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*.

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

CAMBRIDGE
INTERNATIONAL EXAMINATIONS

NOVEMBER 2002

GCE ADVANCED SUBSIDIARY AND ADVANCED LEVEL

MARK SCHEME

MAXIMUM MARK : 90

SYLLABUS/COMPONENT : 9706/02

ACCOUNTING

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	119,000		220,000		40,000		3
	127,000		239,000		43,000		
less closing stock	16,000	111,000	40,000	199,000	5,000	38,000	3
Gross profit		103,000		229,000		69,000	
less expenses							
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	2,000	117,065	2,000	175,280	2,000	46,145	1
Net Profit (loss)		(14,065)		53,720		22,855	
							21

Total Net Profit			62,510	
(b) Add interest on Drawings	Dellow	300		
	Coucom	100	400	2
			62,910	
Less Interest on Capital	Dellow	600		
	Coucom	400	1,000	2
			61,910	
Salary - Coucom			7,600	1
			54,310	
Share of Residue	Dellow	32,586		
	Coucom	21,724	54,310	2
				7

(c) Provided each department makes a profit if fixed costs are removed from the equation then each department should continue.

2

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)

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	1OF
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

	Simtex	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)
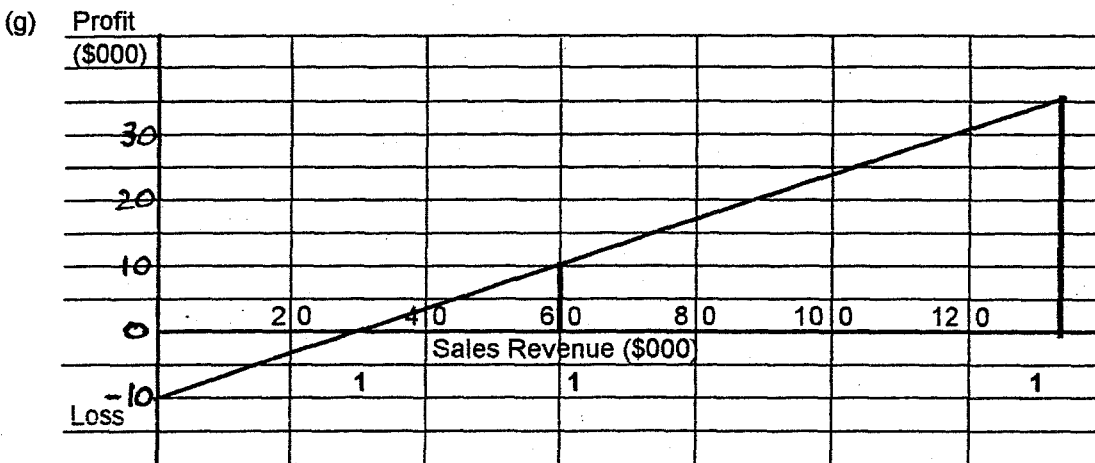
(g) Profit

Break-even = $29,000 (approx)
Profit at $132,000 sales = $35,600 (approx)
Profit at $60,000 sales = $10,000 (approx)   **(3)**