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.

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.



<ul> <li>(a)</li> <li>Sale Store Store Store Group Oper Internation of the Province of the Pro</li></ul>	Franken Profit and Loss es ck cchases ck orchases ck orchases oreciation (70 (1) + 45 (1) ) erating profit erest offit before tax kation offit after tax idends (80 (1) + 50 (1) ) trained profit for the year Balanc	Account fo	or the year end \$000 280 914 1194 339 330 (1) <u>115</u>	led 28 Febru \$000 1750 <u>855</u> 895 <u>445</u> 450 <u>10</u> 440 <u>204</u> 236 <u>130</u> 106	(1) both (1) OF (1) (1) (1) (1) (1)	
(a) Sale Stor Purr Stor Gro Ope Dep Ope Inte Pro Tax Pro Divi Ret (b) Fiz La Ma Cu Stor Cu Stor Cu	es ck cchases cck orchases oreciation (70 (1) + 45 (1) ) erating profit erest fit before tax kation fit after tax idends (80 (1) + 50 (1) ) tained profit for the year Balanc	(1) both	solution the year end	\$000 1750 <u>855</u> 895 <u>445</u> 450 <u>10</u> 440 <u>204</u> 236 <u>130</u> 106	(1) both (1) (1) OF (1) (1) (1) (1of)	
Sale Stor Pure Stor Gro Ope Dep Ope Inte Pro Tax Pro Divi Ret La Ma Cu Stor Tra Ba Cr	es ck rchases ck oss profit erating expenses oreciation (70 (1) + 45 (1) ) erating profit erest fit before tax kation fit after tax idends (80 (1) + 50 (1) ) tained profit for the year Balanc	(1) both	\$000 280 914 1194 339 330 (1) 115	\$000 1750 <u>855</u> 895 <u>445</u> 450 <u>10</u> 440 <u>204</u> 236 <u>130</u> 106	<ul> <li>(1) both</li> <li>(1)</li> <li>(1) OF</li> <li>(1)</li> <li>(1)</li> <li>(1)</li> <li>(1of)</li> </ul>	
(b) State State State Gro Ope Inte Pro Tax Pro Divi Ret La Ma Cu State Tra Ba Cr	es ck cchases ck oss profit erating expenses oreciation (70 (1) + 45 (1) ) erating profit erest fit before tax kation offit after tax idends (80 (1) + 50 (1) ) tained profit for the year Balanc	(1) both	280 <u>914</u> 1194 <u>339</u> 330 (1) <u>115</u>	1750 <u>855</u> 895 <u>445</u> 450 <u>10</u> 440 <u>204</u> 236 <u>130</u> <u>106</u>	(1) both (1) (1) OF (1) (1) (1) (1of)	
(b) Stor Gro Ope Dep Ope Inte Pro Tax Pro Divi Ret La Ma Cu Ste Tra Ba	ck cck oss profit erating expenses preciation (70 <b>(1)</b> + 45 <b>(1)</b> ) erating profit erest fit before tax kation fit after tax idends (80 <b>(1)</b> + 50 <b>(1)</b> ) tained profit for the year Balanc	(1) both	280 <u>914</u> 1194 <u>339</u> 330 (1) <u>115</u>	<u>855</u> 895 <u>445</u> 450 <u>10</u> 440 <u>204</u> 236 <u>130</u> <u>106</u>	<ul> <li>(1) both</li> <li>(1)</li> <li>(1) OF</li> <li>(1)</li> <li>(1)</li> <li>(1of)</li> </ul>	
(b) Fix La CL Stor Gro Ope Inte Pro Tax Pro Divi Ret La Ma CL Stor Tra Ba Cr	cchases ck oss profit erating expenses preciation (70 <b>(1)</b> + 45 <b>(1)</b> ) erating profit erest fit before tax kation fit after tax idends (80 <b>(1)</b> + 50 <b>(1)</b> ) tained profit for the year Balanc	(1) both	330 (1) <u>115</u>	<u>855</u> 895 <u>445</u> 450 <u>10</u> 440 <u>204</u> 236 <u>130</u> <u>106</u>	<ul> <li>(1) both</li> <li>(1) OF</li> <li>(1)</li> <li>(1)</li> <li>(1)</li> <li>(1)</li> </ul>	
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(b) Gro Ope Inte Pro Tax Pro Divi Ret La Ma Cu Sta Tra Ba Cr	boxs profit erating expenses preciation (70 <b>(1)</b> + 45 <b>(1)</b> ) erating profit erest offit before tax cation offit after tax idends (80 <b>(1)</b> + 50 <b>(1)</b> ) tained profit for the year Balanc	se Sheet at	330 <b>(1)</b> <u>115</u>	895 445 450 10 440 204 236 130 106	(1) (1) OF (1) (1) (1of)	
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(b) Fix La Dep Ope Inte Pro Tax Pro Divi Ret La Ma Cu Sta Tra Ba Cr	preciation (70 <b>(1)</b> + 45 <b>(1)</b> ) erating profit erest offit before tax kation offit after tax idends (80 <b>(1)</b> + 50 <b>(1)</b> ) tained profit for the year Balanc	se Sheet at	<u>115</u>	<u>445</u> 450 <u>10</u> 440 <u>204</u> 236 <u>130</u> <u>106</u>	(1) OF (1) (1) (1of)	
Ope Inte Pro Tax Pro Divi Ret (b) Fiz La Ma Cu Ste Tra Ba Cr	erating profit erest fit before tax kation fit after tax idends (80 <b>(1)</b> + 50 <b>(1)</b> ) tained profit for the year Balanc	se Sheet at		450 <u>10</u> 440 <u>204</u> 236 <u>130</u> <u>106</u>	(1) OF (1) (1) (1of)	
Inte Pro Tax Pro Divi Ret (b) Fiz La Ma Cu Sta Tra Ba Cr	erest fit before tax kation fit after tax idends (80 <b>(1)</b> + 50 <b>(1)</b> ) tained profit for the year Balanc	se Sheet at		<u>10</u> 440 <u>204</u> 236 <u>130</u> <u>106</u>	(1) (1) (1of)	
Pro Tax Pro Divi Ret (b) Fiz La Ma Cu Sta Tra Ba Cr	fit before tax kation fit after tax idends (80 <b>(1)</b> + 50 <b>(1)</b> ) tained profit for the year Balanc	se Sheet at		440 <u>204</u> 236 <u>130</u> <u>106</u>	(1) (1of)	
Tax Pro Divi Ret (b) Fiz La Ma Cu Sta Tra Ba Cr	kation ofit after tax idends (80 <b>(1)</b> + 50 <b>(1)</b> ) tained profit for the year Balanc	se Sheet at		<u>204</u> 236 <u>130</u> <u>106</u>	(1) (1of)	
Pro Divi Ret (b) Fiz La Ma Cu Ste Tra Ba Cr	idends (80 <b>(1)</b> + 50 <b>(1)</b> ) ained profit for the year Balanc	on Shaet at		236 <u>130</u> <u>106</u>	(1of)	
(b) (b) Fix La Ma Cu Sta Tra Ba Cr	ained profit for the year Balanc	e Sheet at		<u>130</u> <u>106</u>	(1of)	
(b) Fiz La Ma Cu Sto Tra Ba Cr	Balanc	e Sheet at		<u>    100</u>	(101)	
(b) Fix La Ma Cu Sta Tra Ba Cr	Balanc	e Sheet at				
(b) Fiz La Ma Cu Sta Tra Ba Cr	Balanc	e Sheet at				[
Fix La Ma Cu Ste Tra Ba		o oneel al	t 28 February 2	006		
Fiz La Ma Cu Sto Tra Ba Cr		\$000	\$000	\$000	า	
La Ma Ste Tra Ba	xed Assets	φυυυ	<i>Q</i> CCC	φουι	5	
Ma Cu Sto Tra Ba Cr	and and buildings			540	) (1)OF	
Сц Sta Tra Ba Сг	achinery			275	5 (1)OF	
Cu Ste Tra Ba Cr				815	5	
Sto Tra Ba	urrent Assets					
Tra Ba <b>Cr</b>	ock		339 (1)			
Ba Cr	ade debtors		410			
Cr	ank		<u>106</u>	(1) both		
Cr			855			
	r <b>editors:</b> amounts falling due	e in less tha	an one year			
Tra	ade creditors	190 <b>(1</b>	1)			
la	axation	204 (1	1)			
Dr	vidends	<u>    50</u> (1	1) <u>444</u>	<u>41</u> 1226	1 3 (2)OF	
Cr	reditors: amounts falling due	e in more th	han one year	1220		
De	ebentures (2012)		-	<u>    11(</u>	<u>)</u> (1)	
				1116	<u>6</u>	
Sh	hare canital and reserves					
Or	and capital and 16361863	4		560	) <b>(1)</b>	
Pr	rdinary shares of \$1 fully paid	4		550	<u>6</u> (1)	

Page 2	Mark Scheme	Syllabus	B Paper
	GCE A LEVEL – May/June 2006	9706	04
(c)	Cash flow statement for the year ended 28 Februa	ary 2006	
		\$000	
Operating a	activities		
Net cas	sh flow from operating activities	411	(1of)
Returns on	investments and servicing of finance		
Interest	t paid	(10)	(1)
Taxation			
Corpora	ation tax paid	(176)	(1)
Capital exp	penditure and financial investments		
Payme	nts to acquire fixed assets	(270)	(1)
Equity divi	dends paid		
Equity of	dividends paid during the year	<u>(104</u> )	(1)
Net cash o	utflow before financing	(149)	(1of)
Financing			
Receipts fro	om issue of ordinary shares	70	(1)
Decrease in	n cash	(79)	(1)
	Reconciliation of operating profit to net cash inf	flow from operating ac	tivities
		\$000	
Operating p	rofit	450	(1)
Depreciation	n	115	(1)
Increase in	stock	(59)	(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]

Page	3			I	Mark S	chen	ne			Syllabus	Paper
			GCE	A LE	VEL -	- May	/June	2006		9706	04
(a)						Annı	ual Inco	ome			
			(	if An	jni acc	epts t	he offe	er from (	Chin Ltd)		
			Sala Inve: Divic	ry stme lend:	ent ( <i>W1</i> s ( <i>W</i> 2)	)	20 1 <u>4</u> 26	\$ 000.00 837.50 <u>725.00</u> 562.50	(1) (3) (5) (10f)		
	Workings										
	W1 3 W2	6 750 2.10	(1) (1)	x x	5% 4.5	(1) (1)	<b>=</b> 9.45	<b>(1)</b> x 50	000 <b>(1)</b>		
											[10
(b)	On financial	ground	ls she	e will	be wo	rse of	ff <b>(1of)</b>	so reje	ct <b>(1)</b>		
	However – tl There may b	nere m e a ca	ay be pital g	pay jain i	rises i f the s	n the hares	future are sc	<b>(1)</b> Id in the	e future <b>(1)</b>		[4
(c)	Less respon	sibility/	worry	etc.	(0-3)						
	No longer ov	vn bos	s <b>(0-3</b>	)							
	Identification	1 mar	k and	a fu	rther t	vo ma	arks fo	r develo	pment		[4

Page 4		Mark	Scheme		Syllabus	Paper
		GCE A LEVEL	. – May/June 2	006	9706	04
(d)		Chin Ltd E	alance Sheet a	t 30 April 200	6	
		(after the	purchase of An	jni's business)	)	
		\$		\$	\$	
Fixed asset Premises at	<b>s</b> valuation	(W3)			250 000	(3)
Fixtures					59 500	(2)
Goodwill (W	es (4)				83 750	(3)
Current	oto				465 250	. ,
Stock	6615			19 800 (2	2)	
Debtors				<u>23 000</u> (2	2)	
Creditors: a	mounts fa	alling due in less that	an one year	12 000		
I rade credit Bank overdr	ors aft	15 / 2 0	50 <b>(2)</b> 00 <b>(2)</b>	17 750	25 050	
					490 300	(1)OF
Share capit	al and res	serves				
Ordinary sha	ares ( <i>W5)</i> ss accour	nt			300 000 135 300	(3)
Share premi	um accou	int ( <i>W</i> 6)			55 000	(2)
					<u>490 300</u>	
Workings						
W3 120 000	<b>(1) +</b> 30 0	00 <b>(1)</b> + 100 000 <b>(1</b> )	)			
W4 56 000 –	(4750) =	51 250 <b>(1)</b> + 83 750	0 <b>(1)</b> = 135 000	(1)		
W5 150 000	<b>(1)</b> + 50 0	00 <b>(1)</b> + 100 000 <b>(1</b> )	)			
W6 50 000 <b>(</b> ′	<b>I)</b> x \$1.10	<b>(1)</b> = 55 000				[22]
3 (a)			Lagrad Ltd			
			DC	CC	CCTV	MC
ntribution por	camora		\$ 110 <b>(2)</b>	\$ 150 <b>(2)</b>	\$ 02 ( <b>2</b> )	\$ 560 <b>(2)</b>
ntribution per	yugara	(c <b>(1)</b> /yug <b>(1)</b> )	110 (2)	75 <b>(2of)</b>	23 ( <b>2of</b> )	80 <b>(2)</b>
nk order <b>(1of)</b> meras to be s	old		1 10 000	3 3250	4 none	2 500
			(1of)	(1of)	(1of)	(1of)
						[21]

<ul> <li>(b)</li> <li>Sales (2 200 000 + 1 202)</li> <li>Less Variable costs Yugaras (500 000 + Direct materials (400)</li> <li>Direct labour (200 00)</li> <li>Contribution</li> <li>Fixed costs (600 000(1))</li> <li>Net Profit (must say)</li> <li>Note Marks for fixed costs</li> <li>Alternative pre Digital 10 0 Medical 500 Cine 3250 Total contribution Less fixed costs Net Profit</li> <li>(c) Contribution/sal</li> <li>Break even = fi</li> <li>(d) Will workers be Will skills of wor Can the workers</li> </ul>	Marginal cost s 2 500 + 632 500) 325 000 + 175 000) 0 000 + 292 500 + 150 000) 00 + 97 500 + 27 500) + 320 000(1) + 120 000(1) + 35 ts only rewarded if shown after sentation: 100 x 110 = x 560 = 0 x 150 = 0 x	statement \$ 1 000 000 842 500 325 000 5 000(1) ) r contribution 1 100 000 280 000 487 500 1 867 500 1 075 000 792 500	(1of) (1of) (1of) (1of) (1of) (1of) (1of) (1of) (1of)	\$ 4 035 <u>2 167</u> 1 867 <u>1 075</u> 792	000 500 000 500	(1of) (4) (1of) [9]
Sales (2 200 000 + 1 202 Less Variable costs Yugaras (500 000 + Direct materials (400 Direct labour (200 00 Contribution Fixed costs (600 000(1) Net Profit (must say) Note Marks for fixed cost Alternative pre Digital 10 0 Medical 500 Cine 3250 Total contribution Less fixed costs Net Profit (c) Contribution/sal Break even = $\frac{fi}{-1}$ (d) Will workers be Will skills of wor Can the workers	2 500 + 632 500) $325 000 + 175 000)$ $0 000 + 292 500 + 150 000)$ $00 + 97 500 + 27 500)$ $+ 320 000(1) + 120 000(1) + 35$ Its only rewarded if shown after sentation: $100 \times 110 = 200$ $\times 150 = 200$ $5 = 200$	\$ 1 000 000 842 500 325 000 5 000(1) ) r contribution 1 100 000 280 000 <u>487 500</u> 1 867 500 <u>1 075 000</u> 792 500	(1of) (1of) (1of) (1of) (1of) (1of) (1of) (4) (1of)	\$ 4 035 <u>2 167</u> 1 867 <u>1 075</u> 792	000 500 000 500	(1of) (4) (1of) [9]
Less Variable costs Yugaras (500 000 + Direct materials (400 Direct labour <i>(200 0</i> ) Contribution Fixed costs (600 000(1) Net Profit (must say) Note Marks for fixed cost Alternative pre Digital 10 0 Medical 500 Cine 3250 Total contribution Less fixed costs Net Profit (c) Contribution/sal Break even = $\frac{fi}{-1}$ (d) Will workers be Will skills of wor Can the workers	$325\ 000\ +\ 175\ 000)$ $0\ 000\ +\ 292\ 500\ +\ 150\ 000)$ $00\ +\ 97\ 500\ +\ 27\ 500)$ $+\ 320\ 000(1)\ +\ 120\ 000(1)\ +\ 35$ $ts\ only\ rewarded\ if\ shown\ after$ $sentation:$ $00\ x\ 110\ =$ $x\ 560\ =$ $0\ x\ 150\ =$ $00\ x\ 150\ x\ 150\ =$ $00\ x\ 150\ x\ 150$	$ \begin{array}{r} 1\ 000\ 000\\ 842\ 500\\ 325\ 000 \end{array} $ 5 000(1) ) r contribution $ \begin{array}{r} 1\ 100\ 000\\ 280\ 000\\ 487\ 500\\ 1\ 867\ 500\\ 1\ 075\ 000\\ 792\ 500 \end{array} $	(1of) (1of) (1of) (1of) (1of) (1of) (1of) (4) (1of)	<u>2 167</u> 1 867 <u>1 075</u> 792	500 500 000 500	(4) (1of) [9]
Contribution Fixed costs (600 000(1) Net Profit (must say) Note Marks for fixed cos Alternative pre Digital 10 0 Medical 500 Cine 3250 Total contribution Less fixed costs Net Profit (c) Contribution/sal Break even = $\frac{fi}{-1}$ (d) Will workers be Will skills of wor Can the workers	+ 320 000(1) + 120 000(1) + 35 ts only rewarded if shown after sentation: $000 \times 110 =$ $\times 560 =$ $0 \times 150 =$ on servation: $\frac{1867500}{4005000}$ (10f) = 0.46	5 000 <b>(1)</b> ) <b>r</b> contribution 1 100 000 280 000 <u>487 500</u> 1 867 500 <u>1 075 000</u> 792 500	(1of) (1of) (1of) (1of) (4) (1of)	<u>2 167</u> 1 867 <u>1 075</u> 792	500 500 000 500	(4) (1of) [9]
Alternative pre DigitalDigital10 0 MedicalMedical500 CineCine3250 Total contribution Less fixed costs Net Profit(c)Contribution/sal Break even = $\frac{fi}{-1}$ (d)Will workers be Will skills of wor Can the workers	<b>sentation:</b> $100 \times 110 =$ $\times 560 =$ $0 \times 150 =$ on s es ratios $\frac{1867500}{1007000}$ (1of) = 0.46	1 100 000 280 000 <u>487 500</u> 1 867 500 <u>1 075 000</u> 792 500	(1of) (1of) (1of) (1of) (4) (1of)			[9]
Alternative pre Digital10 0 MedicalDigital10 0 MedicalMedical500 CineCine3250 Total contribution Less fixed costs Net Profit(c)Contribution/sal Break even = $\frac{fi}{-1}$ (d)Will workers be Will skills of wor Can the workers	sentation: $000 \times 110 =$ x 560 = $0 \times 150 =$ on s es ratios $\frac{1867500}{1007000}$ (1of) = 0.46	1 100 000 280 000 <u>487 500</u> 1 867 500 <u>1 075 000</u> 792 500	(1of) (1of) (1of) (1of) (4) (1of)			
<ul> <li>(c) Contribution/sal</li> <li>Break even = fi</li> <li>(d) Will workers be</li> <li>Will skills of wor</li> <li>Can the workers</li> </ul>	es ratios $\frac{1867500}{1007000}$ (1of) = 0.46					
Break even = (d) Will workers be Will skills of wor Can the workers	4035000	63 <b>(1of)</b>				
<ul><li>(d) Will workers be</li><li>Will skills of wor</li><li>Can the workers</li></ul>	$\frac{\text{xed costs}}{\text{c/s ratio}} = \frac{1075000}{0.463} \frac{(1 \text{of})}{(1 \text{of})} =$	= \$2 321 814 <b>(1o</b>	f)			[6]
Will skills of wor Can the workers	made redundant?					
Can the workers	k force diminish during the yea	ar?				
	s be recruited when 'normal' pr	oduction resume	es?			
Will machinery of	deteriorate?					
Is there a dange cameras?	er that ceasing production of Co	CTV cameras mi	ight aff	ect the sal	es of	other
Two marks per	point.					
1 mark for ident	ification plus one further mark f	for development				[4]