

**MARK SCHEME for the June 2005 question paper**

<b>9706 ACCOUNTING</b>	
<b>9706/02</b>	<b>Paper 2 (Structured Questions), maximum raw mark 90</b>

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which Examiners were initially instructed to award marks. It does 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*.

- CIE will not enter into discussion or correspondence in connection with these mark schemes.

CIE is publishing the mark schemes for the June 2005 question papers for most IGCSE and GCE Advanced Level syllabuses.

**Grade thresholds** for Syllabus 9706 (Accounting) in the June 2005 examination.

	maximum mark available	minimum mark required for grade:		
		A	B	E
Component 2	90	66	59	38

The thresholds (minimum marks) for Grades C and D are normally set by dividing the mark range between the B and the E thresholds into three. For example, if the difference between the B and the E threshold is 24 marks, the C threshold is set 8 marks below the B threshold and the D threshold is set another 8 marks down. If dividing the interval by three results in a fraction of a mark, then the threshold is normally rounded down.

June 2005

GCE A/AS LEVEL

MARK SCHEME

MAXIMUM MARK: 90

SYLLABUS/COMPONENT: 9706/02

ACCOUNTING  
Paper 2 (Structured Questions)

1 (a) Option 1 – Borrow from bank

	\$	
Increased profit	27 000	
less manager's salary	<u>15 000</u>	
	12 000	
less bank interest	<u>9 000</u>	1
Net increase	<u>3 000</u>	i.e. \$1000 each

**1 of ignore aliens**

Each now receives \$22 500 + \$1000 = \$23 500 as new profit

1

**(3[1 each])**

**[8]**

Alternate method

New profit	67 500 + 27 000	94 500	<b>2 (1 each)</b>
less manager's salary		<u>15 000</u>	1
		79 500	
less bank interest		<u>9 000</u>	1
		<u>70 500</u>	<b>1 of ignore aliens</b>
		<u>23 500</u>	<b>3 (1 each)</b>
		each	

**[8]**

(b) Option 2 – Bring in partner

		\$	
Profit = \$67 500 + \$27 000		94 500.00	2
less interest on capital at 7.5%			
	\$		
Ringo	5 625.00		marks for 1
John	4 500.00		individual 1
Paul	3 375.00		figures 1
Georgina	<u>3 375.00</u>	<u>16 875.00</u>	1
		77 625.00	
Profit share			
Ringo	<b>allow</b> 23 287.50		<b>1+1 of</b>
John	<b>rounding</b> 23 287.50		<b>ignore 1+1 of</b>
Paul	15 525.00		<b>aliens 1+1 of</b>
Georgina	<u>15 525.50</u>	<u>77 625.00</u>	<b>1+1 of</b>
Ringo gets	28 912.50		<b>1 of</b>
John now gets	27 787.50		<b>ignore 1 of</b>
Paul now gets	18 900.00		<b>aliens 1 of</b>
Georgina now gets	18 900.00		<b>1 of</b>

**[18]**

Profit share = 2 each for correct figure, 1 each if wrong but in correct proportion otherwise 0.

- (c) Borrowing from bank is better for two partners and as bank interest decreases over the years when loan is being paid back all three will gain more, though John will never be as well off as he would be under option 2. Own figure applies up to a maximum of **(4)**. If reversed, bringing in new partner is worse, as total profit is less and even with new profit-sharing ratios each partner gets less.

**[Total: 30]**

2 (a) James Defirst Ltd's Balance Sheet at 31 May 2005

	\$	\$	\$	\$	
<u>Fixed assets</u>		Cost	Depreciation	Net Book Value	
<u>Goodwill</u>				15 000	1
Motor vehicles		60 000	47 040	12 960	3 (1 each)
Equipment		<u>30 000</u>	<u>16 200</u>	<u>13 800</u>	3 (1 each)
		<u>90 000</u>	<u>63 240</u>	41 760	1of
<u>Current assets</u>					
Stock	1	48 250			
Debtors	78 000				
less provision for doubtful debts	<u>3 900</u>	74 100	<b>(0 if not 74 100)</b>		
Bank	1	<u>13 125</u>	135 475		
<u>Amounts due within 1 year</u>					
Creditors	1	30 075			
Proposed dividend	1	<u>9 000</u>	<u>39 075</u>		
Net current assets				<u>96 400</u>	
				<u>138 160</u>	
<u>Capital and reserves</u>					
Authorised capital					
100 000 ordinary shares of \$1 each				<u>100 000</u>	
Issued capital					
75 000 ordinary shares of \$1 each fully paid				75 000	1
Share premium			11 250		1
General reserve			15 000		1
Retained profit			<u>36 910</u>	<u>63 160</u>	1of no aliens
				<u>138 160</u>	

Lose this mark if any headings missing vertical presentation 1  
if totals agree 1

To acquire mark for Ordinary shares, must indicate number of shares.

All marks are figure marks unless otherwise stated.

[20]

- (b) Working capital ration =  $135\,475/39\,075$  3.47 :1 2of  
Liquid ration =  $87\,225/39\,075$  2.23 :1 2of  
Award 1 each max if :1 omitted  
Full marks for at least one or more than two decimal places  
No marks if reversed, e.g. 1:0.45. No marks for formula alone.

[4]

- (c) (i) In a partnership, the appropriation account shows how the net profit of the business is split among the partners, taking into account interest on capital, interest on drawings, and salaries. There is no profit retained at the year end.
- (ii) In a limited company, the appropriation account shows how the net profit of the business is distributed among the shareholders but also into reserves such as general reserve and retained profits. Frequently profits are brought forward from last year and carried forward to next year.

Maximum 3 for each section, to maximum

[6]

[Total: 30]

3 Workings

Product	Platinum \$	Gold \$	Silver \$	Bronze \$	
per unit					
Selling price	<u>184</u>	<u>148</u>	<u>142</u>	<u>138</u>	
Variable costs					
Direct material	24	21	30	18	
Direct labour	30	27	24	27	
Variable overheads	<u>12</u>	<u>10</u>	<u>8</u>	<u>10</u>	
	66	58	62	55	
Unit contribution (SP – VC)	118	90	80	83	
Original FO (\$)	36 000	27 000	19 200	36 000	\$118 200
Total sales (units)	2 000	1 800	1 600	2 400	
Unit overheads (F+V)	30	25	20	25	
Total overheads (\$)	60 000	45 000	32 000	60 000	197 000
New fixed overheads	38 880	29 160	20 736	38 880	<u>127 656</u>
Remainder for variable overheads					<u>\$69 344</u>

(a) Statement of profitability – original plan

Product	Platinum	Gold	Silver	Bronze	Total	
Sales quantity	2 000	1 800	1 600	2 400		
Unit contribution (\$)	118	90	80	83		
Total contribution (\$)	236 000	162 000	128 000	199 200	725 200	<b>5</b>
Less fixed overheads	36 000	27 000	19 200	36 000	<u>118 200</u>	<b>5</b>
Net profit	200 000	135 000	108 800	163 200	<u>\$607 000</u>	<b>5of</b>

[N.B. labels must be correct – do not accept 'sales' for 'contribution']

Or	\$	\$	\$	\$	\$	
Sales	368 000	266 400	227 200	331 200	1192 800	
V Costs	132 000	104 400	99 200	132 000	467 600	
Contribution	236 000	162 000	128 000	199 200	725 200	<b>5</b>
Fixed costs	36 000	27 000	19 200	36 000	118 200	<b>5</b>
Profit	200 000	135 000	108 800	163 200	607 000	<b>5of</b>

Or candidates may attempt a unit approach

Selling price	184	148	142	138		
V Cost	66	58	62	55		
Contribution	118	90	80	83		<b>4+1*</b>
Fixed cost	18	15	12	15		<b>4+1*</b>
Profit	100	75	78	68		
Total profit	200 000	135 000	108 800	163 200	607 000	<b>5of</b>

[\* the 1 is a bonus for having all 4 correct]

**[15]**

(b) Statement of quantity produced – optimum product mix

Product	Platinum	Gold	Silver	Bronze	
Ranking (contribution per unit of scarce resource) =	118/12 9.83	90/10 9	80/8 10	83/10 8.3	
<b>Or VO as % of contribution</b>	<b>10.17</b>	<b>11.11</b>	<b>10</b>	<b>12.05</b>	
Quantity	2 000	1 800	1 600	1 454	<b>4of</b>
VO/unit (\$)	12	10	8	10	
Total VO (\$)	24 000	18 000	12 800	14 544	<b>4of</b>
Overhead cash remaining (\$)	45 344	27 344	14 544	0	

If total variable overheads of \$69 344 shown, award 4 marks

Award **4of** for any 4 quantities provided at least one is different from given quantities.

Award **8** for correct quantities whether VO shown or not.

[8]

(c) Statement of profitability – optimum product mix

Product	Platinum	Gold	Silver	Bronze	Total	
Quantity	2 000	1 800	1 600	1 454		
Contribution/unit (\$)	118	90	80	83		
Total contribution (\$)	236 000	162 000	128 000	120 682	646 682	<b>2*</b>
Less fixed overheads (\$)	38 880	29 160	20 736	38 880	<u>127 656</u>	
Net profit	197 120	132 840	107 264	81 802	<u>\$519 026</u>	<b>4+1of**</b>

[\* the **2** is for a correct total contribution of 120 682 for bronze]

[\*\* the **4** is for correct individual totals, the **1of** for \$519 026]

[7]

[Total: 30]