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#### **UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS**

GCE Advanced Subsidiary Level and GCE Advanced Level

# MARK SCHEME for the May/June 2009 question paper for the guidance of teachers

## 9706 ACCOUNTING

9706/04

Paper 4 (Problem Solving (Supplementary Topics)), maximum raw mark 120

This mark scheme is published as an aid to teachers and candidates, 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, which would have considered the acceptability of alternative answers.

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## 1 (a) Frame-Patel plc profit and loss and appropriation account for the year ended 31 March 2009

	\$000	\$000		
Gross profit		1532	(1)	
Bad debt recovered		<u>40</u> 1572	(1)	
Expenses	873	1012		
Depreciation – fixed assets	76 <b>≻(1)</b>			
<ul><li>premises</li></ul>	<u>10</u> (1)	<u>959</u>		
Operating profit (must say)		613	(1 of)	
Interest paid		<u>15</u>	(1)	
Net profit before tax		598		
Taxation		<u> 160</u>	(1)	
Net profit after tax (1)		438		
Ordinary dividends		42	(1)	
Retained profit for the year		<u>396</u>	(1 of)	[10]

## (b) Balance sheet at 31 March 2009

:	\$000	\$000		
Fixed assets				
Premises at valuation (1)		490	<b>(2)</b> (500 (1) – 10 (1))	
Other fixed assets		684		
_		1174	(1 of) no goodwill	
Current assets	265			
Creditors:	0.45		440	
amount due in less than one year	<u>245</u>	<u>20</u>	(1)	
Craditary analysts due mare than ana		1194	(4) position	
Creditors: amounts due more than one	year	<u>(200</u> ) 994	(1) position	
		<u> </u>		
Ordinary shares of \$0.50 each		300	<b>(2)</b> (250 (1) + 50 (1))	
Share premium account		50	<b>(2)</b> (100 (1) – 50 (1))	
Revaluation reserve		200	(1)	
bonus issue	may be debited	to revalu	uation reserve	
Retained earnings W1		444	(8 of)	
		994		[19]

## W1 Retained earnings at 31 March 2009

	\$000	
Balance Bonus issue Profit and loss account Revaluation Goodwill Bad debt	904 (50) (316) (200) (250) (40) 48	(1) (1) (1) (1) (1) (1)
Profit and loss account Corrected retained earnings	396 444	(1 of) (1 of)

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(c) (i) Dividend per share = 
$$\frac{\text{total dividend}}{\text{number of shares issued}}$$
 (1) = \$0.084 (1)

(ii) Dividend cover = 
$$\frac{\text{profit after tax and interest}}{\text{total dividend}}$$
 (1) = 10.43 times (1)

(iii) Dividend yield = 
$$\frac{\text{dividend per share}}{\text{market price per share}} \times 100 \text{ (1)} = 4.9\% \text{ (1)}$$
 [6]

(d) Debentures are safer investment for Brian (0–3)

Debentures will currently give a greater yield (0-3)

Ordinary shares may give greater rewards (dividends) in the future (0–3)

Potential for greater capital growth with ordinary shares (0–3)

Ordinary shares give ownership rights (0–3)

[max 4]

1 mark for advice based on analysis

[1]

#### 2 (a) Financial consequences from

Option 1			Option 2			
·	\$000		·	\$000		
Sale of assets	362	(1)	Shares	250		
Creditors	(9)	(1)	Debentures	40	(2 all 3)	
Costs	(18)	(1)	Cash	110		
Redundancy payout	(55)	(1)	Debtors	(8)	(1)	
	280	(1of)		392	(1of)	
(Loss of \$116 000 (\$280	-\$396	))	(Loss of \$4000	(\$400	– \$40 <del>4</del> ))	
Other layouts are accept	able	•	•		.,	[9]

(b) Option 2 is recommended (1 of) because

Higher financial benefit immediately (1)

Lower social costs (1) e.g. redundancies (1)

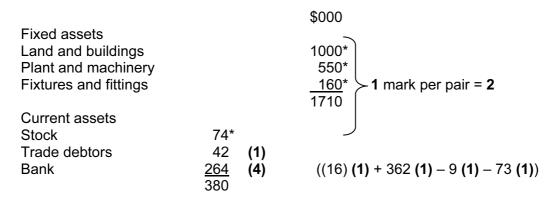
There is an investment in the "new" business (1) – potential growth (1) – potential dividends

(1) plus \$2400 interest on debentures (1)

[max 5]

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#### (c) Balance sheet after implementation of option 1



Creditors: amounts falling due in less than one year Trade creditors (21) (1) 359 2069

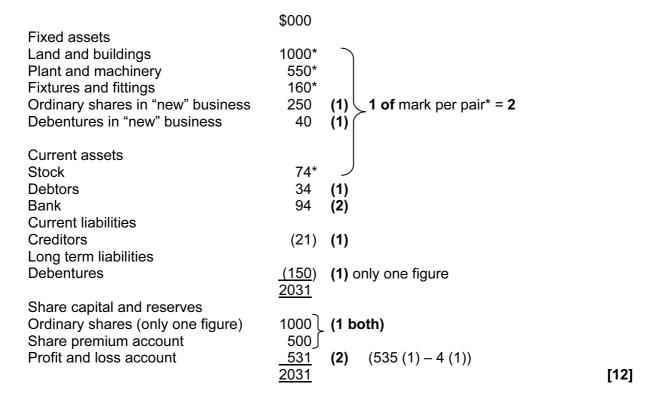
Creditors: amounts falling due in more than one year 7% debentures (2021) (150) (1) 1919

Share capital and reserves

Ordinary shares 1000 (1) Share premium account 500 (1) Profit and loss account  $\frac{419}{1919}$  (3) (535 (1) - 116 (2 of))

[14]

(d) Balance sheet after implementation of option 2



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3	(a)		\$		
	(i)	Sales volume variance	40 000	(1) adverse (1)	
	(ii)	Sales price variance	10 000	(1) adverse (1)	
	(iii)	Total sales variance	50 000	(1) adverse (1)	
	(iv)	Material usage variance	3 200	(1) favourable (1)	
	(v)	Material price variance	2 700	(1) adverse (1)	
	(vi)	Total material variance	500	(1) favourable (1)	
	(vii)	Labour efficiency variance	5 600	(1) adverse (1)	
	(viii)	Labour rate variance	600	(1) favourable (1)	
	(ix)	Total labour variance	5 000	(1) adverse (1)	[18]

(b) Budgeted contribution statement

	\$	\$	
Sales		240 000 <b>(1)</b>	
Raw materials	107 520 <b>(4)</b>	24 000 (1) × 1.4 (1) × \$3.20 (1)	
Labour	<u>33 600</u> <b>(4)</b>	24 000 (1) × 1/6 <sup>th</sup> (1) × \$8.40 (1	)
		141 120	
Contribution		98 880 (1)	[10]

- (c) All based on 'own figures' from part (a).
  - (i) Lower sales volume than predicted (1)
     Less good quality of finished product? (1)
     Development poorer materials (material usage variance) (2)
     Less skilled workforce (labour rate variance) (2)
     Competition (1) customers buying from other businesses (1)
     Selling price still too high? (1) competitors cheaper? (1)
  - (ii) Decrease in supply of materials (0–2)
    Increase in taxes levied on materials (import duties etc) (0–2)
    Lowering of subsidies. (0–2)
  - (iii) Unemployment in particular skills (1) more workers seeking work (1) Increase in supply of labour for other reasons (0–2)

Other reasonable reasons to be rewarded 1 mark for identification further marks for development. [max 6]

(d) If a favourable material usage variance is evident then fewer materials have been used than was planned then this generally means that more highly skilled workers have been employed or that training has been undertaken in this particular part of the business; the workers have taken less time to produce the goods.
[0–6]

If an adverse material usage variance is evident then more materials have been used than was planned then this generally means that less skilled workers have been and they have therefore taken longer to complete their work than had been anticipated. [0–6]

[max 6]