

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

**General Certificate of Education Advanced Subsidiary and Advanced Level**

**MARK SCHEME FOR the November 2002 question papers**

**9706 ACCOUNTING**

**9706/02** Paper 2 (Structured Questions), maximum raw mark 90

**9706/04** Paper 4 (Problem Solving), maximum raw mark 120

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**NOVEMBER 2002**

**GCE ADVANCED SUBSIDIARY AND ADVANCED LEVEL**

<b>MARK SCHEME</b>
<b>MAXIMUM MARK : 90</b>
<b>SYLLABUS/COMPONENT : 9706/02</b>
<b>ACCOUNTING</b>

1 (a)	T V		Comp uting		Telep hones		
	\$	\$	\$	\$	\$	\$	
Sales		214,000		428,000		107,000	
Cost of Sales:							
Opening stock	8,000		19,000		3,000		
Purchases	<u>119,000</u>		<u>220,000</u>		<u>40,000</u>		3
	127,000		239,000		43,000		
less closing stock	<u>16,000</u>	<u>111,000</u>	<u>40,000</u>	<u>199,000</u>	<u>5,000</u>	<u>38,000</u>	3
Gross profit		103,000		229,000		69,000	
less expenses							
General expenses	2,000		4,000		1,000		1
Sales salaries	55,125		73,500		18,375		1
Sales commission	2,140		4,280		1,070		3
Office salaries	10,000		20,000		5,000		1
Wages	16,000		32,000		8,000		1
Advertising	4,000		8,000		2,000		1
Rent	16,800		21,000		4,200		3
Electricity	4,000		5,000		1,000		1
Insurance	2,000		2,500		500		1
Depreciation - MV	3,000		3,000		3,000		1
-F & F	<u>2,000</u>	<u>117,065</u>	<u>2,000</u>	<u>175,280</u>	<u>2,000</u>	<u>46,145</u>	1
Net Profit (loss)		(14,065)		53,720		22,855	
Total Net Profit						62,510	21
(b) Add interest on Drawings			Dellow	300			
			Coucom	<u>100</u>		<u>400</u>	2
						62,910	
Less Interest on Capital			Dellow	600			
			Coucom	<u>400</u>		<u>1,000</u>	2
						61,910	
Salary - Coucom						<u>7,600</u>	1
						54,310	
Share of Residue			Dellow	32,586			
			Coucom	<u>21,724</u>		<u>54,310</u>	2
							7
(c) Provided each department makes a profit if fixed costs are removed from the equation then each department should continue.							2

2(a)(i) Cumulative, where dividends, if not paid one year, will be added to the following year's dividends.

Non-cumulative, where dividends, if not paid one year, are lost.

Redeemable, which may be bought back by the Company.

Participating, which receive a share of the profits

Etc

1 for name, 1 for description to maximum (6)

(ii) Ordinary shares      Voting rights  
                                     Share of profits  
                                     No fixed dividend  
                                     Part owners of business  
                                     Own reserves  
                                     etc.

Preference shares      No voting rights (usually)  
                                     Fixed dividend  
                                     Part owners of business  
                                     Don't own reserves  
                                     etc.

Debentures              No voting rights  
                                     Fixed interest  
                                     Lenders to business  
                                     etc.

2 each to maximum (6)

(b)	Gross Profit percentage	30.00 %	
	Net Profit percentage	13.10 %	
	Current ratio	1.87 :1	
	Liquid ratio	0.46 :1	
	Stock Turnover ratio	5.00 times	
	Fixed Assets to Sales	45.71 %	
	Return on Total Assets	21.39 %	
	Return on Net Assets	26.41 %	
	Debtors' payment period	23 days	accept 22.42
	Creditors' payment period	28 days	accept 27.38

1 each to maximum (10)

(c) The Gross Profit ratio is the same as the industry average, suggesting that Manny's business is up to standard, but the Net Profit ratio is considerably lower, suggesting that his expenses are higher than they ought to be. Current ratio is reasonably close, but Liquid ratio is less than half, suggesting that there is a real problem with liquidity - in this case possibly the high overdraft. The stock turnover ratio is only 62½% of industry average, which suggests that if this were to be improved then GP ratio would increase dramatically. Fixed Assets to Sales is lower than average, which is good, but Return on both Total and Net Assets is low, suggesting poor use of assets. Debtors are paying faster than average, which helps cash flow, but Manny is also paying creditors faster than average, which is good for relations with suppliers, but not good for cash flow.

1 each point to max (8)

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3 (a) Sales for Sintax =  $\$90,000/10 = 9,000$  units 2  
 Sales for Gremmer =  $\$30,000/15 = 2,000$  units. 2 (4)

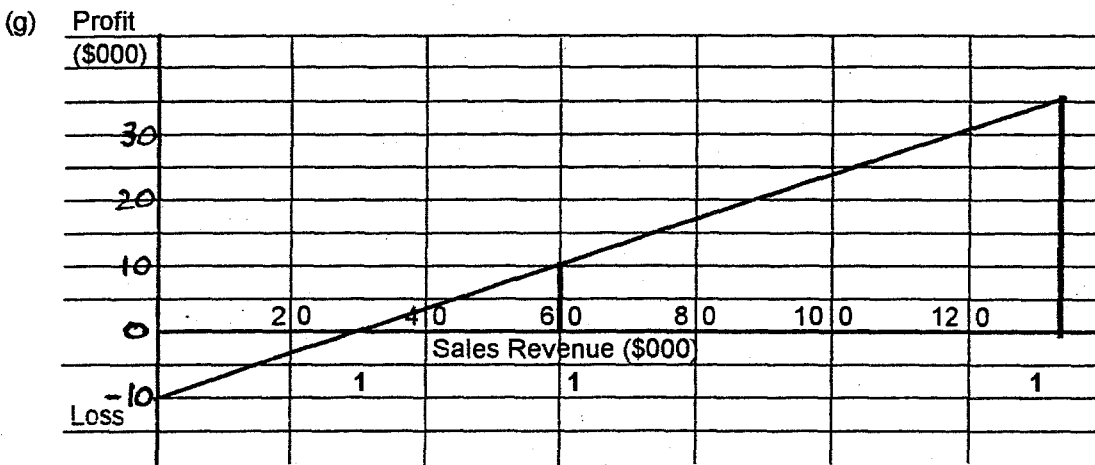
(b)		Sintax	Gremmer		
	Unit selling price	\$10	\$15		
	Unit variable costs	\$6	\$12		
	Unit contribution	\$4	\$3	2	
	Contribution/sales ratio	4/10	3/15		
		40%	20%	2	(4)

(c)	Sintax total contribution	9,000 x 4	\$36,000	1	
	Gremmer total contribution	2,000 x 3	\$6,000	1	
	Company total contribution		\$42,000	10F	
	Total company sales = $\$90,000 + \$30,000 =$		\$120,000	1	
	Company C/S ratio = $\$42,000/\$120,000$		35%	1	(5)

(d) Break-even = \$28,500 (approx)  
 Profit at Sales of \$120,000 = \$32,000  
 Loss at Sales of \$20,000 = £2,500 (approx) (3)

(e)	Increase of 10% on \$120,000 = \$12,000				
		Sintex	Gremmer		
	Sales now	\$96,000	\$36,000	2	
	Divide by sales price	\$10	\$15		
	Unit sales now	9600	2400	2	(4)

(f)	Sintax total contribution	9,600 x 4	\$38,400	2	
	Gremmer total contribution	2,400 x 3	\$7,200	2	
	Company total contribution		\$45,600	1	
	Total company sales =		\$132,000	1	
	Company C/S ratio = $\$45,600/\$132,000$		34.5% (approx)	1	(7)



Break-even = \$29,000 (approx)  
 Profit at \$132,000 sales = \$35,600 (approx)  
 Profit at \$60,000 sales = \$10,000 (approx) (3)