CAMBRIDGE
INTERNATIONAL EXAMINATIONS

CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary and Advanced Level

MARK SCHEME for the November 2003 question papers

9706 ACCOUNTING	
9706/01	Paper 1 (Multiple Choice), maximum raw mark 30
9706/02	Paper 2 (Structured Questions), maximum raw mark 90
9706/03	Paper 3 (Multiple Choice), maximum raw mark 30
9706/04	Paper 4 (Problem Solving), maximum raw mark 120

These mark schemes are published as an aid to teachers and students, to indicate the requirements of the examination. They show the basis on which Examiners were initially instructed to award marks. They do not indicate the details of the discussions that took place at an Examiners' meeting before marking began. Any substantial changes to the mark scheme that arose from these discussions will be recorded in the published *Report on the Examination*.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the *Report on the Examination*.

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UNIVERSITY of CAMBRIDGE
Local Examinations Syndicate

CAMBRIDGE
INTERNATIONAL EXAMINATIONS

November 2003

GCE A AND AS LEVEL

MARK SCHEME

MAXIMUM MARK: 30

SYLLABUS/COMPONENT: 9706/01

ACCOUNTING
Paper 1 (Multiple Choice)

UNIVERSITY of CAMBRIDGE
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Question Number	*Key*	*Question Number*	*Key*
1	**D**	16	**A**
2	**C**	17	**A**
3	**A**	18	**C**
4	**C**	19	**C**
5	**C**	20	**C**
6	**D**	21	**C**
7	**D**	22	**A**
8	**C**	23	**C**
9	**B**	24	**D**
10	**A**	25	**D**
11	**B**	26	**B**
12	**A**	27	**B**
13	**D**	28	**D**
14	**C**	29	**C**
15	**D**	30	**A**

CAMBRIDGE
INTERNATIONAL EXAMINATIONS

November 2003

GCE A AND AS LEVEL

MARK SCHEME

MAXIMUM MARK: 90

SYLLABUS/COMPONENT: 9706/02

ACCOUNTING
Paper 2 (Structured Questions)

UNIVERSITY of CAMBRIDGE
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1(a) Accumulated fund at start

	$			$	
Fixed assets	85 600		Accruals	4 480	
Subscriptions	31 800	**1**	Creditors	3 800	**1**
Stock	420				
Bank	32 400	**1**	Accumulated fund	141 940	**1**
	150 220			150 220	

1 for every correct pair plus 1 for acc fund (4)

(b) Café Trading account

			$	$	$	
Takings					110 800	
less	O/stock			420		
	Purchases		38 600			
	Crs at start		(760)			
	Crs at end		700	**1**	38 540	
					38 960	
	-C/stock				370	38 590
						72 210
Electricity (19000-220+260)/5				**1**	3 808	
Rent (65600-1440+1640)/5				**1**	13 160	
Wages (42400-760+840)				**1**	42 480	59 448
						12 762

(4)

WORKINGS

Grasscutter					
Cost	4000	Depreciation			
Depreciation	(2400)	FA	85 600		
Book value	1600		(1 600)		
Received	2000		66 000		
Profit	400		26 000	176 000	
		Actual FA		119 680	
		Depreciation		56 320	

(c)

Income and Expenditure account
for the year ended 31 December 2002

	$	$		
Profit on café		12 762	**1**	
Subscriptions (313 600-31 800+33 200)		315 000	**1**	
Profit on sale of Grasscutter		400	**2**	
		328 162		
Wages (102 800-2060+2500)	103 240		**1**	
Electricity (19 040x4/5)	15 232		**1**	
Rent (65 800x4/5)	52 640		**1**	
Maintenance (94 200-3040+4200)	95 360		**1**	
Depreciation	56 320	322 792	**1**	
Surplus		5 370		(9)

Balance Sheet as at 31 December 2002

(d)

	$		$		$		
Fixed assets at Net book value					119 680		
Current assets							
Stock	370						
Subs due	33 200	**1**					
Bank	4 200		37 770				
Current liabilities							
Creditors	4 900	**1**					
Accruals	5 240	**1**	10 140		27 630		
					147 310		
Accumulated fund at start					141 940	**1**	
Surplus					5 370	**1**	
					147 310		(5)

(e) (i) As income in the I & E account or **2**
shown separately in the balance Sheet. **2**

(ii) R & P records all cash/cheque transactions through the year; **2**
I & E takes into account accruals & prepayments. **2** (8)

2(a) Dissolution/Realisation account

	$			$	
Buildings	104 000	1	Bank	100 000	
Fixtures & fittings	35 000	1		37 000	
Motor vehicles	26 000	1		15 000	
Stock	10 500	1		5 200	
Debtors	17 230	1		16 130	
Bank (expenses)	1 200	2	Dougal	9 500	
			Dougal	7 400	
	for both	1	Florence	3 700	
	193 930			193 930	(8)

(b) Current Accounts

	Dougal	Florence			Dougal	Florence	
Bal b/d		2 580	1	Bal b/d	14 430		1
Dissol.	9 500		1	Capital	2 470	6 280	
Dissol.	7 400	3 700	1	**for both**			
	16 900	6 280			16 900	6 280	

(4)

(c) Capital Accounts

	Dougal	Florence			Dougal	Florence	
Current ac	2 470	6 280	2	Bal b/d	80 000	40 000	2
Bank	77 530	33 720					
	80 000	40 000			80 000	40 000	

(4)

(d) Bank Account

Bal b/d	1	950	Creditors	9 230	1	
Dissolution	(	100 000	Dissolution	1 200	1	
	(	37 000	Capital - D	77 530	1	
	2 OF (	15 000	Capital - F	33 720	1	
	(	5 200	Loan - D	52 600	1	
	(	16 130				
		174 280		174 280		

(8)

(e) Unlimited liability of owners (partners)
Responsibilities of/control by partners
Agreements on share of profits/losses
Agreements on death/dissolution
etc

2 marks each to max (6)

3(a)	Darnick Holdalls Limited		Cutting	Stitching	Maint.	Canteen	
			$	$	$	$	
	Allocated overheads		44 200	47 600	15 000	18 000	4
	Space costs		30 000	36 000	12 000	12 000	4
	Depreciation		70 000	85 000	25 000	20 000	4
	Canteen		24 000	18 000	8 000	(50 000)	3
	Maintenance		18 000	42 000	(60 000)		2
			186 200	228 600	0	0	(17)
(b)	Costs - Cutting department	10 000x17		170 000		186 200	1
		9 000x18		162 000		420 000	1
		4 400x20		88 000	$0.44 per man hour		1
	Costs - Stitching department	10 000x3		30 000		228 600	1
		9 000x4		36 000		88 000	1
		4 400x5		22 000	$2.60 per m/c hr		1
							(6)
(c)	Cutting is labour intensive				1		
	Stitching is capital intensive				1		(2)
(d)	Cost of Medium case						
	Materials		$35.00		$35.00		1
	Labour - cutting		$18.00		$18.00		1
	Labour - stitching		$6.00		$6.00		1
	O/heads - cutting	(18x$0.44)	$7.92	accept	$7.98		1
	O/heads - stitching	(4x$2.60)	$10.40	either	$10.40		1
			$77.32		$77.38		
							(5)

CAMBRIDGE
INTERNATIONAL EXAMINATIONS

November 2003

GCE A AND AS LEVEL

MARK SCHEME

MAXIMUM MARK: 30

SYLLABUS/COMPONENT: 9706/03

ACCOUNTING
Paper 3 (Multiple Choice)

UNIVERSITY of CAMBRIDGE
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Question Number	*Key*	*Question Number*	*Key*
1	**A**	16	**B**
2	**A**	17	**B**
3	**B**	18	**D**
4	**B**	19	**D**
5	**D**	20	**D**
6	**C**	21	**C**
7	**B**	22	**B**
8	**C**	23	**C**
9	**B**	24	**C**
10	**D**	25	**A**
11	**D**	26	**C**
12	**D**	27	**A**
13	**A**	28	**C**
14	**A**	29	**A**
15	**D**	30	**B**

CAMBRIDGE
INTERNATIONAL EXAMINATIONS

November 2003

GCE A AND AS LEVEL

MARK SCHEME

MAXIMUM MARK: 120

SYLLABUS/COMPONENT: 9706/04

ACCOUNTING
Paper 4 (Problem Solving)

UNIVERSITY of CAMBRIDGE
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MARKING SCHEME

1 (a) Extracts from Profit and Loss Accounts for the year ended 31 March 2003

	Foggy Ltd. $000		Compo Ltd. $000	
Operating profit	(30 X 12)	360	(18 X 14)	252
Debenture interest	(10% of 300)	30 **(1)**	(10% of 180)	18 **(1)**
Profit after interest		330 **(1)**(OF)		234 **(1)**(OF)
Transfer to general reserve		(100) **(1)**		(60) **(1)**
Preference dividend		(20) **(1)**		(24) **(1)**
Ordinary dividend *		(62) **(1)**(182)		(30)*(1) (114)
Retained profit for the year		148 **(1)** (OF)		120 **(1)** (OF) [12]

* $^{1}/_{5}$[330 (OF) – 20(OF)] * $^{1}/_{7}$[234 (OF) – 24 (OF)]

(b)	Foggy Ltd.	Compo Ltd.
(i) Interest cover	12 times **(1)**	14 times **(1)**
(ii) EPS $(^{31000000}/_{1\,000\,000})$ (OF)	\$0.31 **(1)**	$(^{21000000}/_{2\,400\,000})$ (OF) \$0.0875 **(1)**
(iii) Dividend paid per share $(^{62\,000}/_{1\,000\,000})$ (OF)	\$0.062 **(1)**	$(^{30\,000}/_{2\,400\,000})$ (OF) \$0.0125 **(1)**
(iv) PER $(^{1.60}/_{0.31})$ (OF)	5.16 **(1)**	$(^{1.35}/_{0.0875})$ (OF) 15.43 **(1)**
(v) Dividend yield $(^{6.2\%}/_{1.60})$ (OF)	3.875% **(1)**	$^{1..25}/_{1.35}$**(1)** 0.926% **(1)** [11]

(c) (i) Compo Ltd.'s interest cover is greater than Foggy Ltd.'s. **(1)**
The greater the interest cover, the more secure are the interests of the debenture holders **(1)** and the shareholders. **(1)**

(ii) EPS Foggy's EPS appears to be better than Compo's. **(1)** But Compo's shares are ¼ of the nominal value of Foggy's. **(1)** On a comparable basis (\$0.0875 X 4) Compo's EPS is 0.3428)**(1)** which slightly better than Foggy's. **(1)**

(iii) Dividend per share Foggy's dividend is 6.2%.**(1)** Compo's dividend is lower at 5% **(1)** (\$0.0125/0.25)

(iv) PER Compo's ratio is three times higher than Foggy's.**(1)** This would suggest that investors are more confident in Compo's ability to sustain its performance.**(1)**

(v) Dividend yield This is similar for both companies.**(1)**

(Maximum 10 marks) [10]

(d) (i) Trend analysis: compare the trend of each company's performance.**(1)** Trends indicate if a company's performance is improving, stagnant or in decline.**(1)**

(ii) Inter-company comparison.**(1)** Comparison with the average performance of other companies in the same trade provides a useful measure of how efficiently a company is performing **(1)** [4]

(e) (i) Review of business during the year. **(1)** Position of business at end of year.**(1)**
(ii) Principal activities of the company during the year.**(1)**
(iii) Significant changes in the business activities during the year. **(1)**
(iv) Particulars of important events affecting the company since the end of the financial year.**(1)**
(v) An indication of likely future developments in the business of the company.**(1)**
(vi) Amounts of recommended dividends.**(1)**
(vii) Proposed transfers to reserves.**(1)**
(viii) Names of directors and their holdings of shares and debentures in the company.**(1)**
(ix) Directors' remuneration, pensions, share options
(x) Political and charitable donations
(Any three; maximum 3 marks.) [3]

2. (a)

	Machine A	Machine B
For 4 years	$	$
Total receipts	316 000 **(1)**	320 000 **(1)**
Total payments	(184 000)**(1)**	(187 000)**(1)**
Total depreciation (4 X $19 000)	(76 000)**(1)** (4 X 23 000)	(92 000 **(1)**
Total profit	56 000	41 000
Average annual profit(4 years)	14 000 **(1)(OF)**	10 250 **(1)(OF)**
Average investment: K(80 – 4)/2	38 000 **(1)** K(100 – 8)/2	46 000 **(1)**
ARR 14 000/38 000 X100 (OF) (OF)	36.8% **(1)**	
10 250/46 000 X 100 (OF) (OF)		22.3% **(1)**

[12]

(b) Payback periods

Year 1	(66 000 – 31 000)	35 000	(70 000 – 42 000)	28 000	
2	(80 000 – 47 000)	33 000	(90 000 – 49 000)	41 000	
3	(100 000 – 68 000)	32 000	**(1)** (100 000 – 67 000)	33 000	**(1)**
	12 000/32 000 = 0.375	12 000	31 000/33 000 = 0.939	31 000	
		80 000		100 000	

Payback (2.375 years)(OF) 2 years 4.5 months **(1)** (2.939 years)(OF) 2 years 11.3 months**(1)**
[4]

(c)

		Machine A			Machine B	
10%	Net receipts		NPV	Net receipts		NPV
	$		$	$		$
Year 0	1.000	(80 000)	(80 000)	(100 000)		(100 000)
1	0.909	35 000	31 815 **(1)**	28 000		25 452 **(1)**
2	0.826	33 000	27 258	41 000		33 866
3	0.751	32 000	24 032	33 000		24 783
		(1) **(1)**		**(1)** **(1)**		
4	0.683	32 000 + 4000	24 588 **(1)**(OF)	31 000 + 8000		26 637 **(1)**
Net present values **(1)**			27 693 **(1)**			10 738 **(1)**

[11]

(d)	20%	Machine A		Machine B	
Year		(80 000)		(100 000)	
1	0.833	29 155	(OFs	23 324	(OFs)
2	0.694	22 902		28 454	
3	0.579	18 528		19 107	
4	0.482	17 352		18 798	
		7 937	**(1)(OF)**	(10 317)	**(1)(OF)**

IRR for Machine A $10\% + (10\% \times {}^{27\,693}/_{19\,756}) = 24\%$ **(1)**
Machine B $10\% + (10\% \times {}^{10\,738}/_{21\,055}) = 15\%$ **(1)** [4]

(e) Clegg Ltd. should purchase Machine A **(1)**
because it has the better ARR **(1)**
a shorter payback period **(1)**
a higher positive NPV **(1)**
an IRR of 24% **(1)** [5]

(f) A positive NPV suggests that expenditure may be considered subject to other conditions being favourable. **(1)**
If IRR is less than the present R.O.C.E. of 22% the project will dilute the present profitability. **(1)**
This may be a reason for not proceeding with the expenditure regardless of the favourable NPV. **(1)**
IRR greater than 22% will enhance profitability. **(1)** [4]

3. (a)

Porridge Ltd.
Balance Sheet as at 1 April 2003

	$000	$000
Fixed assets		
Goodwill		12 **(3)**
Land and buildings		1 095 **(1)**
Plant and machinery		650 **(1)**
		1 757
Current assets		
Stock	339 **(1)**	
Debtors	416 **(1)**	
Bank	14 **(2)**	
	769	
Creditors: amounts falling due within one year		
Trade creditors	425 **(1)**	344
		2 101
Creditors: amounts falling due after more than one year		
10% convertible loan stock 2005		125 **(1)**
		1 976
Share capital and reserves		
Ordinary shares of $1		1 100 **(1)**
Share Premium account		44 **(2)**
Debenture Redemption Reserve		300 **(1)**
Profit and Loss Account		532 **(1)**
		1 976

[16]

Workings	Porridge	Partnership	Red.debs	1 April 2003
	$000	$000	$000	$000
Goodwill	(381 **(1)** – 369 **(1)**	12 **(1)**		12
Land and buildings	950	145		1 095 **(1)**
Plant and machinery	535	115		650 **(1)**
Stock	254	85		339 **(1)**
Debtors	346	70		416 **(1)**
Bank	280	46 **(1)**	(312) **(1)**	14
Trade creditors	333	92		425 **(1)**
10% debentures 2002/2003	300		(300)	-
10% convertible loan stock	-	125		125 **(1)**
Ordinary shares of $1	900	200		1 100 **(1)**
Share premium account	-	56 **(1)**	(12) **(1)**	44
Debenture Redemption Reserve	-		300	300 **(1)**
Profit and Loss Account	832		(300)	532 **(1)**

(b) Investment in the partnership business: **(1)** **(1)**
Convertible debenture stock + shares = $(125 000 + 256 000) = $381 000

Profit before interest required	(OF)**(1)** ($381 000 X 0.25)	$ 95 250 **(1)**
Fixed overheads before interest	**(1)** **(1)** (156 000 – 12 500)	143 500
Contribution required		238 750 **(1)**

(1) **(1)**
Contribution/Sales = $^{200646}/_{334\,410}$ X 100 = 60% **(1)**

Turnover required to produce contribution of $238 750 = (OF) $238 750 X $^{10}/_{6}$ **(1)** (OF) 397 917 **(1)** [12]

(c) Return on investment of 20% = $381 000 X 20% = $76 200 **(1)**

	$
Turnover for 25% (b)	397 917 (OF)
Turnover for 20% (76 200 + 143 500) X $^{10}/_{6}$ (OF)**(1)** (OF) **(1)**	366 167
Reduction in turnover	31 750 **(1)**

Reduction as a percentage ($^{31\,750}/_{397\,917}$ X 100) = 8% **(1)** (OF) **(1)**(OF) [6]

(d) (i) Korne should exercise his option to convert his debentures into shares. **(1)**
The terms of conversion enable him to acquire the shares at $1.50 each. **(1)**
The shares are currently at $1.75 and Korne will benefit by $0.25 on each share. **(1)** [3]

(ii) Ordinary share capital (125 000/1.50) increase $83 333 **(1)**

Share Premium account (83 333 X $0.50) increase $41 667 **(1)** **(1)** (OF) [3]