

CAMBRIDGE
INTERNATIONAL EXAMINATIONS

JUNE 2003

GCE A AND AS LEVEL

MARK SCHEME

MAXIMUM MARK: 30

SYLLABUS/COMPONENT: 9706/01

ACCOUNTING
Paper 1 (Multiple Choice)



| | | | |
|---------------|-----------------------------------|-----------------|--------------|
| Page 1 | Mark Scheme | Syllabus | Paper |
| | A AND AS LEVEL – JUNE 2003 | 9706 | 1 |

| <i>Question Number</i> | <i>Key</i> | <i>Question Number</i> | <i>Key</i> |
|------------------------|------------|------------------------|------------|
| 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
INTERNATIONAL EXAMINATIONS

JUNE 2003

GCE A AND AS LEVEL

MARK SCHEME

MAXIMUM MARK: 90

SYLLABUS/COMPONENT: 9706/02

ACCOUNTING
Paper 2 (Structured Questions)



| | | | |
|--------|----------------------------|----------|-------|
| Page 1 | Mark Scheme | Syllabus | Paper |
| | A AND AS LEVEL – JUNE 2003 | 9706 | 2 |

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) |
| | <u>3031</u> | |

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

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) | <u>1296</u> | |
| | 2836 | |
| - Closing stock | <u>704</u> | <u>2132</u> |
| 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) | <u>17</u> |
| Net loss | | <u>1032</u> (533) |

[16]

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

| | | | |
|---------------|-----------------------------------|-----------------|--------------|
| Page 2 | Mark Scheme | Syllabus | Paper |
| | A AND AS LEVEL – JUNE 2003 | 9706 | 2 |

(b)

Balance Sheet as at 30 September 2002

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

| | | | |
|--------|----------------------------|----------|-------|
| Page 3 | Mark Scheme | Syllabus | Paper |
| | A AND AS LEVEL – JUNE 2003 | 9706 | 2 |

2 (a)

| | GREENYARDS LTD | | | | POYNDER LTD | | | |
|-------------------------|-----------------------------|-------|-----------------------------|-------|-------------------|-------|-------------------|-------|
| | 2001 | | 2002 | | 2001 | | 2002 | |
| GP Ratio | $\frac{255}{500}$ | 51% | $\frac{255}{610}$ | 42% | $\frac{215}{425}$ | 51% | $\frac{230}{460}$ | 50% |
| NP Ratio | $\frac{30}{500}$ | 6% | $\frac{25}{610}$ | 4.1% | $\frac{25}{425}$ | 5.9% | $\frac{30}{460}$ | 6.5% |
| ROCE | $\frac{30}{205}$ | 14.6% | $\frac{25}{260}$ | 9.6% | $\frac{25}{225}$ | 11.1% | $\frac{30}{202}$ | 14.9% |
| Current Ratio | $\frac{80}{25}$ | 3.2:1 | $\frac{90}{55}$ | 1.6:1 | $\frac{40}{35}$ | 1.1:1 | $\frac{77}{50}$ | 1.5:1 |
| Quick Ratio | $\frac{30}{25}$ | 1.2:1 | $\frac{30}{55}$ | 0.5:1 | $\frac{13}{35}$ | 0.4:1 | $\frac{57}{50}$ | 1.1:1 |
| Stock Turnover – times | $\frac{245}{50}$ | 4.9 | $\frac{355}{60}$ | 5.9 | $\frac{210}{27}$ | 7.8 | $\frac{230}{20}$ | 11.5 |
| Debtors Turnover – days | $\frac{20 \times 365}{500}$ | 15 | $\frac{30 \times 365}{610}$ | 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 inexperienced to arrive at false conclusion
- (vii) Different accounting policies between companies may render ratios incompatible

| | | | |
|--------|----------------------------|----------|-------|
| Page 4 | Mark Scheme | Syllabus | Paper |
| | A AND AS LEVEL – JUNE 2003 | 9706 | 2 |

- (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)

| (i) Per Unit | Domestic | Commercial | Industrial | |
|----------------------------|---------------|---------------|---------------|---|
| 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 | <u>\$0.20</u> | <u>\$1.20</u> | <u>\$2.13</u> | |
| 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 | |
|----------------------------|--------------|--------------|--------------|----------|
| <u>Fixed Costs</u> | <u>54000</u> | <u>33000</u> | <u>42000</u> | (3) |
| contribution | \$0.40 (OF) | \$0.67 (OF) | \$1.71 (OF) | (3) (OF) |
| Units at break-even (OF) | 135000 | 49254 | 24562 | |
| | (OF) | (OF) | (OF) | (3) |
| Dollars at break-even (OF) | 270000 | 197016 | 196496 | |
| | (OF) | (OF) | (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 | <u>129</u> | <u>483</u> |
| 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]

CAMBRIDGE
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JUNE 2003

GCE A AND AS LEVEL

MARK SCHEME

MAXIMUM MARK: 30

SYLLABUS/COMPONENT: 9706/03

ACCOUNTING
Paper 3 (Multiple Choice)



| | | | |
|---------------|-----------------------------------|-----------------|--------------|
| Page 1 | Mark Scheme | Syllabus | Paper |
| | A AND AS LEVEL – JUNE 2003 | 9706 | 3 |

| <i>Question Number</i> | <i>Key</i> | <i>Question Number</i> | <i>Key</i> |
|------------------------|------------|------------------------|------------|
| 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)



| | | | |
|---------------|-----------------------------------|-----------------|--------------|
| Page 1 | Mark Scheme | Syllabus | Paper |
| | A AND AS LEVEL – JUNE 2003 | 9706 | 4 |

1 (a)

| | \$000 | Pref. shares | Debs | \$000 |
|----------------------------|-------------|------------------------------|------------------|------------------|
| Fixed assets | 1900 | | | 1900 |
| Current assets (net) | <u>1500</u> | -800 (1)–200 (1) | -400 (1)–20 (1) | <u>80</u> |
| | 3400 | | | 1980 |
| 10% debentures 2003/4 | <u>400</u> | | -400(1) | <u>1980</u> |
| | <u>3000</u> | | | <u>1980</u> |
| 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 | <u>1020</u> | -800 (1) – 200 (1) OF | | <u>20 (1) OF</u> |
| | <u>3000</u> | | | <u>1980</u> |

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

[11]

| Page 2 | Mark Scheme | Syllabus | Paper |
|--------|----------------------------|----------|-------|
| | A AND AS LEVEL – JUNE 2003 | 9706 | 4 |

(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).

| | | | |
|---------------|-----------------------------------|-----------------|--------------|
| Page 3 | Mark Scheme | Syllabus | Paper |
| | A AND AS LEVEL – JUNE 2003 | 9706 | 4 |

(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]

| | | | |
|--------|----------------------------|----------|-------|
| Page 4 | Mark Scheme | Syllabus | Paper |
| | A AND AS LEVEL – JUNE 2003 | 9706 | 4 |

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)) | <u>30 (1)</u> | |
| | | } <u>OR</u> | | |
| Tangible: Freehold premises | 400 | 160 (2) | 240 | 1 |
| Plant and machinery | 360 (3) | 200 (5) | 160 | 2 |
| Motor vehicles | <u>108 (2)</u> | <u>60 (5)</u> | <u>48</u> | 3 |
| | <u>868</u> | <u>420</u> | <u>448</u> | |
| | | | 478 | |
| Current assets | | | | |
| Stock (212 (1) – 40 (1)) | | 172 | | |
| Debtors (96 (1) – 28 (1)) | | 68 | | |
| Bank (138 (1) – 36 (1)) | | <u>102</u> | | |
| | | 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)) | <u>15</u> | <u>125</u> | <u>217</u> | |
| | | | 695 | |
| Creditors: amounts falling due after more than one year | | | | |
| 10% debentures 2002/5 (80 (1) + 40 (1)) | | | <u>120</u> | |
| | | | <u>575</u> | |
| 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)) | | | <u>75</u> | |
| | | | <u>575</u> | |

+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] | |

| | | | |
|--------|----------------------------|----------|-------|
| Page 5 | Mark Scheme | Syllabus | Paper |
| | A AND AS LEVEL – JUNE 2003 | 9706 | 4 |

| | | |
|---|-------------------------------|---------------|
| 3 | (i) Production budget: August | Units |
| | Sales budget – September | 900 (1) |
| | Add 10% | <u>90</u> (1) |
| | | <u>990</u> |

| | |
|-------------------------------|---------------|
| (ii) Purchases budget: August | Units |
| Sales budget – October | 980 (1) |
| Add 10% | <u>98</u> (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 | Cr |
| | \$000 | \$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 | | <u>8000</u> (1) OF |
| | <u>52000</u> | <u>52000</u> |

[7]

| | | |
|--|-----------------|--------------------|
| (c) Cash budget for August | Payments | Receipts |
| | \$000 | \$000 |
| Balance brought forward from July | | 8000 (1) OF |
| Receipts from debtors (July sales 800 x \$60) | | <u>48000</u> (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) | <u>3850</u> (1) | <u>44110</u> |
| Balance at 31 August 2003 | | <u>11890</u> (1) |

[7]

| | | | |
|---------------|-----------------------------------|-----------------|--------------|
| Page 6 | Mark Scheme | Syllabus | Paper |
| | A AND AS LEVEL – JUNE 2003 | 9706 | 4 |

(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]