UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the October/November 2008 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.

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

- CIE will not enter into discussions or correspondence in connection with these mark schemes.

CIE is publishing the mark schemes for the October/November 2008 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

UNIVERSITY of CAMBRIDGE International Examinations

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	32 500	**(1 of)**			
	75 400			75 400	

Bank

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

Capital

Debentures	25 000		Balance	42 000	**(1)**
Ord shares	32 000	**(1 both)**	Profit	32 500	**(1 of)**
Cash	17 500	**(1 of)**			
	74 500			74 500	

[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	15 900	**(1 of)**			
	114 000			114 000	

Bank

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

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			9 450	**(1 of)**	Bank	8 550	**(1 of)**	
	57 000		66 450			57 000		66 450

[17]

(c) GWG Balance sheet at 1 April 2008

	$		
Fixed Assets	150 000	**(1 with stock)**	
Goodwill	1 500	**(2)**	(500) **(1)** + 2000 **(1)**
Stock	19 500		
	171 000		
Debentures	75 000	**(1)**	
	96 000		
Ordinary share capital	72 000	**(1)**	
Share premium	24 000	**(1 of)**	
	96 000		[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	52	**(1)**		
Operating profit	399	**(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	(48)	**(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	(30)	**(1)**	(442)		
Equity dividends paid					
Dividends paid during year			(79)		(34 **(1)** + 45 **(1)**)
Net cash outflow before financing			(315)	**(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	(450)	**(1)**			
Decrease in cash	(85)	**(2)**			

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	230	**(1)**	305		
Profit on sale of vehicles			(4)	**(1)**	
Increase in stock			(144)	**(1)**	
Decrease in debtors			16	**(1)**	
Decrease in creditors			(17)	**(1)**	
Net cash inflow			555	**(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	2 163.105	**(1of)**	
				43 960.305		
			NPV **(1)**	3 960.305	**(1of)**	[12]

(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)** × $\dfrac{5697\ \mathbf{(1)}}{(5697\ \mathbf{(1)} + 100.50\ \mathbf{(1)})}$)

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

7 + 6.8787

13.8787% **(1)** [6]