

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	5 900	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 old	<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>91 800 125 900 196 000</u>
				Bal b/d	76 800 118 400 188 500	(8)

(iv)

	Balance Sheet at 1 February 2000			
	\$	\$	\$	\$
<b>Fixed assets at net book value</b>				
Premises				196 000 1
Motor vehicles				58 200
Equipment				34 100 1
Furniture and fittings				39 000
				<u>327 300</u>
<b>Current assets</b>				
Stock	1	63 000		
Debtors		45 600		
Bank		<u>19 200</u>	127 800	
<b>Amounts due within 1 year</b>				
Creditors			<u>22 400</u>	
<b>Net current assets</b>				<u>105 400 1</u>
				<u>432 700</u>
<b>Capital accounts</b>	Frank	(for	76 800	
	Ernest	1 of	(all	118 400
	Devious	(three	188 500	383 700
<b>Current accounts</b>	Frank	(for	35 400	
	Ernest	1 (both	13 600	49 000
			<u>432 700</u>	(8)

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- (iv) Goodwill is taken into account on the retirement 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

Total

(6)

[30]

Question 2

(a) Balance Sheet at 30 September 2006

	\$000	\$000	\$000
<b>Fixed assets</b>			77
<b>Current assets</b>			
Stock	12	1	
Debtors	31		
Bank	15	1	58
<b>Current liabilities</b>			
Creditors	33		
Loan interest due	1	1	34
Net current assets (working capital)			24 10F
			101
<b>Long-term liability</b>			
Bank loan			20 1
			81
<b>Capital</b>			81 10F
Net profit			10
			101
less drawings			20
			81 (6)

(b)

(i) Net profit percentage = 4.17%  $(10/240) \times 100$  20F

(ii) Current ratio = 1.71:1  $(58/34)$  20F

(iii) Quick ratio = 1.35:1  $(46/34)$  20F

(iv) Rate of stockturn = 9.22 times  $(165/18)$  2

(v) Percentage return on owner's capital employed = 12.35%  $(10/81) \times 100$  20F

(vi) Percentage return on total capital employed = 11.88%  $(12/101) \times 100$  20F

(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]

Question 3

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

(ii) Break-even =  $\frac{\text{Fixed costs}}{\text{unit contribution}} = \frac{\$5,2381}{96} = 54.459375$  units =  $\frac{\$2,857.14}{\$2880}$

OR

1	1	1	1
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(accept rounding either way) (4)

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

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

2	1	1
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(4)

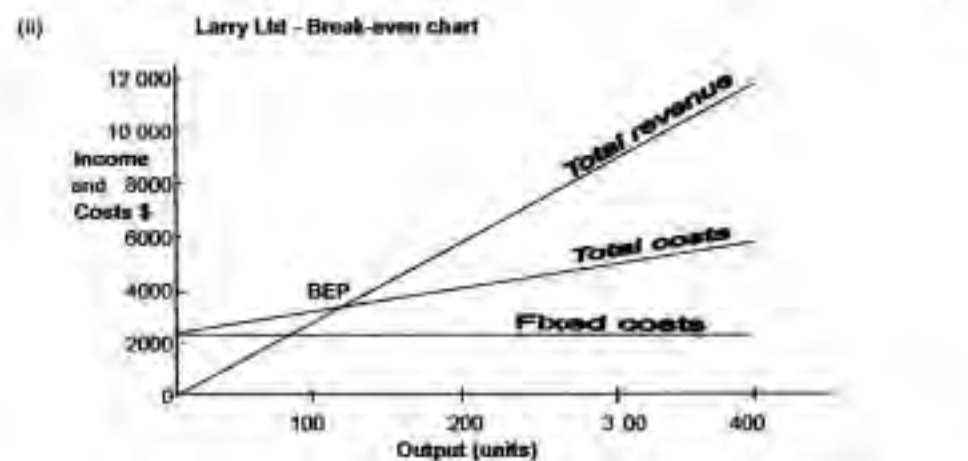
(b)(i) New fixed costs = 115% of \$2000 = \$2300  
 New break-even =  $\frac{2300}{21} = 109.52381$  Units  
 New profit =  $(400 - 109.52381) \times 21 = \$6100$

1	1	1	1
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Candidate may round BE 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
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(4)



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)