

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

GCE Advanced Subsidiary and Advanced Level

**MARK SCHEME for the November 2003 question papers**

**9706 ACCOUNTING**

<b>9706/01</b>	<b>Paper 1 (Multiple Choice), maximum raw mark 30</b>
<b>9706/02</b>	<b>Paper 2 (Structured Questions), maximum raw mark 90</b>
<b>9706/03</b>	<b>Paper 3 (Multiple Choice), maximum raw mark 30</b>
<b>9706/04</b>	<b>Paper 4 (Problem Solving), maximum raw mark 120</b>

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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*.

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**CAMBRIDGE**  
INTERNATIONAL EXAMINATIONS

**November 2003**

**GCE A AND AS LEVEL**

**MARK SCHEME**

**MAXIMUM MARK: 30**

**SYLLABUS/COMPONENT: 9706/01**

**ACCOUNTING**  
**Paper 1 (Multiple Choice)**



<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	<b>D</b>	16	<b>A</b>
2	<b>C</b>	17	<b>A</b>
3	<b>A</b>	18	<b>C</b>
4	<b>C</b>	19	<b>C</b>
5	<b>C</b>	20	<b>C</b>
6	<b>D</b>	21	<b>C</b>
7	<b>D</b>	22	<b>A</b>
8	<b>C</b>	23	<b>C</b>
9	<b>B</b>	24	<b>D</b>
10	<b>A</b>	25	<b>D</b>
11	<b>B</b>	26	<b>B</b>
12	<b>A</b>	27	<b>B</b>
13	<b>D</b>	28	<b>D</b>
14	<b>C</b>	29	<b>C</b>
15	<b>D</b>	30	<b>A</b>

**November 2003**

**GCE A AND AS LEVEL**

**MARK SCHEME**

**MAXIMUM MARK: 90**

**SYLLABUS/COMPONENT: 9706/02**

**ACCOUNTING**  
**Paper 2 (Structured Questions)**



1(a)

Accumulated fund at start

	\$		\$
Fixed assets	85 600	Accruals	4 480
Subscriptions	31 800	1 Creditors	3 800
Stock	420		
Bank	<u>32 400</u>	1 Accumulated fund	<u>141 940</u>
	<u>150 220</u>		<u>150 220</u>

1 for every correct pair plus 1 for acc fund

(4)

(b)

Café Trading account

	\$	\$	\$
Takings			110 800
less O/stock		420	
Purchases	38 600		
Crs at start	(760)		
Crs at end	<u>700</u>	1 <u>38 540</u>	
		38 960	
-C/stock		<u>370</u>	<u>38 590</u>
			72 210
Electricity (19000-220+260)/5	1	3 808	
Rent (65600-1440+1640)/5	1	13 160	
Wages (42400-760+840)	1	<u>42 480</u>	<u>59 448</u>
			<u>12 762</u>

(4)

WORKINGS

Grasscutter		Depreciation	
Cost	4000	FA	85 600
Depreciation	(2400)		(1 600)
Book value	1600		66 000
Received	<u>2000</u>		<u>26 000</u>
Profit	<u>400</u>	Actual FA	176 000
		Depreciation	<u>119 680</u>
			<u>56 320</u>

(c) Income and Expenditure account  
for the year ended 31 December 2002

	\$	\$	
Profit on café		12 762	1
Subscriptions (313 600-31 800+33 200)		315 000	1
Profit on sale of Grasscutter		<u>400</u>	2
		<u>328 162</u>	
Wages (102 800-2060+2500)	103 240		1
Electricity (19 040x4/5)	15 232		1
Rent (65 800x4/5)	52 640		1
Maintenance (94 200-3040+4200)	95 360		1
Depreciation	<u>56 320</u>	322 792	1
Surplus		<u><u>5 370</u></u>	(9)

(d) Balance Sheet as at 31 December 2002

	\$	\$	\$
Fixed assets at Net book value			119 680
Current assets			
Stock	370		
Subs due	33 200 1		
Bank	<u>4 200</u>	37 770	
Current liabilities			
Creditors	4 900 1		
Accruals	<u>5 240 1</u>	<u>10 140</u>	
			<u>27 630</u>
			<u><u>147 310</u></u>
Accumulated fund at start			141 940 1
Surplus			<u>5 370 1</u>
			<u><u>147 310</u></u> (5)

- (e) (i) As income in the I & E account or shown separately in the balance Sheet. 2  
2
- (ii) R & P records all cash/cheque transactions through the year; I & E takes into account accruals & prepayments. 2  
2 (8)

2(a) Dissolution/Realisation account

	\$		\$
Buildings	104 000	1 Bank	100 000
Fixtures & fittings	35 000	1	37 000
Motor vehicles	26 000	1	15 000
Stock	10 500	1	5 200
Debtors	17 230	1	16 130
Bank (expenses)	1 200	2 Dougal	9 500
		Dougal	7 400
	<u>for both</u>	1 Florence	<u>3 700</u>
	<u>193 930</u>		<u>193 930</u>

(8)

(b) Current Accounts

	Dougal	Florence		Dougal	Florence
Bal b/d		2 580	1 Bal b/d	14 430	1
Dissol.	9 500		1 Capital	2 470	6 280
Dissol.	7 400	3 700	1 for both		
	<u>16 900</u>	<u>6 280</u>		<u>16 900</u>	<u>6 280</u>

(4)

(c) Capital Accounts

	Dougal	Florence		Dougal	Florence
Current ac	2 470	6 280	2 Bal b/d	80 000	40 000
Bank	<u>77 530</u>	<u>33 720</u>		<u>80 000</u>	<u>40 000</u>
	<u>80 000</u>	<u>40 000</u>		<u>80 000</u>	<u>40 000</u>

(4)

(d) Bank Account

Bal b/d	1	950	Creditors	9 230	1
Dissolution	(	100 000	Dissolution	1 200	1
	(	37 000	Capital - D	77 530	1
	<b>2 OF</b> (	15 000	Capital - F	33 720	1
	(	5 200	Loan - D	52 600	1
	(	<u>16 130</u>			
		<u>174 280</u>		<u>174 280</u>	

(8)

- (e) Unlimited liability of owners (partners)  
 Responsibilities of/control by partners  
 Agreements on share of profits/losses  
 Agreements on death/dissolution  
 etc
- 2 marks each to max (6)

3(a)	Darnick Holdalls Limited		Cutting	Stitching	Maint.	Canteen	
			\$	\$	\$	\$	
	Allocated overheads		44 200	47 600	15 000	18 000	4
	Space costs		30 000	36 000	12 000	12 000	4
	Depreciation		70 000	85 000	25 000	20 000	4
	Canteen		24 000	18 000	8 000	(50 000)	3
	Maintenance		18 000	42 000	(60 000)		2
			<u>186 200</u>	<u>228 600</u>	0	0	(17)
(b)	Costs - Cutting department	10 000x17		170 000		186 200	1
		9 000x18		162 000		420 000	1
		4 400x20		88 000	\$0.44 per man hour		1
	Costs - Stitching department	10 000x3		30 000		228 600	1
		9 000x4		36 000		88 000	1
		4 400x5		22 000	\$2.60 per m/c hr		1
							(6)
(c)	Cutting is labour intensive				1		
	Stitching is capital intensive				1		(2)
(d)	Cost of Medium case						
	Materials		\$35.00		\$35.00		1
	Labour - cutting		\$18.00		\$18.00		1
	Labour - stitching		\$6.00		\$6.00		1
	O/heads - cutting	(18x\$0.44)	\$7.92	accept	\$7.98		1
	O/heads - stitching	(4x\$2.60)	\$10.40	either	\$10.40		1
			<u>\$77.32</u>		<u>\$77.38</u>		(5)



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**November 2003**

**GCE A AND AS LEVEL**

**MARK SCHEME**

**MAXIMUM MARK: 30**

**SYLLABUS/COMPONENT: 9706/03**

**ACCOUNTING**  
**Paper 3 (Multiple Choice)**



<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	<b>A</b>	16	<b>B</b>
2	<b>A</b>	17	<b>B</b>
3	<b>B</b>	18	<b>D</b>
4	<b>B</b>	19	<b>D</b>
5	<b>D</b>	20	<b>D</b>
6	<b>C</b>	21	<b>C</b>
7	<b>B</b>	22	<b>B</b>
8	<b>C</b>	23	<b>C</b>
9	<b>B</b>	24	<b>C</b>
10	<b>D</b>	25	<b>A</b>
11	<b>D</b>	26	<b>C</b>
12	<b>D</b>	27	<b>A</b>
13	<b>A</b>	28	<b>C</b>
14	<b>A</b>	29	<b>A</b>
15	<b>D</b>	30	<b>B</b>

**CAMBRIDGE**  
INTERNATIONAL EXAMINATIONS

November 2003

GCE A AND AS LEVEL

MARK SCHEME

MAXIMUM MARK: 120

SYLLABUS/COMPONENT: 9706/04

ACCOUNTING  
Paper 4 (Problem Solving)



## MARKING SCHEME

1 (a) Extracts from Profit and Loss Accounts for the year ended 31 March 2003

	Foggy Ltd. \$000		Compo Ltd. \$000	
Operating profit (30 X 12)	360		252	
Debenture interest (10% of 300)	<u>30</u> (1)		<u>18</u> (1)	
Profit after interest	330 (1)(OF)		234 (1)(OF)	
Transfer to general reserve	(100) (1)		(60) (1)	
Preference dividend	(20) (1)		(24) (1)	
Ordinary dividend *	<u>(62)</u> (1)(182)		<u>(30)*</u> (1) (114)	
Retained profit for the year	<u>148</u> (1) (OF)		<u>120</u> (1) (OF)	[12]
* $\frac{1}{5}[330 \text{ (OF)} - 20 \text{ (OF)}]$			* $\frac{1}{7}[234 \text{ (OF)} - 24 \text{ (OF)}]$	

	Foggy Ltd.		Compo Ltd.	
(i) Interest cover	12 times (1)		14 times (1)	
(ii) EPS $\left(\frac{\text{(OF)} 31000000}{1000000}\right)$	\$0.31 (1)	$\left(\frac{\text{(OF)} 21000000}{2400000}\right)$	\$0.0875 (1)	
(iii) Dividend paid per share $\left(\frac{\text{(OF)} 62000}{1000000}\right)$	\$0.062 (1)	$\left(\frac{\text{(OF)} 30000}{2400000}\right)$	\$0.0125 (1)	
(iv) PER $\left(\frac{\text{(OF)} 1.60}{0.31}\right)$	5.16 (1)	$\left(\frac{\text{(OF)} 1.35}{0.0875}\right)$	15.43 (1)	
(v) Dividend yield $\left(\frac{\text{(OF)} 6.2\%}{1.60}\right)$	3.875% (1)	$\frac{1.25}{1.35}$ (1)	0.926% (1)	[11]

- (c) (i) Compo Ltd.'s interest cover is greater than Foggy Ltd.'s. (1)  
The greater the interest cover, the more secure are the interests of the debenture holders (1) and the shareholders. (1)
- (ii) EPS Foggy's EPS appears to be better than Compo's. (1) But Compo's shares are  $\frac{1}{4}$  of the nominal value of Foggy's. (1) On a comparable basis ( $\$0.0875 \times 4$ ) Compo's EPS is 0.3428(1) which slightly better than Foggy's. (1)
- (iii) Dividend per share Foggy's dividend is 6.2%.(1) Compo's dividend is lower at 5% (1) ( $\$0.0125/0.25$ )
- (iv) PER Compo's ratio is three times higher than Foggy's.(1) This would suggest that investors are more confident in Compo's ability to sustain its performance.(1)
- (v) Dividend yield This is similar for both companies.(1)
- (Maximum 10 marks)** [10]
- (d) (i) Trend analysis: compare the trend of each company's performance.(1) Trends indicate if a company's performance is improving, stagnant or in decline.(1)
- (ii) Inter-company comparison.(1) Comparison with the average performance of other companies in the same trade provides a useful measure of how efficiently a company is performing (1) [4]

- (e) (i) Review of business during the year. (1) Position of business at end of year.(1)  
(ii) Principal activities of the company during the year.(1)  
(iii) Significant changes in the business activities during the year. (1)  
(iv) Particulars of important events affecting the company since the end of the financial year.(1)  
(v) An indication of likely future developments in the business of the company.(1)  
(vi) Amounts of recommended dividends.(1)  
(vii) Proposed transfers to reserves.(1)  
(viii) Names of directors and their holdings of shares and debentures in the company.(1)  
(ix) Directors' remuneration, pensions, share options  
(x) Political and charitable donations

(Any three; maximum 3 marks.)

[3]

2.

(a)	Machine A	Machine B
For 4 years	\$	\$
Total receipts	316 000 (1)	320 000 (1)
Total payments	(184 000)(1)	(187 000)(1)
Total depreciation (4 X \$19 000)	( 76 000)(1) (4 X 23 000)	( 92 000 (1)
Total profit	<u>56 000</u>	<u>41 000</u>
Average annual profit(4 years)	14 000 (1)(OF)	10 250 (1)(OF)
Average investment: $K(80 - 4)/2$	38 000 (1)	$K(100 - 8)/2$ 46 000 (1)
(OF) (OF)		
ARR $14\ 000/38\ 000 \times 100$	<u>36.8%</u> (1)	
	(OF) (OF)	
	$10\ 250/46\ 000 \times 100$	<u>22.3%</u> (1)

[12]

(b) Payback periods

Year 1	(66 000 - 31 000)	35 000 ↑	(70 000 - 42 000)	28 000 ↑
2	(80 000 - 47 000)	33 000 ↓	(90 000 - 49 000)	41 000 ↓
3	(100 000 - 68 000) 32 000	12 000 ↓	(100 000 - 67 000) 33 000	31 000 ↓
	$12\ 000/32\ 000 = 0.375$		$31\ 000/33\ 000 = 0.939$	
		80 000		100 000
Payback (2.375 years)(OF)	2 years 4.5 months (1)		(2.939 years)(OF)	2 years 11.3 months(1)

[4]

(c)

	10%	Net receipts	Machine A	Net receipts	Machine B
		\$	NPV	\$	NPV
Year 0	1.000	( 80 000 )	(80 000) ↑	(100 000)	(100 000) ↑
1	0.909	35 000	31 815 (1)	28 000	25 452 (1)
2	0.826	33 000	27 258 ↓	41 000	33 866 ↓
3	0.751	32 000	24 032 ↓	33 000	24 783 ↓
		(1) (1)		(1) (1)	
4	0.683	32 000 + 4000	24 588 (1)(OF)	31 000 + 8000	26 637 (1)
Net present values (1)			<u>27 693</u> (1)		<u>10 738</u> (1)

[11]

(d)	20%	Machine A		Machine B
Year		(80 000)		(100 000)
1	0.833	29 155	↑	23 324
2	0.694	22 902	(OFs)	28 454
3	0.579	18 528	↓	19 107
4	0.482	<u>17 352</u>		<u>18 798</u>
		<u>7 937</u>	(1)(OF)	<u>(10 317)</u> (1)(OF)

$$\text{IRR for Machine A } 10\% + (10\% \times \frac{27\,693}{19\,756}) = 24\% \text{ (1)}$$

$$\text{Machine B } 10\% + (10\% \times \frac{10\,738}{21\,055}) = 15\% \text{ (1)}$$

[4]

- (e) Clegg Ltd. should purchase Machine A (1)  
because it has the better ARR (1)  
a shorter payback period (1)  
a higher positive NPV (1)  
an IRR of 24% (1)

[5]

- (f) A positive NPV suggests that expenditure may be considered subject to other conditions being favourable. (1)

If IRR is less than the present R.O.C.E. of 22% the project will dilute the present profitability. (1)

This may be a reason for not proceeding with the expenditure regardless of the favourable NPV. (1)

IRR greater than 22% will enhance profitability. (1)

[4]

3. (a) Porridge Ltd.  
Balance Sheet as at 1 April 2003

	\$000	\$000
Fixed assets		
Goodwill		12(3)
Land and buildings		1 095 (1)
Plant and machinery		<u>650</u> (1)
		1 757
Current assets		
Stock	339 (1)	
Debtors	416 (1)	
Bank	<u>14</u> (2)	
	769	
Creditors: amounts falling due within one year		
Trade creditors	<u>425</u> (1)	<u>344</u>
		2 101
Creditors: amounts falling due after more than one year		
10% convertible loan stock 2005		<u>125</u> (1)
		<u>1 976</u>
Share capital and reserves		
Ordinary shares of \$1		1 100 (1)
Share Premium account		44 (2)
Debenture Redemption Reserve		300 (1)
Profit and Loss Account		<u>532</u> (1)
		<u>1 976</u>

[16]

Workings	Porridge Partnership		Red.debs \$000	1 April 2003 \$000
	\$000	\$000		
Goodwill	(381 (1) – 369 (1))	12 (1)		12
Land and buildings	950	145		1 095 (1)
Plant and machinery	535	115		650 (1)
Stock	254	85		339 (1)
Debtors	346	70		416 (1)
Bank	280	46 (1)	(312) (1)	14
Trade creditors	333	92		425 (1)
10% debentures 2002/2003	300		(300)	-
10% convertible loan stock	-	125		125 (1)
Ordinary shares of \$1	900	200		1 100 (1)
Share premium account	-	56 (1)	(12) (1)	44
Debenture Redemption Reserve	-		300	300 (1)
Profit and Loss Account	832		(300)	532 (1)

- (b) Investment in the partnership business: (1) (1)  
 Convertible debenture stock + shares = \$(125 000 + 256 000) = \$381 000

Profit before interest required	(OF)(1)	\$	95 250 (1)
Fixed overheads before interest (156 000 – 12 500)	(1) (1)		143 500
Contribution required			238 750 (1)
Contribution/Sales = $\frac{200646}{334410} \times 100 = 60\%$	(1) (1)		(1)
Turnover required to produce contribution of \$238 750 = $238\ 750 \times \frac{10}{6}$	(OF) (1)(OF)		397 917 (1) [12]

- (c) Return on investment of 20% =  $381\ 000 \times 20\% = 76\ 200$  (1)
- |   |                 |    |              |
|---|-----------------|----|--------------|
| Turnover for 25% (b)  |                 | \$ | 397 917 (OF) |
| Turnover for 20% (76 200 + 143 500) $\times \frac{10}{6}$               | (OF)(1) (OF)(1) |    | 366 167      |
| Reduction in turnover   |                 |    | 31 750 (1)   |
| Reduction as a percentage $(\frac{31\ 750}{397\ 917} \times 100) = 8\%$ | (OF) (1)(OF)    |    | [6]          |

- (d) (i) Korne should exercise his option to convert his debentures into shares. (1)  
 The terms of conversion enable him to acquire the shares at \$1.50 each. (1)  
 The shares are currently at \$1.75 and Korne will benefit by \$0.25 on each share. (1) [3]
- (ii) Ordinary share capital (125 000/1.50) increase \$83 333 (1)

Share Premium account (83 333 X \$0.50) increase \$41 667 (1)	(1) (OF)	[3]
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