625		(1)	Fixed costs	200	1125				<u>23 250</u>		Actual profit				6
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6(d)(i)	<p>Direct material favourable variance:</p> <p>Material price could have been reduced (1) due to lower quality / decrease in market price / cheaper supplier. (1)</p> <p>Material usage could be less (1) due to better quality material / less wastage / skilled workforce. (1)</p> <p>1 mark for each element and 1 mark for development up to max 2</p>	2																																																
6(d)(ii)	<p>Direct labour adverse variance:</p> <p>Direct labour may have worked more hours (1) due to poor quality materials / lower skilled workforce. (1)</p> <p>Labour rate could be higher (1) due to more skilled workforce / overtime paid which wasn't budgeted for. (1)</p> <p>1 mark for each element and 1 mark for development up to max 2</p>	2																																																

Question	Answer	Marks
6(e)	<p>Yes:</p> <p>It reflects any changes in activity and is therefore more realistic / accurate / reliable (1)</p> <p>It enables like for like / better comparisons (1)</p> <p>It is easier to identify variances (1)</p> <p>It enables a clearer understanding of the corrective action required (1)</p> <p>No:</p> <p>It can be time consuming (1)</p> <p>It may be complex / need an expert / training to calculate the flexed budget. (1)</p> <p>Managers may become de-motivated [if the target is constantly changing] (1)</p> <p>Managers may resent having to re-calculate budgets on a regular basis (1)</p> <p>Decision (1), Yes (max 2) and No (max 2)</p> <p>Accept other valid points.</p>	5