UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the October/November 2006 question paper

9706 ACCOUNTING

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

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 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.

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

The grade thresholds for various grades are published in the report on the examination for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses.

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Question 1 (a)(i)

Goodwill Account

	$				$	
Bal b/d	10 000	1	Capital	Frank	15 000	1
Revaluation	20 000	1		Ernest	7 500	1
				Devious	7 500	1 (5)
	30 000				30 000	

(ii)

Revaluation account

	$			$	
Equipment	1 300	1	Goodwill	20 000	1
Stock	1 000	1			
Capital - Frank	11 800	1OF	unless aliens		
Ernest	5 900	1OF			
	20 000			20 000	(5)

(iii)

Capital accounts

	$ F	$ E	$ D			$ F	$ E	$ D	
Goodwill	15 000	7 500	7 500	3OF	Bal b/d	80 000	120 000		2
					Premises			196 000	1
Bal c/d	76 800	118 400	188 500	1	Reval	11 800	5 900		1OF
	91 800	125 900	196 000			91 800	125 900	196 000	
					Bal b/d	76 800	118 400	188 500	(8)

(iv)

Balance Sheet at 1 February 2006

				$	$	$	$	
Fixed assets at net book value								
Premises							196 000	1
Motor vehicles							58 200	
Equipment							34 100	1
Fixtures and fittings							39 000	
							327 300	
Current assets								
Stock			1	63 000				
Debtors				45 600				
Bank				19 200	127 800			
Amounts due within 1 year								
Creditors					22 400			
Net current assets							105 400	1
							432 700	
Capital accounts	Frank		(for		76 800			
	Ernest	1of	(all		118 400			
	Devious		(three		188 500	383 700		
Current accounts	Frank		(for		35 400			
	Ernest	1	(both		13 600	49 000	432 700	(8)

(iv) Goodwill is taken into account on the retiral of a partner, who must be credited with his share of Goodwill. An incoming partner must compensate the existing partners for his acquired share of Goodwill. In this situation Goodwill may be raised in the books of account as an asset, but it is considered prudent to adjust individual capital accounts in order to compensate each partner when partners retire from or join a partnership.
Etc.

2 for each point to a maximum of (6)

Total [30]

Question 2

(a) Balance Sheet at 30 September 2006

	$000		$000	$000	
Fixed assets				77	
Current assets					
Stock	12	1			
Debtors	31				
Bank	15	1	58		
Current liabilities					
Creditors	33				
Loan interest due	1	1	34		
Net current assets (working capital)				24	1OF
				101	
Long-term liability					
Bank loan				20	1
				81	
Capital				91	1OF
Net profit				10	
				101	
less drawings				20	
				81	(6)

(b)

(i) Net profit percentage = 4.17% (10/240)x100 2OF
(ii) Current ratio = 1.71:1 (58/34) 2OF
(iii) Quick ratio = 1.35:1(46/34) 2OF
(iv) Rate of stockturn = 9.22 times (166/18) 2
(v) Percentage return on owner's capital employed = 12.35%(10/81)x100 2OF
(vi) Percentage return on total capital employed = 11.88% (12/101)x100 2OF
(vii) Debtors collection period = 48 days (31/240)x365 2
(viii) Creditors payment period = 79 days (33/154)x365 2

2 for correct answer, 1 if suffix omitted (16)

(c) Loss at cost = (240 000x35%) - 74 000 = $10 000
1 1 1 1 (4)

(d)(i) Quick method of comparing either two businesses of the same type or two or more years within one business.
etc
(ii) Too simplistic - eg assumes in times of inflation that income and costs rise at the same rate
etc
1 per point + 1 for expansion to maximum (4)

Total [30]

Question 3 (a)(i)

1	Profit	1
2	Loss	1
3	Sales	1
4	Break-even point	1 (4)

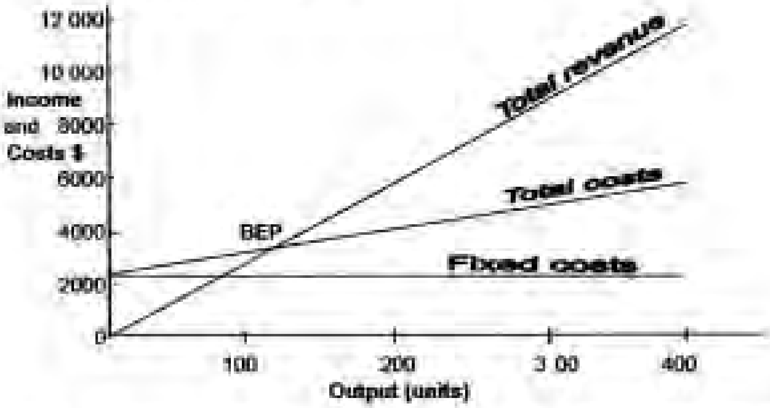
(ii) Break-even = Fixed costs/unit contribution = 95.2381 units = $2,857.14
OR 96 $2880
1 1 1 1
(accept rounding either way) (4)

(iii) Margin of safety is the distance between break-even point and expected level of activity 2
It shows the amount by which actual activity can fall short of expected activity before a loss is incurred 2
It is a measure of risk 2
to maximum (4)

(iv) 300-96 = 204 units = $6120 (4)
2 1 1

(b)(i) New fixed costs = 115% of $2000 = $2300
New break-even = 2300/21 109.52381 Units
New profit = (400-109.52381) x 21 = $6100
1 1 1 1
Candidate may round B/E to 109 or 110 in which case accept answer of 6090 or 6111
OR
Profit = Sales - (VC +FC)
=400 x 30 - ((400 x 9) + 2300)
=12000 -(3600 + 2300) = $6100
1 1 1 1 (4)

(ii) Larry Ltd - Break-even chart



Marks - 1 for heading, 1 for BEP, 1 each for titles on axes, 1 each for lines with titles
to maximum (6)

(c)

(i) Fixed costs remain fixed for all levels of activity

(ii) Unit variable costs remain constant

(iii) Unit selling price remains constant

(iv) All costs can be separated into fixed or variable

Etc

1 each to a maximum of *(4)*

Total [30]