

CAMBRIDGE INTERNATIONAL EXAMINATIONS

General Certificate of Education Advanced Subsidiary and Advanced Level

MARK SCHEME FOR the November 2002 question papers

9706 ACCOUNTING

9706/02 Paper 2 (Structured Questions), maximum raw mark 90

9706/04 Paper 4 (Problem Solving), maximum raw mark 120

These mark schemes are published as an aid to teachers and students, to indicate the requirements of the examination. They show the basis on which Examiners were initially instructed to award marks. They do not indicate the details of the discussions that took place at an Examiners' meeting before marking began. Any substantial changes to the mark scheme that arose from these discussions will be recorded in the published *Report on the Examination*.

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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NOVEMBER 2002

GCE ADVANCED SUBSIDIARY AND ADVANCED LEVEL

MARK SCHEME

MAXIMUM MARK : 90

SYLLABUS/COMPONENT : 9706/02

ACCOUNTING



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	AS and A Level Examinations - November 2002	9706	2

1 (a)	T V	Comp uting	Telep hones	
	\$	\$	\$	\$
Sales	214,000	428,000	107,000	
Cost of Sales:				
Opening stock	8,000	19,000	3,000	
Purchases	<u>119,000</u>	<u>220,000</u>	<u>40,000</u>	3
	127,000	239,000	43,000	
less closing stock	<u>16,000</u>	<u>40,000</u>	<u>5,000</u>	3
Gross profit	103,000	199,000	38,000	
less expenses		229,000	69,000	
General expenses	2,000	4,000	1,000	1
Sales salaries	55,125	73,500	18,375	1
Sales commission	2,140	4,280	1,070	3
Office salaries	10,000	20,000	5,000	1
Wages	16,000	32,000	8,000	1
Advertising	4,000	8,000	2,000	1
Rent	16,800	21,000	4,200	3
Electricity	4,000	5,000	1,000	1
Insurance	2,000	2,500	500	1
Depreciation - MV	3,000	3,000	3,000	1
-F & F	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	1
Net Profit (loss)	117,065	175,280	46,145	
	(14,065)	53,720	22,855	
				21
Total Net Profit			62,510	
(b) Add interest on Drawings	Dellow	300		
	Coucom	<u>100</u>	<u>400</u>	2
			62,910	
Less Interest on Capital	Dellow	600		
	Coucom	<u>400</u>	<u>1,000</u>	2
			61,910	
Salary - Coucom			<u>7,600</u>	1
			54,310	
Share of Residue	Dellow	32,586		
	Coucom	<u>21,724</u>	<u>54,310</u>	2
				7
(c) Provided each department makes a profit if fixed costs are removed from the equation then each department should continue.				2

Page 2 of 3	Mark Scheme	Syllabus	Paper
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2(a)(i) Cumulative, where dividends, if not paid one year, will be added to the following year's dividends.

Non-cumulative, where dividends, if not paid one year, are lost.

Redeemable, which may be bought back by the Company.

Participating, which receive a share of the profits

Etc

1 for name, 1 for description to maximum

(6)

(ii) Ordinary shares

Voting rights

Share of profits

No fixed dividend

Part owners of business

Own reserves

etc.

Preference shares

No voting rights (usually)

Fixed dividend

Part owners of business

Don't own reserves

etc.

Debentures

No voting rights

Fixed interest

Lenders to business

etc.

2 each to maximum

(6)

(b) Gross Profit percentage

30.00 %

Net Profit percentage

13.10 %

Current ratio

1.87 :1

Liquid ratio

0.46 :1

Stock Turnover ratio

5.00 times

Fixed Assets to Sales

45.71 %

Return on Total Assets

21.39 %

Return on Net Assets

26.41 %

Debtors' payment period

23 days

accept 22.42

Creditors' payment period

28 days

accept 27.38

1 each to maximum

(10)

(c) The Gross Profit ratio is the same as the industry average, suggesting that Manny's business is up to standard, but the Net Profit ratio is considerably lower, suggesting that his expenses are higher than they ought to be. Current ratio is reasonably close, but Liquid ratio is less than half, suggesting that there is a real problem with liquidity - in this case possibly the high overdraft. The stock turnover ratio is only 62½% of industry average, which suggests that if this were to be improved then GP ratio would increase dramatically. Fixed Assets to Sales is lower than average, which is good, but Return on both Total and Net Assets is low, suggesting poor use of assets. Debtors are paying faster than average, which helps cash flow, but Manny is also paying creditors faster than average, which is good for relations with suppliers, but not good for cash flow.

1 each point to max

(8)

Page 3 of 3	Mark Scheme	Syllabus	Paper
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- 3 (a) Sales for Sintax = $\$90,000/10 = 9,000$ units 2
 Sales for Gremmer = $\$30,000/15 = 2,000$ units. 2 (4)

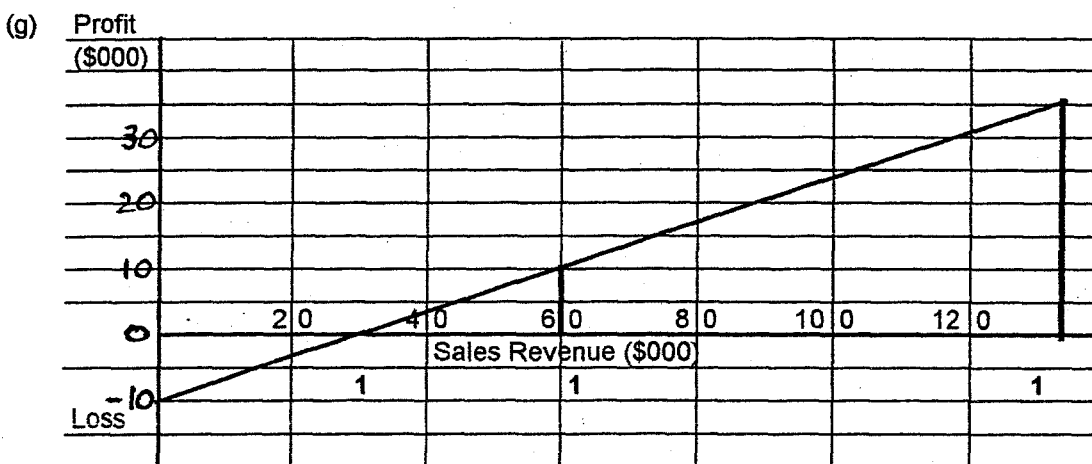
(b)	Sintax	Gremmer		
Unit selling price	\$10	\$15		
Unit variable costs	\$6	\$12		
Unit contribution	\$4	\$3	2	
Contribution/sales ratio	4/10	3/15		
	40%	20%	2	(4)

(c)	Sintax total contribution	9,000 x 4	\$36,000	1	
	Gremmer total contribution	2,000 x 3	\$6,000	1	
	Company total contribution		\$42,000	10F	
	Total company sales = $\$90,000 + \$30,000 =$		\$120,000	1	
	Company C/S ratio = $\$42,000/\$120,000$		35%	1	(5)

- (d) Break-even = \$28,500 (approx)
 Profit at Sales of \$120,000 = \$32,000
 Loss at Sales of \$20,000 = £2,500 (approx) (3)

(e)	Increase of 10% on \$120,000 = \$12,000				
		Sintex	Gremmer		
	Sales now	\$96,000	\$36,000	2	
	Divide by sales price	\$10	\$15		
	Unit sales now	9600	2400	2	(4)

(f)	Sintax total contribution	9,600 x 4	\$38,400	2	
	Gremmer total contribution	2,400 x 3	\$7,200	2	
	Company total contribution		\$45,600	1	
	Total company sales =		\$132,000	1	
	Company C/S ratio = $\$45,600/\$132,000$		34.5% (approx)	1	(7)



(3)