CAMBRIDGE
INTERNATIONAL EXAMINATIONS

JUNE 2003

GCE A AND AS LEVEL

MARK SCHEME

MAXIMUM MARK: 30

SYLLABUS/COMPONENT: 9706/01

ACCOUNTING
Paper 1 (Multiple Choice)

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

TOTAL 30

CAMBRIDGE
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MARK SCHEME
MAXIMUM MARK: 90
SYLLABUS/COMPONENT: 9706/02 ACCOUNTING Paper 2 (Structured Questions)

All amounts in $000

1.

Working for sales

Cash-banked = 2784 - 53	2731	(**1**)
Expenses	205	(**1**)
Loan accounts	90	(**1**)
Opening balance	(3)	(**1**)
Closing balance	8	(**1**)
	3031	

Bank – takings	2731	B/fwd	203
Buildings	53	Crs (purchases)	1996
Balance (195 + 63)	258	Expenses	823
		Int on overdraft	20
	3042		3042

Trading and Profit and Loss Account
For 6 months ended 30 September 2002

(a)

Sales = 3031 + 420 (**1**) – 820 (**1**)			2631
less cost of sales			
Opening stock		1540	
+ purchases 1996 – 1210 (**1**) + 510 (**1**)		1296	
		2836	
- Closing stock		704	2132
Gross profit			499
less			
Expenses = 823 (**1**) + 205 (**1**) – 192 (**1**) + 103 (**1**)		939	(**4** if netted)
Interest paid		20	
Depreciation (70/2)	(**1**)	35	
Doubtful Debts provision	(**1**)	21	
Loss on sale of fixtures	(**1**)	17	1032
Net loss			(533)

[16]

Award marks where candidates have identified correct figures and have treated these figures correctly – up to 7 marks.

(b)

Balance Sheet as at 30 September 2002

Fixed assets					280	(**1**)
less depreciation					35	(**1**) (**OF** from Trading P & L)
					245	
Current assets						
Stock			704			
Debtors		420				
- provision	(**1**)	21	399			
Cash			8	1111		
Current liabilities						
Creditors			510			
Accruals			103			
Bank	(**1**)		258	871	240	
					485	
Share capital					25	
Retained profits = 910 – 533 (**OF**)					377	(**1 + 1**)
Loan account – Bracket		104 - 45		59		(**1**)
Loan account – Racket		69 - 45		24	83	(**1**)
					485	

[8]

(c) Mention of any 6 of the following, for **1** mark each:

Factoring
Leasing
Hire purchase (H.P.)
Creditors
Money lenders - friends/relatives
Mortgage/credit union
Another (merchant) bank
Shareholders
Etc.

[6]

2 (a)

	GREENYARDS LTD				POYNDER LTD			
	2001		2002		2001		2002	
GP Ratio	255/500	51%	255/610	42%	215/425	51%	230/460	50%
NP Ratio	30/500	6%	25/610	4.1%	25/425	5.9%	30/460	6.5%
ROCE	30/205	14.6%	25/260	9.6%	25/225	11.1%	30/202	14.9%
Current Ratio	80/25	3.2:1	90/55	1.6:1	40/35	1.1:1	77/50	1.5:1
Quick Ratio	30/25	1.2:1	30/55	0.5:1	13/35	0.4:1	57/50	1.1:1
Stock Turnover – times	245	4.9	355	5.9	210	7.8	230	11.5
– days	50	74	60	62	27	47	20	32
Debtors Turnover – days	20x365/500	15	30x365/610	18				

Any other relevant ratios acceptable

1 for each pair correctly calculated to maximum

[12]

(b) Greenyards' GP, NP and ROCE ratios have worsened, whilst its current and quick ratios have improved – they were too high in 2001. Stock turnover is faster – good, provided it is not at the expense of profit – but debtors' payments has lengthened which means that cash is slower coming in – not good, although it may encourage credit customers to continue buying from Greenyards. (Candidates should state whether the ratio is better or worse, and not just 'up' or 'down', as the ratios must be analysed.)

Although Poynder's GP ratio has worsened slightly, its NP ratio has improved, showing a better net profit for every $ of sales. Current ratio is at a reasonable level, but quick ratio looks as if it is improving. Stock turnover rate has, unfortunately, decreased, but this is counteracted by improved ROCE.

1 for each point to maximum **[12]**

(c) Shortcomings and dangers of ratio analysis:

(i) Requires a basis of comparison – one ratio on its own no use – must compare to, e.g., last year's figures, other companies' figures, etc.
(ii) Ratios need to be analysed for successful conclusion
(iii) Each industry has different standards to be adhered to
(iv) Outside influences can affect ratios – e.g. national/world economy, trade cycles
(v) Care must be taken to compare like with like, as definitions of terminology may vary
(vi) Easy for the inexpert to arrive at false conclusion
(vii) Different accounting policies between companies may render ratios incompatible

(viii) Ratios can over-simplify a situation
(ix) Prepared using historical costs, so can be out of date
(x) Need more than ratios to get an accurate view of the company
Etc.

1 for each point to maximum **[6]**

3 (a)

		Domestic	Commercial	Industrial	
(i)	Per Unit				
	Selling price	$2.00	$4.00	$8.00	(**3**)
	Direct materials	$0.90	$1.47	$1.49	
	Direct labour	$0.50	$0.66	$2.67	
	Variable overheads	$0.20	$1.20	$2.13	
	Total variable costs	$1.60	$3.33	$6.29	(**3**)
(ii)	Contribution per unit	$0.40	$0.67	$1.71	(**3**)
	Contribution as % of sales	20	16.75	21.375	(**3**) (**OF** if answer is based on OF above)

[12]

(b)

	Domestic	Commercial	Industrial	
Fixed Costs	54000	33000	42000	(**3**)
contribution	$0.40 (**OF**)	$0.67 (**OF**)	$1.71 (**OF**)	(**3**) (**OF**)
Units at break-even (**OF**)	135000 (**OF**)	49254 (**OF**)	24562 (**OF**)	(**3**)
Dollars at break-even (**OF**)	270000 (**OF**)	197016 (**OF**)	196496 (**OF**)	(**3**)

[12]

(c) Although the figures given appear to show loss of $6000 for Domestic and $3000 for Commercial, this is because of the method of absorption of fixed overheads. If these two production lines were closed then **all** of the fixed overheads would have to be absorbed by Industrial, which would reduce its profit of $54000 to a loss of $33000. That is as follows:

	$000	$000
Sales		450
Variable costs (unchanged)	354	
Add **all** fixed costs	129	483
Profit (Loss)		(33)

Provided a product shows a positive contribution and the **total** contribution for all products is positive, then there is no reason to close a production line.

Maximum **[6]**

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MAXIMUM MARK: 30

SYLLABUS/COMPONENT: 9706/03

ACCOUNTING
Paper 3 (Multiple Choice)

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

TOTAL 30

CAMBRIDGE

INTERNATIONAL EXAMINATIONS

JUNE 2003

GCE A AND AS LEVEL

MARK SCHEME

MAXIMUM MARK: 120

SYLLABUS/COMPONENT: 9706/04

ACCOUNTING
Paper 4 (Problem Solving)

1 (a)

	$000	Pref. shares	Debs	$000
Fixed assets	1900			1900
Current assets (net)	1500	-800 (**1**)–200 (**1**)	-400 (**1**)–20 (**1**)	80
	3400			1980
10% debentures 2003/4	400		-400(**1**)	
	3000			1980
Ordinary shares of $1	1000			1000
8% preference shares	800	-800 (**1**)		-
Capital Redemption Reserve		+800 (**1**)		800
Share Premium account	180		-20(**1**) **OF**	160
Revenue reserves	1020	-800 (**1**) – 200 (**1**) **OF**		20 (**1**) **OF**
	3000			1980

+**1** for *not* showing debentures in the answer.

[11]

(b)

	31/12/2002	1/1/2003
(i) Gearing	35.29% (**1**) or 54.54%	nil (**1**)
(ii) Dividend cover	1.24 times (**1**)	1.5 times (**1**)
(iii) Earnings per share	$0.496 (**1**)	$0.60 (**1**) **OF**
(iv) Price/earnings ratio	7.06 (**1**)	6.40 (**1**) **OF**
(v) Dividend yield	11.43% (**1**)	10.42% (**1**) **OF**

[10]

(c) (i) Gearing. The company was low geared before the redemption of the debentures and preference shares (**1**). After the redemptions, the gearing was nil (**1**). There are now no prior charges for debenture interest and preference dividends (**1**); all profits are now available for the ordinary shareholders (**1**).

(ii) Dividend cover has increased marginally (**1**). Future dividends are slightly less at risk if profits are not maintained (**1**).

(iii) Earnings per share have increased by $0.104 (**1**). This is because there are now no prior charges for debenture interest and preference dividends (**1**). This may result in increases in future dividends and/or increase in value of shares (**1**).

(iv) Price earnings ratio has decreased slightly (**1**). It shows the price as a multiple of earnings (**1**). It is a measure of investors' confidence in the ability of a company to maintain its earnings (**1**). In present circumstances, the PER might have been expected to rise (**1**). However, share prices may be affected by many factors which are not mentioned in the question (**1**).

(v) The dividend yield has decreased by 1% (**1**). This is due to the rise in the share price running ahead of the EPS (**1**).

(All based on 'own' figures.)

The increase in the price of the shares seems to indicate confidence generally in the company regardless of the slight decreases in the PER and the dividend yield (**1**).

[9]

(d) (i) Interest on the debentures would amount to $72000 per annum (**1**). This would be a prior charge on profit (**1**). The debentures could be redeemed as soon as the new factory becomes profitable (**1**) so that all the additional benefits from the investment would accrue to the existing shareholders (**1**).

(ii) The success of the rights issue depends upon all the new shares being subscribed for by the existing shareholders (**1**). The required additional capital would be raised by the issue of an additional 150000 shares (**1**). The additional dividend would amount to $60000 (**1**). The control of the company by the existing shareholders will not be diminished by the addition of new shareholders (**1**). All the additional benefits from the investment would accrue to the existing shareholders (**1**).

(iii) A public issue of shares to them would be a more permanent form of capital than an issue of debentures (**1**). A public issue may be more successful than a rights issue which is limited to existing shareholders (**1**). The control of the company by the existing shareholders would be diminished by the addition of new shareholders (**1**). Profits would have to be shared between the existing and the new shareholders (**1**).

Recommendation: The additional capital should be raised by a rights issue (**1**). It should be attractive to the shareholders (**1**) and will not involve sharing control (**1**) or profit (**1**) with outsiders.

(At least 2 marks must be reserved for recommendation.)

[10]

2 Pie Ltd.
Balance Sheet as at 30 April 2002

	$000 Cost	$000 Depn.	$000 NBV	Notes
Fixed Assets				
Intangible: Goodwill (+ 30 w/o)		(accept 144 (**2**)) OR	30 (**1**)	
Tangible: Freehold premises	400	160 (**2**)	240	1
Plant and machinery	360 (**3**)	200 (**5**)	160	2
Motor vehicles	108 (**2**)	60 (**5**)	48	3
	868	420	448	
			478	
Current assets				
Stock (212 (**1**) – 40 (**1**))		172		
Debtors (96 (**1**) – 28 (**1**))		68		
Bank (138 (**1**) – 36 (**1**))		102		
		342		
Creditors: amounts falling due within one year				
Trade creditors (63 (**1**) + 44 (**1**))	107			
Preference dividend	3 (**1**)			
Ordinary dividend (25 (**1**) – 10 (**1**))	15	125	217	
			695	
Creditors: amounts falling due after more than one year				
10% debentures 2002/5 (80 (**1**) + 40 (**1**))			120	
			575	

Share capital and reserves		
Ordinary shares of $1	(300 – 50)	250 (**1**)
6% Preference shares of $1		100 (**1**)
Share Premium account	(105 (**X**) – 50 (**1**) + 15 (**1**))	70
(Revaluation reserve)	(360 (**X**) – 200 (**1**) – 160 (**1**))	-
General reserve	(100 (**X**) – 20 (**1**))	80
Retained profit	(134 (**1**) – 59 (**1**))	75
		575

+2 for *not* putting in revaluation reserve.

[40]

Notes

		$000
1.	Freehold premises at cost (given)	400
	Depreciation 1993/4 - 2002/3 (10 yrs)	
	Annual depreciation 400 x .04 = 16 (**1**)	
	Depreciation at 30/4/03 = 10 x 16	160 (**1**)
2.	Plant and machinery at cost (520 (**1**) + 90 (**1**) – 250 (**1**))	360
	Depreciation (280 (**1**) -150 (**1**) + 70* (**3**))	200
	[* Cost 90 (**1**) + profit 15 (**1**) – proceeds 35 (**1**) = 70]	
3.	Motor vehicles at cost (135 (**X**) + 35 (**1**) – 62 (**1**))	108
	Depreciation (85 (**1**) – 50 (**1**) + 25* (**3**))	60
	[* Cost 35 (**1**) – loss 4 (**1**) – proceeds 6 (**1**) = 25]	

3 **(i)** Production budget: August

	Units
Sales budget – September	900 (**1**)
Add 10%	90 (**1**)
	990

(ii) Purchases budget: August

	Units
Sales budget – October	980 (**1**)
Add 10%	98 (**1**)
	1078

Material 3 (**1**) kilos x 1078 (**1**) **OF** = 3234 kilos (**1**)
Cost 3234 (**1**) **OF** x $4.00 (**1**) = $12936 (**1**)

(iii) Sales budget: August: Sales 1000 (**1**) Units X $60.00 (**1**) = $60000 (**1**)

[13]

(b) Cash balance at 31 July 2003.

	Dr $000	Cr $000
July 1. Balance b/f	16000 (**1**)	
31 Receipts from debtors (June sales 600 x $60)	36000 (**1**)	
Payments to suppliers (May purchases 660 x 3 x $4)		7920 (**1**)
Labour (July Labour hours 1100 x 2 x $8)		17600 (**1**)
Variable overhead (based on July production for August 1100 x $14)		15400 (**1**)
Fixed overhead (based on June production for July 880 x $3.50)		3080 (**1**)
Balance carried to 1 August		8000 (**1**) **OF**
	52000	52000

[7]

(c) Cash budget for August

	Payments $000	Receipts $000
Balance brought forward from July		8000 (**1**) **OF**
Receipts from debtors (July sales 800 x $60)		48000 (**1**)
		56000
Payments to suppliers (June purchases 880 x 3 x $4)	10560 (**1**)	
Labour (August production 990 x 2 x $8)	15840 (**1**)	
Variable overhead (August production 990 x $14)	13860 (**1**)	
Fixed overhead (July production 1100 x $3.50)	3850 (**1**)	44110
Balance at 31 August 2003		11890 (**1**)

[7]

(d) (i)

1. Budgets formalise management plans (**1**).
2. Budget preparation ensures that all functions of a business are properly co-ordinated (**1**).
3. Budgets may indicate possible future shortages of resources so that remedial measures may be taken in in good time, or other functional budgets modified (**1** – plus **1** for example of amplification).
4. Participation by management at all levels in budget preparation induces a sense of commitment by all of them to the budget (**1**).
5. The preparation of budgets for individual departments, functions etc. is a form of responsibility accounting (**1**).
6. Budgets provide information for on-going control of business activities (**1**).

(Other points may be acceptable.)

[7]

(ii)

1. A principal budget factor is anything that restricts the level of activity (**1**)
2. It may be sales volume (which is restricted by demand), (**1**)
   or resources such as availability of materials (**1**)
   or labour hours or machine capacity (**1**).
3. When one principal budget factor is removed, it may result in another p.b.f. needing to be considered (**1**).
4. The budget for the activity restricted by the p.b.f. should be prepared first (**1**).
5. If a p.b.f. becomes apparent during a budget period, the budget should be revised (**1**).
6. The effect of a p.b.f. on contribution may lead management to reconsider the advisability of continuing production or to rank products in a different order to maximise profit (**1**).

[6]