CAMBRIDGE
INTERNATIONAL EXAMINATIONS

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

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UNIVERSITY *of* CAMBRIDGE
Local Examinations Syndicate

CAMBRIDGE
INTERNATIONAL EXAMINATIONS

JUNE 2002

GCE ADVANCED SUBSIDIARY AND ADVANCED LEVEL

MARK SCHEME

MAXIMUM MARK : 90

SYLLABUS/COMPONENT : 9706/2

ACCOUNTING

UNIVERSITY of CAMBRIDGE
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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		350		423		577	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	—	66	—	75	5	90	1
Net profit		34		12		-27	
Dividend proposed		14		14		—	1
		20		-2		-27	
P& L Balance b/f		6		26		24	1
		26		24		-3	
		==		==		==	
							8

(b) Balance Sheets

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

(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 **8**

2 (a) FIFO

Date	In Q	P	V($)	Out Q	Balance Q	P	V($)	
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	18 000	45 630	3
Less Cost of Sales						
Purchases		40 940				
les C/Stock		5 040			35 900	1
Profit					9 730	1
						(7)

(b) LIFO

Date	In Q	P	V($)	Out Q	Balance Q	P	V($)	
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	
					20	72	1 440	
					70		4 690	2

			$	$	$	
Sales	140	$	82	11 480		
	190		85	16 150		
	200		90	18 000	45 630	
Less Cost of Sales						
Purchases		40 940				
les C/Stock		4 690			36 250	1
Profit					9 380	1
						(4)

(c) AVCO

Date	In Q	P	V($)	Out Q	Balance Q	P	V($)	
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	2
June				200	70	71	4 971	1

		$	$	$	$	
Sales	140		82	11 480		
	190		85	16 150		
	200		90	<u>18 000</u>	45 630	
Less Cost of Sales						
Purchases		40 940				
les C/Stock		<u>4 971</u>			<u>35 969</u>	1
Profit					<u>9 661</u>	1
						(5)

(d)

			$	$		
Sales (original)		29 000	10	290 000		
Expenses (original)				87 000		
Profit (original)				29 000		
Old net profit ratio				10.00%	1	
Sales (new)		31 175	9	280 575		
O/stock	26 000	1	1	1OF		
Purch	<u>170 000</u>					
	196 000					
C/stock	<u>21 000</u>			<u>175 000</u>	1	
Gross Profit				105 575		
Expenses				<u>84 825</u>	1	
New Net Profit				20 750	1 of	
New Net Profit Ratio				7.40%	1 of	**(8)**

(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 **(3)**

(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 **(3)**

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	(8)

(d) Rights issue

A Saves on expense of a full public share issue.

D May bring in less cash than a full public share issue.

etc.

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)