CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Subsidiary and Advanced Level

MARK SCHEME FOR the November 2002 question papers

9706 ACCOUNTING

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>Maximum Raw Mark</th>
</tr>
</thead>
<tbody>
<tr>
<td>9706/02</td>
<td>Paper 2 (Structured Questions)</td>
<td>90</td>
</tr>
<tr>
<td>9706/04</td>
<td>Paper 4 (Problem Solving)</td>
<td>120</td>
</tr>
</tbody>
</table>

These mark schemes are published as an aid to teachers and students, to indicate the requirements of the examination. They show the basis on which Examiners were initially instructed to award marks. They do not indicate the details of the discussions that took place at an Examiners' meeting before marking began. Any substantial changes to the mark scheme that arose from these discussions will be recorded in the published *Report on the Examination*.

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 2002 question papers for most IGCSE, GCE Advanced Subsidiary (AS) and GCE Advanced (A) Level syllabuses.
<table>
<thead>
<tr>
<th>MARK SCHEME</th>
</tr>
</thead>
<tbody>
<tr>
<td>MAXIMUM MARK : 90</td>
</tr>
<tr>
<td>SYLLABUS/COMPONENT : 9706/02</td>
</tr>
<tr>
<td>ACCOUNTING</td>
</tr>
</tbody>
</table>
1 (a) | TV | Computer | Telephones |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>214,000</td>
<td>428,000</td>
<td>107,000</td>
</tr>
<tr>
<td>Cost of Sales:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening stock</td>
<td>8,000</td>
<td>19,000</td>
<td>3,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>119,000</td>
<td>220,000</td>
<td>40,000</td>
</tr>
<tr>
<td></td>
<td>127,000</td>
<td>239,000</td>
<td>43,000</td>
</tr>
<tr>
<td>less closing stock</td>
<td>16,000</td>
<td>111,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Gross profit</td>
<td>103,000</td>
<td>229,000</td>
<td>5,000</td>
</tr>
<tr>
<td>less expenses</td>
<td></td>
<td></td>
<td>38,000</td>
</tr>
<tr>
<td>General expenses</td>
<td>2,000</td>
<td>4,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Sales salaries</td>
<td>55,125</td>
<td>73,500</td>
<td>18,375</td>
</tr>
<tr>
<td>Sales commission</td>
<td>2,140</td>
<td>4,280</td>
<td>1,070</td>
</tr>
<tr>
<td>Office salaries</td>
<td>10,000</td>
<td>20,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Wages</td>
<td>16,000</td>
<td>32,000</td>
<td>8,000</td>
</tr>
<tr>
<td>Advertising</td>
<td>4,000</td>
<td>8,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Rent</td>
<td>16,800</td>
<td>21,000</td>
<td>4,200</td>
</tr>
<tr>
<td>Electricity</td>
<td>4,000</td>
<td>5,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Insurance</td>
<td>2,000</td>
<td>2,500</td>
<td>500</td>
</tr>
<tr>
<td>Depreciation - MV</td>
<td>3,000</td>
<td>3,000</td>
<td>3,000</td>
</tr>
<tr>
<td>-F &amp; F</td>
<td>2,000</td>
<td>117,085</td>
<td>2,000</td>
</tr>
<tr>
<td>Net Profit (loss)</td>
<td>(14,065)</td>
<td>53,720</td>
<td>22,855</td>
</tr>
</tbody>
</table>

Total Net Profit | 62,510 |

(b) | | | |
| Add interest on Drawings | Dellow | 300 | |
| | Coucom | 100 | 400 |
| Less Interest on Capital | Dellow | 600 | |
| | Coucom | 400 | 1,000 |
| Salary - Coucom | | | 7,600 |
| | | | 54,310 |
| Share of Residue | Dellow | 32,586 | |
| | Coucom | 21,724 | 54,310 |

(c) Provided each department makes a profit if fixed costs are removed from the equation then each department should continue. | 2 |
2(a) (i) Cumulative, where dividends, if not paid one year, will be added to the following year's dividends.
Non-cumulative, where dividends, if not paid one year, are lost.
Participating, which may be bought back by the Company.
Participating, which receive a share of the profits
Etc

(ii) Ordinary shares
Voting rights
Share of profits
No fixed dividend
Part owners of business
Own reserves
etc.

Preference shares
No voting rights (usually)
Fixed dividend
Part owners of business
Don't own reserves
etc.

Debentures
No voting rights
Fixed interest
Lenders to business
etc.

(b) Gross Profit percentage 30.00 %
Net Profit percentage 13.10 %
Current ratio 1.87 :1
Liquid ratio 0.48 :1
Stock Turnover ratio 5.00 times
Fixed Assets to Sales 45.71 %
Return on Total Assets 21.39 %
Return on Net Assets 26.41 %
Debtors' payment period 23 days accept 22.42
Creditors' payment period 28 days accept 27.38

1 each to maximum (10)

(c) The Gross Profit ratio is the same as the industry average, suggesting that Manny's business is up to standard, but the Net Profit ratio is considerably lower, suggesting that his expenses are higher than they ought to be. Current ratio is reasonably close, but Liquid ratio is less than half, suggesting that there is a real problem with liquidity - in this case possibly the high overdraft. The stock turnover ratio is only 62.5% of industry average, which suggests that if this were to be improved then GP ratio would increase dramatically. Fixed Assets to Sales is lower than average, which is good, but Return on both Total and Net Assets is low, suggesting poor use of assets. Debtors are paying faster than average, which helps cash flow, but Manny is also paying creditors faster than average, which is good for relations with suppliers, but not good for cash flow.

1 each point to max (8)
3 (a) Sales for Sintex = $90,000/10 = 9,000 units
Sales for Gremmer = $30,000/15 = 2,000 units.

(b) \begin{align*}
\text{Sintex} & \quad \text{Gremmer} \\
\text{Unit selling price} & \quad $10 \quad $15 \\
\text{Unit variable costs} & \quad $6 \quad $12 \\
\text{Unit contribution} & \quad $4 \quad $3 \\
\text{Contribution/sales ratio} & \quad 4/10 \quad 3/15 \\
& \quad 40\% \quad 20\% 
\end{align*}

(c) \begin{align*}
\text{Sintex total contribution} & \quad 9,000 \times 4 \quad $36,000 \\
\text{Gremmer total contribution} & \quad 2,000 \times 3 \quad $6,000 \\
\text{Company total contribution} & \quad $42,000 \\
\text{Total company sales} = \text{Sintex} + \text{Gremmer} & \quad $120,000 \\
\text{Company C/S ratio} = \frac{\text{total contribution}}{\text{sales}} & \quad 35\% 
\end{align*}

(d) Break-even = $28,500 (approx)
Profit at Sales of $120,000 = $32,000
Loss at Sales of $20,000 = $2,500 (approx)

(e) Increase of 10% on $120,000 = $12,000
\begin{align*}
\text{Sintex} & \quad \text{Gremmer} \\
\text{Sales now} & \quad $96,000 \quad $36,000 \\
\text{Divide by sales price} & \quad $10 \quad $15 \\
\text{Unit sales now} & \quad 9600 \quad 2400 
\end{align*}

(f) \begin{align*}
\text{Sintex total contribution} & \quad 9,600 \times 4 \quad $38,400 \\
\text{Gremmer total contribution} & \quad 2,400 \times 3 \quad $7,200 \\
\text{Company total contribution} & \quad $45,600 \\
\text{Total company sales} = \text{Sintex} + \text{Gremmer} & \quad $132,000 \\
\text{Company C/S ratio} = \frac{\text{total contribution}}{\text{sales}} & \quad 34.5\% \text{ (approx)} 
\end{align*}

(g) \begin{align*}
\text{Profit} & \quad (\$000) \\
30 & \quad 20 \\
20 & \quad 10 \\
10 & \quad 0 \\
0 & \quad -10 \\
\text{Sales Revenue (\$000)} & \quad 0 \quad 2 \quad 4 \quad 6 \quad 8 \quad 10 \quad 12 \quad 0 \\
\text{Loss} & \quad 1 \quad 1 \\
\end{align*}

Break-even = $29,000 (approx)
Profit at $132,000 sales = $35,600 (approx)
Profit at $60,000 sales = $10,000 (approx)