

**MARK SCHEME for the October/November 2009 question paper
for the guidance of teachers**

9706 ACCOUNTING

9706/42

Paper 42 (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, which would have considered the acceptability of alternative answers.

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1 (a) Capital accounts

	A	B		A	B
Shares W2	72 000 (4)	48 000	Balances	70 000 (1)	50 000
Debentures	10 000 (1)	10 000	Profit on real'n W1	22 800(3of)	15 200
Cash W3	<u>10 800 (3of)</u>	<u>7 200</u>			
	<u>92 800</u>	<u>65 200</u>		<u>92 800</u>	<u>65 200</u>

[12]

W1 150 (1) – 112 (1) = 22 800 and 15 200 (1)

W2 150 (1) – 30 (1) = 72 000 (1) and 48 000 (1)

W3 10 000 + 8000 = 10 800 (1) and 7200 (1) to balance capital accounts.
(1 for both)

(b) Drakar Ltd
Balance sheet at 1 April 2009

	\$	\$
Fixed assets		830 000 (1)
Goodwill W1		<u>87 000 (3)</u>
		917 000
Current assets		
Stock	56 000 (1)	
Trade debtors	85 000 (1)	
Bank balance W2	<u>189 000 (5)</u>	
	<u>330 000</u>	
Creditors: amounts falling due in less than one year		
Trade creditors	<u>(43 000) (1)</u>	
Net current assets		<u>287 000</u>
		1 204 000
Creditors: amounts falling due in more than one year		
8% debentures (2026)		<u>140 000 (1)</u>
Net assets		<u>1 064 000</u>
Share capital and reserves		
Ordinary shares of \$1 each fully paid W3		650 000 (4)
Share premium W4		220 000 (3)
Retained earnings W5		<u>194 000 (3)</u>
Total equity		<u>1 064 000</u>

[23]

W1 150 (1) – 63 (1) = 87 (1)

W2 (21 000) (1) + (10 000) (1) + 250 000 (1) + (30 000) (1) = 189 000 (1)

W3 500 (1) + 50 (1) 100 (1) = 650 (1)

W4 70 (1) + 150 (1) = 220 (1)

W5 224 (1) – 30 (1) = 194 (1)

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- (c) Cheaper than public issue (0–3)
Does not dilute the power base of the company (0–3)
1 mark for identification plus up to two further marks for development [max. 5]

2 (a) Reconciliation of profit from operations to net cash flow from operating activities.

	\$000	
Operating profit	156 (1)	
Adjustments for depreciation	341 (6)	23 (1) + 110 (1) + 58 (2) + 150 (1)
Profit on disposal of fixed assets	(101) (4)	240 – 320 – 21 (1 each)
Loss on disposal of fixed assets	5 (1)	
Increase in stock	(70) (1)	
Increase in trade debtors	(80) (1)	
Decrease in trade creditors	<u>5</u> (1)	
	<u>256</u> (1)	[16]

(b) Cash flow statement for the year ended 31 March 2009 (1)

Operating activities		
Net cash inflow from operating activities	256 (1)	
Returns on investments and servicing of finance		
Interest paid	(28) (1)	
Taxation		
Corporation tax paid	(50) (1)	
Capital expenditure and financial investments		
Payments to acquire tangible fixed assets	(800) (4)	(400) + (250) + (150) (1 each)
Receipts from the sale of fixed assets	332 (3)	320 + 12 (1 each)
Equity dividends paid		
Equity dividends paid during the year	<u>(32)</u> (1)	
Net cash outflow before financing	(322) (1)	
Financing		
Receipts from issue of ordinary shares	660 (3)	300 + 360 (1 each)
Repayment of debentures	<u>(100)</u> (1)	
Increase in cash	<u>238</u> (2)	[19]

(c) Reconciliation of net cash to movement in net debt

Increase in cash during year	238 (1)	
Cash used to repurchase debentures	<u>100</u> (1)	
Change in net debt	338 (1)	
Net debt at 1 April 2008	<u>(348)</u> (1)	
Net debt at 31 March 2009	<u>(10)</u> (1)	[5]

3 (a)

Process 1

	kg	\$		kg	\$	
Raw materials	100 000	130 000	(1)	Animal feed	2 000	1 200 (1)
Labour	92 000	184 000	(1)	To process 2	45 000	188 000 (1of)
Variable costs	92 000	55 200	(1)	To process 3	36 000	150 400 (1of)
Fixed costs		<u>8 000</u>	(1)	Sales outlet	9 000	<u>37 600</u> (1of)
		<u>377 200</u>			<u>377 200</u>	[8]

(b) \$4.18 (1of) 376 000 / 90 000 [1]

(c)

Process 2

	kg	\$		kg	\$	
Transfer from Process 1	45 000	188 000	(1of)	Animal feed	625	375 (1)
Direct labour	44 000	66 000	(1)	To sales	43 375	271 125 (1of)
Variable costs	44 000	5 500	(1)			
Fixed costs		<u>12 000</u>	(1)			
		<u>271 500</u>			<u>271 500</u>	[6]

Process 3

	kg	\$	\$		kg	\$	\$
Transfer from Process 1	36 000		150 400 (1)	Animal feed	330		198 (1)
Direct labour	34 500	44 850 (2) W1		WIP	1 000		
	1 000	<u>390 (3) W2</u>	45 240	Process 1		4 237 W5	
Variable costs	34 500	6 900 (2) W3		Direct labour		390	
	1 000	<u>60 (3) W4</u>	6 960	Variable costs		60	
Fixed costs			8 000 (1)	Finished goods	34 170		
				Process 1		144 765 W5	
				Direct labour		44 850	
				Variable costs		6 900	(1of)
				Fixed costs		8 000	
				Loss on spoilage			
				(1398-198)		<u>1 200(2)</u>	205 715
			<u>210 600</u>				<u>210 600</u>

W1 34 500 (1) × 1.3 (1) = 44 850

W2 1 000 (1) × 1.3 (1) = 390

0.3 (1)

W3 34 500 (1) × 0.2 (1) = 6900

W4 1 000 (1) × 0.2 (1) × 0.3 (1) = 60

W5 150 400 (1) ÷ 35 500 (1) = 4.237 (1) × 1000 (1) = 4 237
= 4.237 × 34 170 (1) = 144 765

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(d) **process 2** \$6.25 (1of) (271 125 / 43 375) [1]
process 3 \$6.02 (1of) (205 715 / 34 170) [1]

(e) Any suitable example. [1]