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 May/June 2007 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.
1 (a)  
Capital accounts Abcan

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debs</td>
<td>40 000 (1)</td>
<td></td>
<td></td>
<td>Balances</td>
<td>100 000</td>
<td>70 000</td>
</tr>
<tr>
<td>Pref Sh</td>
<td>28 500 (1)</td>
<td>19 000 (1)</td>
<td>9 500 (1)</td>
<td>Loan</td>
<td>30 000 (1)</td>
<td></td>
</tr>
<tr>
<td>Ord Sh</td>
<td>65 000 (1)</td>
<td>45 500 (1)</td>
<td>32 500 (1)</td>
<td>Prof on real</td>
<td>18 300</td>
<td>12 200 (5)</td>
</tr>
<tr>
<td>Invests</td>
<td>13 400 (1)</td>
<td></td>
<td></td>
<td>Cash</td>
<td>3 200 (1 of)</td>
<td>3 700 (1 of)</td>
</tr>
<tr>
<td>Vehicles</td>
<td>10 000</td>
<td>7 500 (1 all)</td>
<td>7 800</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>14 800 (1 of)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\[
\begin{align*}
\text{w1} & \: 100 000 + 35 000 + 78 000 + 12 000 + 10 000 (1) + 6 400 + 11 100 - 400 (1) \\
\text{less} & \: 13 400 + 10 000 + 7 500 + 7 800 (1) + 240 000 (1) \\
\text{=} & \: 36 600 = A 18 300 + B 12 200 + C 6 100 (1)
\end{align*}
\]

(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

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premises</td>
<td>270 000</td>
</tr>
<tr>
<td>Machinery</td>
<td>40 000</td>
</tr>
<tr>
<td>Vehicles</td>
<td>40 000</td>
</tr>
<tr>
<td>Stock</td>
<td>14 000</td>
</tr>
<tr>
<td>Goodwill</td>
<td>10 000</td>
</tr>
<tr>
<td></td>
<td>374 000</td>
</tr>
<tr>
<td>Debentures</td>
<td>40 000</td>
</tr>
<tr>
<td></td>
<td>334 000</td>
</tr>
<tr>
<td>Ordinary shares</td>
<td>180 000</td>
</tr>
<tr>
<td>Preference shares</td>
<td>100 000</td>
</tr>
<tr>
<td>Share premium</td>
<td>54 000</td>
</tr>
<tr>
<td></td>
<td>334 000</td>
</tr>
</tbody>
</table>

(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  122 699 (2of)
(73 424 (1) + 49 275) (1of)
372 699

© UCLES 2007
(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 \text{ m} \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad \quad B $ 1.1 \text{ m} 

\begin{align*} 
1.7 \text{ m} & \quad 0.9 \text{ m} \\
(0.9 \text{ m}) & \quad 3.0 \text{ m} \\
2.1 \text{ m} & \quad 2.0 \text{ m} \\
2.5 \text{ m} & \quad 3.7 \text{ m} 
\end{align*}

in both cases all 5 correct = 3 marks

(b) Average profits

A \quad $6.2 - \text{ depn } $2.5 \text{ m} = $3.7 \text{ m}/5 = $0.74 \text{ m} 

\begin{align*} 
(1) & \quad (1) 
\end{align*}

B \quad $10.7 \text{ m} - \text{ depn } $3.5 \text{ m} = $7.2 \text{ m}/5 = $1.44 \text{ m} 

\begin{align*} 
(1) & \quad (1) 
\end{align*}

Average investment

A \quad $2.5 \text{ m} + $0.6 \text{ m} = $3.1 \text{ m} 

\begin{align*} 
(1) & \quad (1) 
\end{align*}

B \quad $4 \text{ m} + $1 \text{ m} = $5 \text{ m} 

\begin{align*} 
(1) & \quad (1) 
\end{align*}

Accounting rate of return  

A = \frac{0.74}{3.1} = 23.87\% \quad (1) 

B = \frac{1.44}{5.2} = 28.8\% \quad (1)
(c) Supermarket A

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td></td>
<td>(5 000 000 )</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>0.8 m</td>
<td>0.926</td>
<td>740 800</td>
<td>(1)</td>
</tr>
<tr>
<td>2</td>
<td>1.7 m</td>
<td>0.857</td>
<td>1 456 900</td>
<td>(1)</td>
</tr>
<tr>
<td>3</td>
<td>(0.9 m)</td>
<td>0.794</td>
<td>(714 600 )</td>
<td>(1) all own figures</td>
</tr>
<tr>
<td>4</td>
<td>2.1 m</td>
<td>0.735</td>
<td>1 543 500</td>
<td>(1)</td>
</tr>
<tr>
<td>5</td>
<td>2.5 m</td>
<td>0.681</td>
<td>1 702 500</td>
<td>(1)</td>
</tr>
</tbody>
</table>

NPV (270 900 ) (1)

Supermarket B

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td></td>
<td>(8 000 000 )</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>1 m</td>
<td>0.926</td>
<td>1 018 600</td>
<td>(1)</td>
</tr>
<tr>
<td>2</td>
<td>0.9 m</td>
<td>0.857</td>
<td>771 300</td>
<td>(1)</td>
</tr>
<tr>
<td>3</td>
<td>3 m</td>
<td>0.794</td>
<td>2 382 000</td>
<td>(1) all own figures</td>
</tr>
<tr>
<td>4</td>
<td>2 m</td>
<td>0.735</td>
<td>1 470 000</td>
<td>(1)</td>
</tr>
<tr>
<td>5</td>
<td>3.7 m</td>
<td>0.681</td>
<td>2 519 700</td>
<td>(1)</td>
</tr>
</tbody>
</table>

NPV 161 600 (1)

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

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