UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced/Advanced Subsidiary Level

MARK SCHEME for the May/June 2006 question paper

9706 ACCOUNTING

9706/02 **Paper 2 – Structured Questions**

Maximum raw mark 90

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*.

The minimum marks in these components needed for various grades were previously published with these mark schemes, but are now instead included in the Report on the Examination for this session.

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

CIE is publishing the mark schemes for the May/June 2006 question papers for most IGCSE and GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

1 (a) Profit and Loss and Appropriation Account for the year ended 30 April 2006.

		$	$	$	$		
Gross profit					1 620 000		
Provision for doubtful debts					360	1	
Profit on sale of motor vehicle					2 000	1	
					1 622 360		
less expenses							
Provision for depreciation -	Motor vehicle			62 500		1	
	Fixtures and fittings			34 000		1	
Office expenses				452 000		1	
Selling & distribution expenses				509 000		1	
Debenture interest				6 000	1 063 500		
Net profit					558 860		
Ordinary share dividends -	interim		75 000				
	final		150 000	225 000		1	
Preference share dividends -	interim		8 000				
	final		6 000	14 000	239 000	1	
Retained profit for the year					319 860		
Balance brought forward					143 600	1	
Retained profit carried forward					463 460	1	[11]

(b) Balance Sheet at 30 April 2006

Fixed Assets		Cost		Deprec	NBV		
Premises		2 300 000			2 300 000		
Motor vehicles		500 000		437 500	62 500	1	
Fixtures and fittings		170 000		136 000	34 000	1	
		2 970 000		573 500	2 396 500		
Current Assets							
Stock		204 000					
Debtors	132 000						
less provision for doubtful debts	2 640	129 360	1				
Cash		400					
Prepayment		8 000	1	341 760			
Amounts due within one year							
Creditors		116 000					
Bank		26 800					
Accrual		23 000	1				
Dividends due		156 000	2				
Debenture interest due		3 000	1	324 800			
Net Current Assets					16 960	1	
					2 413 460		
Amounts due after one year							
6% debentures (2011)					100 000	1	
					2 313 460		
Authorised and issued share capital							
1 500 000 ordinary shares of $1 each					1 500 000		
200 000 7% preference shares of $1 each					200 000		
Share premium				150 000			
Retained profits				463 460	613 460	1	
					2 313 460		[13]

(c) (i) Current ratio = 341760:324800 = 1.05:1 **1**

(ii) Liquidity ratio = 341760-204000:324800 = 0.42:1 **1**

(iii) For financial security it is important that current assets are sufficient to cover current liabilities – this is just the case here. However, the liquidity ratio suggests that current assets excluding stock, which can be illiquid, should cover current liabilities – not the case here, and Peter Jordan may have problems as debts become due. **4** **[6]**

Total [30]

2 (a) (i) **Updated Cash Book**

	$			$	
Balance b/d	4 030		Electricity (DD)	1 000	**1**
Bank interest	100	**1**	Balance c/d	3 130	
	4 130			4 130	
	3 130				

(ii) **Bank Reconciliation Statement at 30 April 2006**

	$		
Balance per adjusted cash book	3 130		
Add cheque not yet presented	2 800	**1**	
	5 930		
Less pay-in not yet credited	4 000	**1**	
Balance per Bank Statement	1 930		**[4]**

(b) (i) **Restaurant Trading Account**

	$		$	$	$		
Sales					108 000		
Less cost of sales							
Opening stock			7 600				
Purchases	51 000	**1**					
Creditors at start	4 400	**1**					
	46 600						
Creditors at end	5 200	**1**	51 800	59 400			
Closing stock				9 400	50 000		
					58 000		
Restaurant wages					22 000	**1**	
Profit on restaurant					36 000	**1**	**[5]**

(ii) Income and Expenditure account for the year ended 30 April 2006

INCOME				
Subscription = 72 000 + 2 000 + 1 800 – 1 400		74 400	**4**	
Restaurant profit		36 000	**1**	
Annual dance = 8 900 – 4 950 – 320		3 630	**3**	
Profit on sale of equipment		2 000	**1**	
Bank interest		100	**1**	
		116 130		
EXPENDITURE				
National club fees	3 000		**1**	
Loan interest	2 200		**1**	
Repairs and maintenance	12 400		**1**	
Electricity	12 000		**1**	
Restaurant wages	60 000		**1**	
Depreciation – equipment	13 200		**1**	
Depreciation – fixtures and fittings	600	103 400	**1**	
Surplus		12 730	**1**	**[18]**

(c) (i) The receipts and payments account shows no records of assets other than the bank balance and any assets bought or sold during the year. This is unsatisfactory as a club may have assets worth thousands of dollars.

(ii) No depreciation of fixed assets is provided for.

(iii) No record of liabilities other than possibly bank balance, so no way of telling if club is in debt, other than by asking treasurer.

(iv) No knowledge of surplus or deficit for year which would help in determining subscriptions for year etc.

Any three to maximum [3]

Total [30]

3 (a) Each of the three products had a positive contribution, and the business as a whole was showing a profit. If any production line was closed then the fixed costs allocated to it would have to be split between the other two production lines and the profit would turn to a loss.

maximum [5]

(b) Selling price per unit = variable costs + contribution

4-drawer = 20 + 7 = $27	**1**	
3-drawer = 15 + 6 = $21	**1**	
2-drawer = 10 + 5 = $15	**1**	**[3]**

(c)

4-drawer = 98 000/7 = 14 000 units = $378 000	**2**	
3-drawer = 48 000/6 = 8 000 units = $168 000	**2**	
2-drawer = 135 000/5 = 27 000 units = $405 000	**2**	**[6]**

(d)	4-drawer = 15 000 x 7 – 98 000 = $7 000	**2**	
	3-drawer = 6 000 x 6 – 48 000 = ($12 000)	**2**	
	2-drawer = 30 000 x 5 – 135 000 = $15 000	**2**	**[6]**
(e)	4-drawer: Unit VC = $12.6 + $4.5 + $3.0 = $20.1		
	Unit contribution = $27 - $20.1 = $6.9		
	Profit = 15 000 x 6.9 – 98 000 = $5 500	**3**	
	3-drawer: Unit VC = $8.4 + $4.5 + $2.0 = $14.9		
	Unit contribution = $21 - $14.9 = $6.1		
	Loss = 6 000 x 6.1 – 48 000 = ($11 400)	**3**	
	2-drawer: Unit VC = $4.2 + $3.6 + $2.0 = $9.8		
	Unit contribution = $15 - $9.8 = $5.2		
	2-drawer = 30 000 x 5.2 – 135 000 = $21 000	**3**	
	Total increase = $5 100	**1**	**[10]**

Total [30]