

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the October/November 2006 question paper

9706 ACCOUNTING

9706/02 Paper 2 (Structured Questions – Core), 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 instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began.

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 grade thresholds for various grades are published in the report on the examination for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses.

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Question 1

(a)(i)

		Goodwill Account					
		\$			\$		
Bal b/d		10 000	1	Capital	Frank	15 000	1
Revaluation		20 000	1		Ernest	7 500	1
					Devious	7 500	1 (5)
		<u>30 000</u>				<u>30 000</u>	

(ii)

		Revaluation account					
		\$			\$		
Equipment		1 300	1	Goodwill		20 000	1
Stock		1 000	1				
Capital - Frank		11 800	10F	} unless aliens			
Ernest		<u>5 900</u>	10F				
		<u>20 000</u>				<u>20 000</u>	(5)

(iii)

		Capital accounts								
		\$		\$		\$				
		F	E	D	F	E	D			
Goodwill		15 000	7 500	7 500	30F	Bal b/d	80 000	120 000	2	
						Premises			196 000	1
Bal c/d		<u>76 800</u>	<u>118 400</u>	<u>188 500</u>	1	Reval	11 800	5 900	10F	
		<u>91 800</u>	<u>125 900</u>	<u>196 000</u>			<u>91 800</u>	<u>125 900</u>	<u>196 000</u>	
						Bal b/d	76 800	118 400	188 500	(8)

(iv)

		Balance Sheet at 1 February 2006			
		\$		\$	
Fixed assets at net book value					
Premises				196 000	1
Motor vehicles				58 200	
Equipment				34 100	1
Fixtures and fittings				<u>39 000</u>	
				<u>327 300</u>	
Current assets					
Stock		1	63 000		
Debtors			45 600		
Bank			<u>19 200</u>	127 800	
Amounts due within 1 year					
Creditors				<u>22 400</u>	
Net current assets				<u>105 400</u>	1
				<u>432 700</u>	
Capital accounts		Frank	(for	76 800	
		Ernest	1of (all	118 400	
		Devious	(three	<u>188 500</u>	383 700
Current accounts		Frank	(for	35 400	
		Ernest	1 (both	<u>13 600</u>	<u>49 000</u>
				<u>432 700</u>	(6)

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- (b) Goodwill is taken into account on the retiral of a partner, who must be credited with his share of Goodwill. An incoming partner must compensate the existing partners for his acquired share of Goodwill. In this situation Goodwill may be raised in the books of account as an asset, but it is considered prudent to adjust individual capital accounts in order to compensate each partner when partners retire from or join a partnership.
Etc.

2 for each point to a maximum of (8)
Total [30]

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Question 2

- (a) Balance Sheet at 30 September 2006
- | | \$000 | \$000 | \$000 |
|--------------------------------------|-------|-------|--------|
| Fixed assets | | | 77 |
| Current assets | | | |
| Stock | 12 | 1 | |
| Debtors | 31 | | |
| Bank | 15 | 1 | 58 |
| Current liabilities | | | |
| Creditors | 33 | | |
| Loan interest due | 1 | 1 | 34 |
| Net current assets (working capital) | | | 24 10F |
| | | | 101 |
| Long-term liability | | | |
| Bank loan | | | 20 1 |
| | | | 81 |
| Capital | | | 91 10F |
| Net profit | | | 10 |
| | | | 101 |
| less drawings | | | 20 |
| | | | 81 (6) |
- (b)
- (i) Net profit percentage = $4.17\% (10/240) \times 100$ 2OF
- (ii) Current ratio = 1.71:1 (58/34) 2OF
- (iii) Quick ratio = 1.35:1 (46/34) 2OF
- (iv) Rate of stockturn = 9.22 times (166/18) 2
- (v) Percentage return on owner's capital employed = $12.35\% (10/81) \times 100$ 2OF
- (vi) Percentage return on total capital employed = $11.88\% (12/101) \times 100$ 2OF
- (vii) Debtors collection period = 48 days $(31/240) \times 365$ 2
- (viii) Creditors payment period = 79 days $(33/154) \times 365$ 2
- 2 for correct answer, 1 if suffix omitted (16)
- (c) Loss at cost = $(240\ 000 \times 35\%) - 74\ 000 = \$10\ 000$
1 1 1 1 (4)
- (d)(i) Quick method of comparing either two businesses of the same type or two or more years within one business.
etc
- (ii) Too simplistic - eg assumes in times of inflation that income and costs rise at the same rate.
etc.
1 per point + 1 for expansion to maximum (4)

Total [30]

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Question 3

- (a)(i)
- | | | |
|---|------------------|-------|
| 1 | Profit | 1 |
| 2 | Loss | 1 |
| 3 | Sales | 1 |
| 4 | Break-even point | 1 (4) |

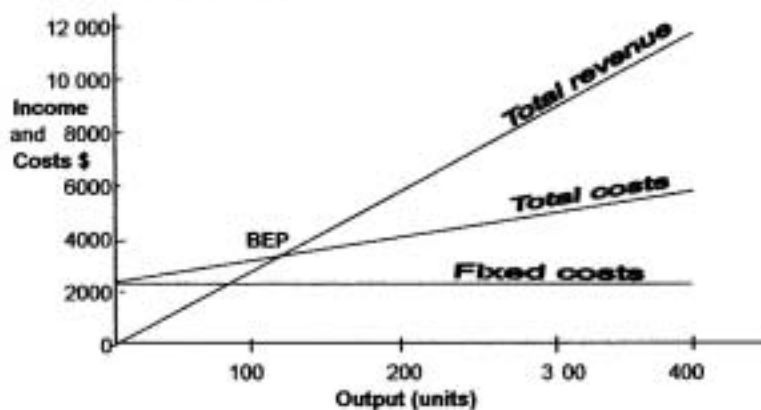
- (ii) Break-even = Fixed costs/unit contribution = 95.2381 units = \$2,857.14
 OR 96 \$2880
 1 1 1 1
 (accept rounding either way) (4)

- (iii) Margin of safety is the distance between break-even point and expected level of activity. 2
 It shows the amount by which actual activity can fall short of expected activity before a loss is incurred. 2
 It is a measure of risk. 2
 to maximum (4)

- (iv) $300 - 96 = 204$ units = \$6120 (4)
 2 1 1

- (b)(i) New fixed costs = 115% of \$2000 = \$2300
 New break-even = $2300/21 = 109.52381$ Units
 New profit = $(400 - 109.52381) \times 21 = \6100
 1 1 1 1
 Candidate may round B/E to 109 or 110 in which case accept answer of 6090 or 6111.
 OR
 Profit = Sales - (VC + FC)
 = $400 \times 30 - ((400 \times 9) + 2300)$
 = $12000 - (3600 + 2300) = \6100
 1 1 1 1 (4)

- (ii) Larry Ltd - Break-even chart



- Marks - 1 for heading, 1 for BEP, 1 each for titles on axes, 1 each for lines with titles
 to maximum (6)

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- (c)
- (i) Fixed costs remain fixed for all levels of activity.
 - (ii) Unit variable costs remain constant.
 - (iii) Unit selling price remains constant.
 - (iv) All costs can be separated into fixed or variable.
Etc

1 each to a maximum of (4)
Total [30]