**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]**