

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
GCE Advanced Level

MARK SCHEME for the June 2005 question paper

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 students, to indicate the requirements of the examination. It shows the basis on which Examiners were initially instructed to award marks. It does 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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Grade thresholds for Syllabus 9706 (Accounting) in the June 2005 examination.

	maximum mark available	minimum mark required for grade:		
		A	B	E
Component 4	120	98	87	45

The thresholds (minimum marks) for Grades C and D are normally set by dividing the mark range between the B and the E thresholds into three. For example, if the difference between the B and the E threshold is 24 marks, the C threshold is set 8 marks below the B threshold and the D threshold is set another 8 marks down. If dividing the interval by three results in a fraction of a mark, then the threshold is normally rounded down.



June 2005

GCE A LEVEL

MARK SCHEME

MAXIMUM MARK: 120

SYLLABUS/COMPONENT: 9706/04

ACCOUNTING

Paper 4 Problem Solving (Supplementary Topics)



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	Accounting – June 2005	9706	4

1 (a)

Clutterbuck Ltd

Profit and Loss Account for the year ended 30 April 2005

	\$000	\$000
Operating profit		227 (1)(OF)
Interest on debentures		<u>9 (1)</u>
Profit before taxation		218
Taxation (22 (1) + 31 (1) - 25 (1))		<u>28 (1)</u>
		190
Preference dividend	30 (1)	
Ordinary dividend ($2\frac{1}{2}\%$ (1) x 1.60 (1) x 2 500 (1))	<u>100 (1)</u>	<u>130</u>
Retained profit for the year		<u>60 (1) or 0</u>

[12]

(b) Cash flow statement extracts:

(i) Reconciliation of operating profit to net cash flow from operating activities

	\$000	\$000
Operating profit		227 (OF)
Depreciation: plant and machinery		110
motor vehicles		95
		} (1)for both
Profit on disposal of plant and machinery		(15) (1)
Loss on disposal of motor vehicles		<u>12 (1)</u>
		429 (1)(OF)

(ii) Capital expenditure

Purchase of fixed assets	(560) (1)	
Proceeds of disposals	<u>33 (1)</u>	(527)

[6]

(c) Statement of recognised gains and losses

	\$000
Profit for the year	218 (1)(OF)
Unrealised gain on revaluation of premises	<u>800 (1)</u>
	<u>1 018</u>

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(d)	\$000	\$000	\$000	\$000	\$000
Fixed assets	2550				2550.0
Net current assets	<u>950</u>	+250 (1)	-157.5 - 360 (1)		<u>682.5</u>
	3500				3232.5
6% debentures 2005/2006	<u>150</u>	- 150			-
	3350				<u>3232.5 (1) OF</u>
Ordinary shares of \$1	2500		+200		2700.0 (1) (or 0)
10% redeemable preference shares of \$1	300		-300		-
Share Premium account	200	+50 (1)	-7.5 (1)		242.5 (1)OF
Capital Redemption Reserve			+50		50.0 (1)OF
Profit and Loss Account	<u>350</u>		-60 (1)	-50 (1)	<u>240.0 (1)</u>
	<u>3350</u>				<u>3232.5 (1)OF</u>

[14]

(e) Cash flow statementFinancing

	\$000	\$000
Issue of ordinary shares of \$1	250.0 (1)	
Redemption of redeemable preference shares	(360.0) (1)	
Redemption of debentures	(<u>157.5</u>) (1)	(267.5)

[3]

(f) Following the redemption of the debentures and preference shares, there was expectation that:

- (i)** the earnings for the ordinary shares (EPS) will increase **(1)**
- (ii)** the dividend cover will increase **(1)**
- (iii)** the price earnings ratio (PER) will increase **(1)**
- (iv)** the dividend yield will decrease **(1)**
- (v)** gearing will be reduced to nil **(1)**

Other points may be acceptable

(1 mark for identification two further marks for development)

[3]

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(a)

Sperrabuck Ltd

Cash budget for four months to 31 October 2005

	July \$	August \$	September \$	October \$
Cash sales	33 120 (1)	34 960 (1)	35 880 (1)	40 500 (1)
Receipts from debtors 1 month	53 900 (1)	40 572 (1)	42 826 (1)	43 953 (1)
2 months	8 800 (1)	11 000 (1)	8 280 (1)	8 740 (1)
	95 820	86 532	86 986	93 193
Payments to creditors	62 429 (1)	64 071 (1)	72 321 (1)	85 714 (1)
Wages	8 000 (1) ↔	8 000	8 400 (1) ↔	8 400
Staff bonus	1 200 (1)	112 (1)	296 (1)	388 (1)
Other expenses	7 000 (1) ↔	7 000	7 560 (1) ↔	7 560
Purchase of fixed assets			20 000 (1)	
Payment of dividend		30 000 (1)		
	78 629	109 183	108 577	102 062
Net receipts/(payments)	17 191	(22 651)	(21 591)	(8 869)
Balance brought forward	12 000(1) or 0	29 191	6 540	(15 051)
Balance carried forward	29 191	6 540	(15 051)	(23 920) (1)

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(b) Budgeted Balance Sheet extract at 31 October 2005

	\$	\$
<u>Current assets</u>		
Stock		162 857
Trade debtors		
(101 250 x 50% x 98%)	49 613 (1)	
(101 250 x 10%)	10 125 (1)	
(89 700 x 10%)	<u>8 970 (1)</u>	68 708
<u>Current liabilities</u>		
Bank overdraft	23 920 (1) OF	
Trade creditors	77 143 (1)	
Bonus	<u>850 (1)</u>	77 993

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(c) Budgets

- formalise management plans
- co-ordinate all functions of business
- provide information for ongoing control of business
- warn of possible future shortages of resources
- enable remedial action to be taken
- induce a sense of commitment by management participation
- are an essential tool of responsibility accounting

Other points may be acceptable

(1 mark for each valid point maximum 3 marks)

[3]

(d) Standard costing

- facilitates preparation of budgets
- provides basis for calculating variances
- standards must be kept up-to-date
- standard costs are acceptable for stock valuation.

(Maximum of three points 1 mark for each point)

[3]

3

Passabuck Ltd

(a)

	Meenibuck	Teenibuck	Deluxibuk	
Per unit	\$	\$	\$	
Selling price	<u>74</u>	<u>85</u>	<u>115</u> (1)	(all 3 correct)
Direct material	15	21	30 (1)	(all 3 correct)
Direct labour	28	42	56 (1)	(all 3 correct)
Direct expenses	<u>7</u>	<u>4</u>	<u>9</u> (1)	(all 3 correct)
	<u>50</u>	<u>67</u>	<u>95</u> (1)	(all 3 correct)
Contribution	24 (1)	18 (1)	20 (1)	
Contribution per kilo of material (1)	\$4.8 (1)	\$2.6 (1)	\$2 (1)	

[12]

Ranking	1	2	3
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(b) Revised production budget:

Product	Quantity	Material
Ranking (1)		kilos
1 Meenibucks	2 000 (1) x 5 (1)	10 000 (1)
2 Teenibucks	2 400 (1) x 7 (1)	16 800 (1)
3 Deluxibuks	1 120 (1) x 10 (1)	<u>11 200 (1)</u>
		<u>38 000 (1)</u>

[11]

(c)

	\$
(i) direct material variance (680 x \$30)	20 400 (1) favourable (1)
(ii) direct labour variance (14 400 – 8960)	38 080 (1) favourable (1)
(iii) direct expenses variance (680 x \$9)	6 120 (1) favourable (1)
(iv) sales volume variance (680 x \$115)	78 200 (1) adverse (1)

[8]

(d) Reconciliation of profit per the original budget with profit per the revised budget

Profit per original budget:	\$	\$
Contributions:		
Meenibucks	48 000 (1)(OF)	
Teenibucks	43 200 (1)(OF)	
Deluxibuks	<u>36 000 (1)(OF)</u>	
		127 200
Less Fixed costs		<u>70 000</u>
Profit		57 200 (1) (OF)
direct materials variance (680 x \$30)	20 400 (1) (OF)	
direct labour variance (14 400 - 8 960)\$7	38 080 (1) (OF)	
direct expenditure (680 x \$9)	<u>6 120 (1) (OF)</u>	
	64 600	
sales volume variance (680 x \$115)	<u>(78 200) (1) (OF)</u>	<u>13 600</u>
Profit per revised budget		<u>43 600 (1) (OF)</u>

[9]