UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the October/November 2009 question paper for the guidance of teachers

9706 ACCOUNTING

9706/42 Paper 42 (Problem Solving – Supplement), 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.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

- CIE will not enter into discussions or correspondence in connection with these mark schemes.

CIE is publishing the mark schemes for the October/November 2009 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

UNIVERSITY of CAMBRIDGE International Examinations

1 (a) Capital accounts

	A	B		A	B
Shares W2	72 000 **(4)**	48 000	Balances	70 000 **(1)**	50 000
Debentures	10 000 **(1)**	10 000	Profit on real'n W1	22 800**(3of)**	15 200
Cash W3	10 800 **(3of)**	7 200			
	92 800	65 200		92 800	65 200

[12]

W1 150 **(1)** – 112 **(1)** = 22 800 and 15 200 **(1)**
W2 150 **(1)** – 30 **(1)** = 72 000 **(1)** and 48 000 **(1)**
W3 10 000 + 8000 = 10 800 **(1)** and 7200 **(1)** to balance capital accounts.
(1 for both)

(b) Drakar Ltd
Balance sheet at 1 April 2009

	$	$	
Fixed assets		830 000	**(1)**
Goodwill W1		87 000	**(3)**
		917 000	
Current assets			
Stock	56 000 **(1)**		
Trade debtors	85 000 **(1)**		
Bank balance W2	189 000 **(5)**		
	330 000		
Creditors: amounts falling due in less than one year			
Trade creditors	(43 000) **(1)**		
Net current assets		287 000	
		1 204 000	
Creditors: amounts falling due in more than one year			
8% debentures (2026)		140 000	**(1)**
Net assets		1 064 000	
Share capital and reserves			
Ordinary shares of $1 each fully paid W3		650 000	**(4)**
Share premium W4		220 000	**(3)**
Retained earnings W5		194 000	**(3)**
Total equity		1 064 000	

[23]

W1 150 **(1)** – 63 **(1)** = 87 **(1)**
W2 (21 000) **(1)** + (10 000) **(1)** + 250 000 **(1)** + (30 000) **(1)** = 189 000 **(1)**
W3 500 **(1)** + 50 **(1)** 100 **(1)** = 650 **(1)**
W4 70 **(1)** + 150 **(1)** = 220 **(1)**
W5 224 **(1)** – 30 **(1)** = 194 **(1)**

(c) Cheaper than public issue (0–3)
Does not dilute the power base of the company (0–3)
1 mark for identification plus up to two further marks for development [max. 5]

2 (a) Reconciliation of profit from operations to net cash flow from operating activities.

	$000		
Operating profit	156	**(1)**	
Adjustments for depreciation	341	**(6)**	23 **(1)** + 110 **(1)** + 58 **(2)** + 150 **(1)**
Profit on disposal of fixed assets	(101)	**(4)**	240 – 320 – 21 (1 each)
Loss on disposal of fixed assets	5	**(1)**	
Increase in stock	(70)	**(1)**	
Increase in trade debtors	(80)	**(1)**	
Decrease in trade creditors	5	**(1)**	
	256	**(1)**	[16]

(b) Cash flow statement for the year ended 31 March 2009 **(1)**

Operating activities			
Net cash inflow from operating activities	256	**(1)**	
Returns on investments and servicing of finance			
Interest paid	(28)	**(1)**	
Taxation			
Corporation tax paid	(50)	**(1)**	
Capital expenditure and financial investments			
Payments to acquire tangible fixed assets	(800)	**(4)**	(400) + (250) + (150) **(1 each)**
Receipts from the sale of fixed assets	332	**(3)**	320 + 12 **(1 each)**
Equity dividends paid			
Equity dividends paid during the year	(32)	**(1)**	
Net cash outflow before financing	(322)	**(1)**	
Financing			
Receipts from issue of ordinary shares	660	**(3)**	300 + 360 **(1 each)**
Repayment of debentures	(100)	**(1)**	
Increase in cash	238	**(2)**	

[19]

(c) Reconciliation of net cash to movement in net debt

Increase in cash during year	238	**(1)**
Cash used to repurchase debentures	100	**(1)**
Change in net debt	338	**(1)**
Net debt at 1 April 2008	(348)	**(1)**
Net debt at 31 March 2009	(10)	**(1)** [5]

3 (a) Process 1

	kg	$			kg	$	
Raw materials	100 000	130 000	**(1)**	Animal feed	2 000	1 200	**(1)**
Labour	92 000	184 000	**(1)**	To process 2	45 000	188 000	**(1of)**
Variable costs	92 000	55 200	**(1)**	To process 3	36 000	150 400	**(1of)**
Fixed costs		8 000	**(1)**	Sales outlet	9 000	37 600	**(1of)**
		377 200				377 200	[8]

(b) $4.18 **(1of)** 376 000 / 90 000 [1]

(c) Process 2

	kg	$			kg	$	
Transfer from Process 1	45 000	188 000	**(1of)**	Animal feed	625	375	**(1)**
Direct labour	44 000	66 000	**(1)**	To sales	43 375	271 125	**(1of)**
Variable costs	44 000	5 500	**(1)**				
Fixed costs		12 000	**(1)**				
		271 500				271 500	[6]

Process 3

	kg	$	$			kg	$	$
Transfer from Process 1	36 000		150 400	**(1)**	Animal feed	330		198 (1)
Direct labour	34 500	44 850 **(2)** W1			WIP	1 000		
	1 000	390 **(3)** W2	45 240		Process 1		4 237 W5	
					Direct labour		390	**(1of)**
Variable costs	34 500	6 900 **(2)** W3			Variable costs		60	4 687
	1 000	60 **(3)** W4	6 960					**(5)**
					Finished goods	34 170		
Fixed costs			8 000	**(1)**	Process 1		144 765 W5	
					Direct labour		44 850	**(1of)**
					Variable costs		6 900	
					Fixed costs		8 000	
					Loss on spoilage (1398–198)		1 200 **(2)**	205 715
			210 600					210 600

W1 34 500 **(1)** × 1.3 **(1)** = 44 850
W2 1 000 **(1)** × 1.3 **(1)** = 390
0.3 **(1)**
W3 34 500 **(1)** × 0.2 **(1)** = 6900
W4 1 000 **(1)** × 0.2 **(1)** × 0.3 **(1)** = 60
W5 150 400 **(1)** ÷ 35 500 **(1)** = 4.237 **(1)** × 1000 **(1)** = 4 237
= 4.237 × 34 170 **(1)** = 144 765

(d) **process 2** \$6.25 **(1of)** (271 125 / 43 375) [1]
process 3 \$6.02 **(1of)** (205 715 / 34 170) [1]

(e) Any suitable example. [1]