

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

General Certificate of Education Advanced Subsidiary and Advanced Level

**MARK SCHEME FOR the June 2002 question papers****9706 ACCOUNTING**

|               |   |
|---------------|---|
| <b>9706/2</b> | Paper 2 (Structured Questions), maximum raw mark 90 |
| <b>9706/4</b> | Paper 4 (Problem Solving), maximum raw mark 120     |

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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

**CAMBRIDGE**  
INTERNATIONAL EXAMINATIONS

**JUNE 2002**

**GCE ADVANCED SUBSIDIARY AND ADVANCED LEVEL**

**MARK SCHEME**

**MAXIMUM MARK : 90**

**SYLLABUS/COMPONENT : 9706/2**

**ACCOUNTING**



UNIVERSITY *of* CAMBRIDGE  
Local Examinations Syndicate

|             |   |          |       |
|-------------|---|----------|-------|
| Page 1 of 6 | Mark Scheme                             | Syllabus | Paper |
|             | AS and A Level Examinations - June 2002 | 9706     | 2     |

## 1 (a) Profit &amp; Loss &amp; 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         |   |
|                    |       | ==         |       | ==         |          | ==         |   |

8

## (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         |      |
|                            |           | ==        |           | ==        |           | ==         |      |

14

|             |   |          |       |
|-------------|---|----------|-------|
| Page 2 of 6 | Mark Scheme                             | Syllabus | Paper |
|             | AS and A Level Examinations - June 2002 | 9706     | 2     |

- (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

|             |   |          |       |
|-------------|---|----------|-------|
| Page 3 of 6 | Mark Scheme                             | Syllabus | Paper |
|             | AS and A Level Examinations - June 2002 | 9706     | 2     |

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             |     |              |        |               |   |       | 9 730         |    |        | 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             |     |              |        |               |   |       | 9 380         |    |              | 1 |

(4)

|             |   |          |       |
|-------------|---|----------|-------|
| Page 4 of 6 | Mark Scheme                             | Syllabus | Paper |
|             | AS and A Level Examinations - June 2002 | 9706     | 2     |

- (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> | 2   |
|                    |     |              |        |               |    | 270           | 71 | 19 174        |     |
| 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       |        |               |    |               |    |               |     |
| less 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  | 10F            |      |
| 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)

|             |   |          |       |
|-------------|---|----------|-------|
| Page 5 of 6 | Mark Scheme                             | Syllabus | Paper |
|             | AS and A Level Examinations - June 2002 | 9706     | 2     |

## 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.

|             |   |          |       |
|-------------|---|----------|-------|
| Page 6 of 6 | Mark Scheme                             | Syllabus | Paper |
|             | AS and A Level Examinations - June 2002 | 9706     | 2     |

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)