UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2007 question paper

9706 ACCOUNTING

9706/04 Paper 4 (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.

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.

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UNIVERSITY of CAMBRIDGE International Examinations

1 (a) Capital accounts Abcan

	A	B	C		A	B	C
Debentures			40 000 **(1)**	Balances	100 000	70 000	50 000
Pref sh	28 500 **(1)**	19 000 **(1)**	9 500 **(1)**	Loan			30 000 **(1)**
Ord sh	65 000 **(1)**	45 500 **(1)**	32 500 **(1)**	Prof on real	18 300	12 200 **(5) w1**	6 100
Investments		13 400 **(1)**		Cash		3 200 **(1of)**	3 700 **(1of)**
Vehicles	10 000	7 500 **(1all)**	7 800				
Cash	14 800 **(1of)**						
	118 300	85 400	89 800		118 300	85 400	89 800

w1 100 000 + 35 000 + 78 000 + 12 000 + 10 000 **(1)** + 6 400 + 1 100 – 400 **(1)**

less 13 400 + 10 000 + 7 500 + 7 800 **(1)** + 240 000 **(1)**

= 36 600 = A18 300 + B12 200 + C6 100 **(1)**

Capital accounts Gurbo

	G	H		G	H
Pref sh	21 500 **(1 both)**	21 500	Balances	50 000	45 000
Ord sh	45 500 **(1both)**	45 500	Prof on real	20 450 **(5) w2**	20 450
Cash	3 450 **(1)**		Cash		1 550 **(1)**
	70 450	67 000		70 450	67 000

w2 70 000 + 13 000 + 5 000 **(1)** +2 000 **(1)** + 3 100 **(1)** less 13 4000 **(1)** = 40 900 = 20 450 each **(1of)**

(b) A 54 000 shares (1) C, G and H 36 000 shares (1) B 18 000 shares (1)

(c) A pays $5 200 **(1)** C pays $14 300, G and H pay $1 300 each **(1)**

and B receives $22 100 **(1)** all o/f from **(b)**

(d) ABCOGH Ltd Balance Sheet at 31 March 2007

	$	
Premises	270 000	
Machinery	40 000	**(1 all)**
Vehicles	40 000	
Stock	14 000	
Goodwill	10 000	**(1)**
	374 000	
Debentures	40 000	
	334 000	
Ordinary shares	180 000	**(2 = 1 for any pair)**
Preference shares	100 000	
Share premium	54 000	
	334 000	

(e) Limited liability

Access to greater sources of finance

Any other sensible reason acceptable

1 mark for identification 1 further mark for development

2 **(a)** Lopez Ltd

Trading and Profit and Loss Account for the year ended 31 March 2007

	$		$	
Sales			438 000	**(1of)**
Less cost of sales				
Stock	10 000	**(1 both stocks)**		
Purchases	223 000	**(1of)**		
	233 000			
Stock	14 000		219 000	**(1)**
Gross profit			219 000	
Less expenses			153 300	**(1of)**
Net profit			65 700	**(1of)**
Dividends paid			16 425	**(1)**
Retained profit for the year			49 275	**(1)**

(b) Balance sheet at 31 March 2007

	$		$	
Fixed assets			333 597	**(1of)**
Current assets				
Stock	14 000	**(1)**		
Debtors	33 600	**(1of)**		
Bank	11 053	**(1of)**		
	58 653	**(1of)**		
Creditors	19 551	**(1of)**	39 102	
			372 699	
Ordinary share capital			250 000	**(1)**
Profit and loss account (73 424 **(1)** + 49 275) **(1of)**			122 699	**(2of)**
			372 699	

(c) dividend as percentage of market price of share (1)

how many times the company can cover the dividend (1)

how much each share is paid in dividends (1)

profits attributable to each share (1)

relates the market price to the earnings per share (1)

(d)

Dividend yield	5% (1)	Dividend/market price of share (1)
Dividend cover	4 times (1)	Profit available/dividend paid (1)
Dividend per share	4 cents (1)	Dividend/issued shares (1)
Earnings per share	16 cents (1)	Profit/issued shares (1)
Price earnings ratio	5 (1)	Market price per share/EPS (1)

(e) in all areas with the exception of dividend cover Lopez's investment ratios are inferior to those of the local businesses. **(0–3 marks)**

dividend cover is higher than the local average **(1)** it means that Lopez could probably maintain dividends in the future **(1)**

yield is less than average **(1)** but should be compared to other alternative investments **(1)**

much inferior to the local average **(1)** less than half but this should be related to the market price of each share **(1)**

the other businesses are earning twice as much per share as Lopez, indicates that Lopez are less successful than the average **(1)**

similar price earnings ratios **(1)** neither ratios indicate great confidence in this sector **(1)**

3 (a)

A $ 0.8 m	B $ 1.1 m	
1.7 m	0.9 m	in both cases all 5 correct = 3 marks
(0.9 m)	3.0 m	4 correct = 2 marks
2.1 m	2.0 m	3 correct = 1 mark
2.5 m	3.7 m	

(b) Average profits

A $6.2 – depn $2.5m = $3.7 m/5 = $0.74 m
(1of) (1) (1of)

B $10.7 m – depn $3.5 m = $7.2 m/5 = $1.44 m
(1of) (1) (1of)

Average investment

A $2.5 m + $0.6 m = $3.1 m
(1) (1) (1of)

B $4 m + $1 m = $ 5m
(1) (1) (1of)

Accounting rate of return A = 0.74/3.1 = 23.87% **(1of)**

B = 1.44/5.2 = 28.8% **(1of)**

(c) Supermarket A

0			(5 000 000)	
1	0.8 m	0.926	740 800	(1)
2	1.7 m	0.857	1 456 900	(1)
3	(0.9 m)	0.794	(714 600)	(1) all own figures
4	2.1 m	0.735	1 543 500	(1)
5	2.5 m	0.681	1 702 500	(1)
		NPV	(270 900)	(1)

Supermarket B

0			(8 000 000)	
1	1 m	0.926	1 018 600	(1)
2	0.9 m	0.857	771 300	(1)
3	3 m	0.794	2 382 000	(1) all own figures
4	2 m	0.735	1 470 000	(1)
5	3.7 m	0.681	2 519 700	(1)
		NPV	161 600	(1)

(d) Supermarket B (1 of) – positive NPV (1) – higher ARR (1)

(e) $8\ \mathbf{(1)} + \left(6\ \mathbf{(1)} \times \frac{161\ 600\ \mathbf{(1)}}{2\ 289\ 200\ \mathbf{(1)}}\right) = 8.42\%\ \mathbf{(1)}$