UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the May/June 2006 question paper

9706 ACCOUNTING

9706/04 **Paper 4 Maximum raw mark 120**

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.

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UNIVERSITY of CAMBRIDGE
International Examinations

1 (a) Franken Profit and Loss Account for the year ended 28 February 2006

		$000	$000	
Sales			1750	
Stock		280		
Purchases		914		(1) both
	(1) both	1194		
Stock		339	855	
Gross profit			895	(1)
Operating expenses		330 (1)		
Depreciation (70 **(1)** + 45 **(1)**)		115	445	
Operating profit			450	(1) OF
Interest			10	(1)
Profit before tax			440	
Taxation			204	(1)
Profit after tax			236	
Dividends (80 **(1)** + 50 **(1)**)			130	
Retained profit for the year			106	(1of)

[12]

(b) Balance Sheet at 28 February 2006

	$000	$000	$000	
Fixed Assets				
Land and buildings			540	(1)OF
Machinery			275	(1)OF
			815	
Current Assets				
Stock		339 (1)		
Trade debtors		410		
Bank		106 (1) both		
		855		
Creditors: amounts falling due in less than one year				
Trade creditors	190 (1)			
Taxation	204 (1)			
Dividends	50 (1)	444	411	
			1226	(2)OF
Creditors: amounts falling due in more than one year				
Debentures *(2012)*			110	(1)
			1116	
Share capital and reserves				
Ordinary shares of $1 fully paid			560	(1)
Profit and loss account			556	(1)
			1116	

[11]

(c) Cash flow statement for the year ended 28 February 2006

	$000	
Operating activities		
Net cash flow from operating activities	411	**(1of)**
Returns on investments and servicing of finance		
Interest paid	(10)	**(1)**
Taxation		
Corporation tax paid	(176)	**(1)**
Capital expenditure and financial investments		
Payments to acquire fixed assets	(270)	**(1)**
Equity dividends paid		
Equity dividends paid during the year	(104)	**(1)**
Net cash outflow before financing	(149)	**(1of)**
Financing		
Receipts from issue of ordinary shares	70	**(1)**
Decrease in cash	(79)	**(1)**

Reconciliation of operating profit to net cash inflow from operating activities

	$000	
Operating profit	450	**(1)**
Depreciation	115	**(1)**
Increase in stock	(59)	**(1)**
Increase in debtors	(35)	**(1)**
Decrease in creditors	(60)	**(1)**
	411	

[13]

(d) May be required to do so

Shows why cash and profits are not the same

Shows internally generated cash and cash from external sources

Links balance sheets

Cash is important to survival – shows how cash is generated and used

Other sensible answers are acceptable

Each point maximum two marks.
1 mark for identification and a further mark for development. **[4]**

2 **(a)** Annual Income

(if Anjni accepts the offer from Chin Ltd)

	$	
Salary	20 000.00	**(1)**
Investment (*W1*)	1 837.50	**(3)**
Dividends (*W2*)	4 725.00	**(5)**
	26 562.50	***(1of)***

Workings

W1	*36 750*	***(1)***	*x*	*5%*	***(1)***
W2	*2.10*	***(1)***	*x*	*4.5*	***(1) =*** *9.45* ***(1)*** *x 50 000* ***(1)***

[10]

(b) On financial grounds she will be worse off **(1of)** so reject **(1)**

However – there may be pay rises in the future **(1)**
There may be a capital gain if the shares are sold in the future **(1)** **[4]**

(c) Less responsibility/worry etc. **(0-3)**

No longer own boss **(0-3)**

Identification 1 mark and a further two marks for development **[4]**

(d) Chin Ltd Balance Sheet at 30 April 2006

(after the purchase of Anjni's business)

	$		$		$	
Fixed assets						
Premises at valuation (*W3*)					250 000	**(3)**
Fixtures					59 500	**(2)**
Motor vehicles					72 000	
Goodwill (*W4*)					83 750	**(3)**
					465 250	
Current assets						
Stock			19 800	**(2)**		
Debtors			23 000	**(2)**		
			42 800			
Creditors: amounts falling due in less than one year						
Trade creditors	15 750	**(2)**				
Bank overdraft	2 000	**(2)**	17 750		25 050	
					490 300	**(1)OF**
Share capital and reserves						
Ordinary shares (*W5*)					300 000	**(3)**
Profit and loss account					135 300	
Share premium account (*W6*)					55 000	**(2)**
					490 300	

Workings

W3 120 000 **(1)** + 30 000 **(1)** + 100 000 **(1)**

W4 56 000 – (4750) = 51 250 **(1)** + 83 750 **(1)** = 135 000 **(1)**

W5 150 000 **(1)** + 50 000 **(1)** + 100 000 **(1)**

W6 50 000 **(1)** x $1.10 **(1)** = 55 000 **[22]**

3 (a) Lagrad Ltd

		DC $		CC $		CCTV $		MC $	
Contribution per camera	(SP **(1)** - VC **(1)**)	110	**(2)**	150	**(2)**	92	**(2)**	560	**(2)**
Contribution per yugara	(c**(1)** /yug**(1)**)	110	**(2of)**	75	**(2of)**	23	**(2of)**	80	**(2of)**
Rank order **(1of)**		1		3		4		2	
Cameras to be sold		10 000 **(1of)**		3250 **(1of)**		none **(1of)**		500 **(1of)**	

[21]

(b) Marginal cost statement

	$		$	
Sales (2 200 000 + 1 202 500 + 632 500)			4 035 000	**(1of)**
Less Variable costs				
Yugaras (500 000 + 325 000 + 175 000)	1 000 000	**(1of)**		
Direct materials (400 000 + 292 500 + 150 000)	842 500	**(1of)**		
Direct labour *(200 000 + 97 500 + 27 500)*	325 000	**(1of)**		
			2 167 500	
Contribution			1 867 500	
Fixed costs (600 000**(1)** + 320 000**(1)** + 120 000**(1)** + 35 000**(1)**)			1 075 000	**(4)**
Net Profit (must say)			792 500	**(1of)**

Note Marks for fixed costs only rewarded if shown **after** contribution

[9]

Alternative presentation:

Digital	10 000 x 110 =	1 100 000	**(1of)**
Medical	500 x 560 =	280 000	**(1of)**
Cine	3250 x 150 =	487 500	**(1of)**
Total contribution		1 867 500	**(1of)**
Less fixed costs		1 075 000	**(4)**
Net Profit		792 500	**(1of)**

(c) Contribution/sales ratios $\frac{1\,867\,500}{4\,035\,000}$ **(1of)** = 0.463**(1of)**

Break even = $\frac{\text{fixed costs}}{\text{c/s ratio}} = \frac{1\,075\,000}{0.463}\frac{(\mathbf{1of})}{(\mathbf{1of})}$ = $2 321 814 **(1of)** **[6]**

(d) Will workers be made redundant?

Will skills of work force diminish during the year?

Can the workers be recruited when 'normal' production resumes?

Will machinery deteriorate?

Is there a danger that ceasing production of CCTV cameras might affect the sales of other cameras?

Two marks per point.

1 mark for identification plus one further mark for development. **[4]**