

MARK SCHEME for the October/November 2008 question paper

9706/04	9706 ACCOUNTING Paper 4 (Problem Solving – Supplement), maximum raw mark 120
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1 (a) Wong

Realisation Account

	\$		\$
Equipment	16 000	Cash	18 000 (1)
Stock	6 000 (1)	Creditors	400 (1)
Equipment	20 000 (all three)		
Debtors	200 (1)	GWG	57 000 (1)
Bank Costs	700 (1)		
Profit	<u>32 500 (1 of)</u>		
	<u>75 400</u>		<u>75 400</u>

Bank

Balance	1 000 (1)	Creditors	3 600 (1)
Equipment	18 000 (1)	Costs	700 (1)
Debtors	<u>2 800 (1)</u>	Capital	<u>17 500 (1 of)</u>
	<u>21 800</u>		<u>21 800</u>

Capital

Debentures	25 000	Balance	42 000 (1)
Ord shares	32 000 (1 both)	Profit	32 500 (1 of)
Cash	<u>17 500 (1 of)</u>		
	<u>74 500</u>		<u>74 500</u>

[17]

(b) Gruber and Gupta

Realisation Account

	\$		\$
Fixed Assets	80 000	GWG	114 000 (1)
Stock	15 000 (1 both)		
Debtors	1 000 (1)		
Costs	2 100 (1)		
Profit	<u>15 900 (1 of)</u>		
	<u>114 000</u>		<u>114 000</u>

Bank

Debtors	10 000 (1)	Balance	5 000 (1)
Gruber	8 550 (1 of)	Creditors	2 000 (1)
		Costs	2 100 (1)
		Gupta	<u>9 450 (1 of)</u>
	<u>18 550</u>		<u>18 550</u>

Capital Accounts

	Gruber	Gupta		Gruber	Gupta
Debentures	25 000 (1)	25 000	Balance	40 500 (1)	58 500
Ord shares	32 000 (1)	32 000	Profit	7 950 (1 of)	7 950
Bank		<u>9 450 (1 of)</u>	Bank	<u>8 550 (1 of)</u>	
	<u>57 000</u>	<u>66 450</u>		<u>57 000</u>	<u>66 450</u>

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(c) GWG Balance sheet at 1 April 2008

	\$		
Fixed Assets	150 000	(1 with stock)	
Goodwill	1 500	(2)	(500) (1) + 2000 (1)
Stock	<u>19 500</u>		
	171 000		
Debentures	<u>75 000</u>	(1)	
	<u>96 000</u>		
Ordinary share capital	72 000	(1)	
Share premium	<u>24 000</u>	(1 of)	
	<u>96 000</u>		

[6]

2 (a) Trading profit before interest and tax for the year ended 30 June 2008.

	\$000		
Retained profit for the year	148	(2)	(\$341(1) – \$193(1))
Debenture interest	81	(2)	(\$36 (1) + \$45 (1))
Taxation	60	(1)	
Preference dividends paid	24	(1)	
Ordinary dividend paid	34	(1)	
Ordinary dividend proposed	<u>52</u>	(1)	
Operating profit	<u>399</u>	(1 of)	

[9]

(b) Cash flow statement for the year ended 30 June 2008 (1)

	\$000	\$000	
Cash inflow from operating activities		555	(1 of)
Returns on investments and servicing of finance			
Debenture interest paid	(81)	(1)	
Preference share dividend paid	<u>(48)</u>	(1)	(129)
Taxation			
Corporation tax paid		(220)	(1)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets	(430)		(212 (1) + 218 (1))
Receipts from sales of vehicles	18	(1)	
Payments to acquire investments	<u>(30)</u>	(1)	(442)
Equity dividends paid			
Dividends paid during year		<u>(79)</u>	(34 (1) + 45 (1))
Net cash outflow before financing		<u>(315)</u>	(1 of)
Financing			
Receipts from issue of shares	600	(2)	
Receipts from sale of debentures	500	(1)	
Redemption of preference shares	(420)	(2)	
Redemption of debentures	<u>(450)</u>	(1)	
Decrease in cash	<u>(85)</u>	(2)	

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Reconciliation of operating profit to net cash flow from operating activities

	\$000	\$000	
Operating profit		399	(1of)
Depreciation			
Land and buildings	25		(1)
Plant and machinery	50		(1)
Vehicles	<u>230</u>	305	(1)
Profit on sale of vehicles		(4)	(1)
Increase in stock		(144)	(1)
Decrease in debtors		16	(1)
Decrease in creditors		<u>(17)</u>	(1)
Net cash inflow		<u>555</u>	(1) [29]

- (c) It is a requirement; it completes the financial picture i.e. profits, state of affairs, cash; shows cash inflows and cash outflows important for survival; shows how efficiently or inefficiently cash has been used throughout the year; shows clearly internal and external financing etc. **1 point identified plus 1 further mark for development** [2]

3 (a)	Materials price variance	\$60.50 favourable	(2)	
	Materials usage variance	\$336.00 adverse	(2)	
	Total materials variance	\$275.50 adverse	(2 of)	
	Labour rate variance	\$180 favourable	(2)	
	Labour efficiency variance	\$189 favourable	(2)	
	Total labour variance	\$369 favourable	(2 of)	[12]

- (b) Favourable wage rate variance and adverse material usage variance – perhaps less skilled workers so more materials being used (wasted?) or other valid connections. [2]

(c) Machine A

Year	Net cash flows	Discount factor	Net present value	
	\$		\$	
0	(40 000) (1)	1	(40 000.00) (1)	
1	21 750 (1)	0.935	20 336.25 (1of)	
	15 750 (1)	0.873	13 749.75 (1of)	
3	9 450 (1)	0.816	7 711.20 (1of)	
4	2 835 (1)	0.763	<u>2 163.105</u> (1of)	
			<u>43 960.305</u>	
		NPV (1)	<u>3 960.305</u> (1of)	[12]

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- (d) On purely financial grounds the machine **B** should be chosen (1) it has the higher NPV (1) but machine **A** has a lower initial cost (1). and will provide work for a local manufacturer (1)

Machine **B** has a marginally slower pay back (1) 2.47 years compared to 2.26 years (2).

Being produced locally could mean better after sales service for machine **A** (1) and possibly easier access to spares etc (1). Training for operatives may be easier with a local supplier (1).

Other sensible arguments to be rewarded

2 marks for clear advice based on analysis of the data

[max 8]

(e) $IRR = 7 (1) + (7 (1) \times \frac{5697 (1)}{(5697 (1) + 100.50 (1))}$

$$7 + 7 \times \frac{5697}{5797.5}$$

$$7 + 6.8787$$

$$13.8787\% (1)$$

[6]