

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

General Certificate of Education Advanced Subsidiary and Advanced Level

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

**9706 ACCOUNTING**

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

**9706/4** 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

**JUNE 2002**

**GCE ADVANCED SUBSIDIARY AND ADVANCED LEVEL**

**MARK SCHEME**

**MAXIMUM MARK : 90**

**SYLLABUS/COMPONENT : 9706/2**

**ACCOUNTING**



1 (a) Profit & Loss & Appropriation accounts for years ended 31 August

	19 99		20 00		20 01		
	\$000	\$000	\$000	\$000	\$000	\$000	
Sales		450		510		640	1
C of Sales		<u>350</u>		<u>423</u>		<u>577</u>	1
G Profit		100		87		63	
Rent	10		11		12		1
General expenses	53		60		66		1
Depreciation	3		4		7		1
Loan interest paid	—	<u>66</u>	—	<u>75</u>	<u>5</u>	<u>90</u>	1
Net profit		34		12		-27	
Dividend proposed		<u>14</u>		<u>14</u>		—	1
		20		-2		-27	
P& L Balance b/f		<u>6</u>		<u>26</u>		<u>24</u>	1
		26		24		-3	
		==		==		==	

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(b)

Balance Sheets

<u>Fixed Assets</u>							
Fittings at cost	33		40		173		1
less depreciation	<u>10</u>	<u>23</u>	<u>14</u>	<u>26</u>	<u>31</u>	<u>142</u>	1
		23		26		142	
<u>Current Assets</u>							
Stock	44		49		107		1
Debtors	18		25		21		1
Bank	<u>51</u>		<u>45</u>		—		1
	113		119		128		
	==		==		==		
<u>Current Liabilities</u>							
Creditors	36		47		73		1
Bank					52		1
Proposed dividend	<u>14</u>		<u>14</u>		—		1
	50		61		125		
Net Current Assets		<u>63</u>		<u>58</u>		<u>3</u>	3
		86		84		145	
Long term liabilities		—		—		<u>68</u>	1
		86		84		77	
		==		==		==	
Share Capital		60		60		80	1
Profit & Loss		<u>26</u>		<u>24</u>		<u>-3</u>	1 of
		86		84		77	
		==		==		==	

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- (c) From Profit in 1999 to Loss in 2001.  
No dividend by 2001.  
Bank overdraft by 2001.  
Net Current Assets considerably reduced by 2001.  
Loan plus overdraft used to finance extra fixed assets.  
Negative Profit & Loss balance by 2001.  
Any ratios to support above.  
Improved asset base  
But generally bad news.  
Etc

1 mark each to maximum

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2 (a) FIFO

Date	In			Out			Balance			
	Q	P	V(\$)	Q	P	V(\$)	Q	P	V(\$)	
January	280	65	18 200				280	65	18 200	
February				140			140	65	9 100	
March	100	69	6 900				100	69	6 900	
April				190			50	69	3 450	
May	220	72	15 840				270	72	19 440	1
June				200			70	72	5 040	1
Sales	140		\$ 82	11 480						
	190		\$ 85	16 150						
	200		\$ 90	<u>18 000</u>			45 630			3
Less Cost of Sales										
Purchases		40 940								
less C/Stock		<u>5 040</u>					<u>35 900</u>			1
Profit							<u>9 730</u>			1

(7)

(b) LIFO

Date	In			Out			Balance			
	Q	P	V(\$)	Q	P	V(\$)	Q	P	V(\$)	
January	280	65	18 200				280	65	18 200	
February				140			140	65	9 100	
March	100	69	6 900				100	69	6 900	
April				190			50	65	3 250	
May	220	72	15 840				220	72	15 840	
June				200			50	65	3 250	
							<u>20</u>	72	<u>1 440</u>	
							70		4 690	2
Sales	140		\$ 82	11 480						
	190		\$ 85	16 150						
	200		\$ 90	<u>18 000</u>			45 630			
Less Cost of Sales										
Purchases		40 940								
less C/Stock		<u>4 690</u>					<u>36 250</u>			1
Profit							<u>9 380</u>			1

(4)

- (c) AVCO
- | Date     | In  |    |        | Out |  | Balance    |    |               |
|----------|-----|----|--------|-----|--|------------|----|---------------|
|          | Q   | P  | V(\$)  | Q   |  | Q          | P  | V(\$)         |
| January  | 280 | 65 | 18 200 |     |  | 280        | 65 | 18 200        |
| February |     |    |        | 140 |  | 140        | 65 | 9 100         |
| March    | 100 | 69 | 6 900  |     |  | <u>100</u> | 69 | <u>6 900</u>  |
|          |     |    |        |     |  | 240        | 67 | 16 000        |
| April    |     |    |        | 190 |  | 50         | 67 | 3 334         |
| May      | 220 | 72 | 15 840 |     |  | <u>220</u> | 72 | <u>15 840</u> |
|          |     |    |        |     |  | 270        | 71 | 19 174        |
| June     |     |    |        | 200 |  | 70         | 71 | 4 971         |
- 
- |                    | \$           | \$ | \$            | \$            |
|--------------------|--------------|----|---------------|---------------|
| Sales              | 140          | 82 | 11 480        |               |
|                    | 190          | 85 | 16 150        |               |
|                    | 200          | 90 | <u>18 000</u> | 45 630        |
| Less Cost of Sales |              |    |               |               |
| Purchases          | 40 940       |    |               |               |
| less C/Stock       | <u>4 971</u> |    |               | <u>35 969</u> |
| Profit             |              |    |               | <u>9 661</u>  |
- (d)
- |                      | \$             | \$             |
|----------------------|----------------|----------------|
| Sales (original)     | 29 000         | 10 290 000     |
| Expenses (original)  |                | 87 000         |
| Profit (original)    |                | 29 000         |
| Old net profit ratio |                | 10.00%         |
| Sales (new)          | 31 175         | 9 280 575      |
| O/stock              | 26 000         | 1 10F          |
| Purch                | <u>170 000</u> |                |
|                      | 196 000        |                |
| C/stock              | <u>21 000</u>  | <u>175 000</u> |
| Gross Profit         |                | 105 575        |
| Expenses             |                | <u>84 825</u>  |
| New Net Profit       |                | 20 750         |
| New Net Profit Ratio |                | 7.40%          |
- (e) Janice reduced the selling price to such an extent that increased sales volume was not sufficient to allow for an increase in gross profit.  
The lower expenses were not sufficient to bring the net profit back to its previous level.  
Etc  
One per statement to maximum
- (f) Altering methods of depreciation gives a false comparison from one year to the next.  
Total expenses, and therefore profits, can easily be "massaged".  
Prudence. Consistency. True and fair view.  
Net book value of assets becomes meaningless.  
Etc  
One per statement to maximum

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3 DATA

Machine	X	Y
Hourly rate of production	160	250
Material cost per unit	\$5.00	\$4.60
Hourly labour rate	\$10	\$10
Number of operatives	4	5
Fixed costs per order	\$200	\$500
Variable unit costs	\$2.40	\$2.60

(a)	ORDER FOR	800	\$	\$	
	Labour cost		200	160	2
	Material cost		4000	3680	2
	Variable costs		1920	2080	2
	Fixed costs		200	500	2
	Total costs		6320	6420	

Machine X costs least, or OF. 1 (9)

(b)	ORDER FOR	1000			
	Labour cost		250	200	2
	Material cost		5000	4600	2
	Variable costs		2400	2600	2
	Fixed costs		200	500	
	Total costs		7850	7900	

Machine X costs least, or OF. 1 (7)

(c)		Machine X	
		\$	
	Total variable costs	6120	1
	Total costs	6320	1
	Sales = 125% of total costs	7900	1
	Contribution = Sales - VC	1780	1

		Machine Y	
		\$	
	Total variable costs	5920	1
	Total costs	6420	1
	Sales = 125% of total costs	8025	1
	Contribution = Sales - VC	2105	1

(d) Rights issue (8)

- A Saves on expense of a full public share issue.
  - D May bring in less cash than a full public share issue.
- etc.

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Issues of shares to the public

- A May be sold at a premium and bring in large cash fund.
  - D Costs a great deal of money and no guarantee that all will be sold.
- etc.

issue of debentures

- A No control given to debenture holders.
  - D Interest must be paid even if business is making a loss.
- etc.

One advantage and one disadvantage for each to maximum

(6)