

## **MARK SCHEME for the October/November 2008 question paper**

<b>9706/04</b>	<b>9706 ACCOUNTING</b> Paper 4 (Problem Solving – Supplement), maximum raw mark 120
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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.

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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>57 000</u>	<u>9 450 (1 of)</u>	Bank	<u>8 550 (1 of)</u>	<u>66 450</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	<b>(1 with stock)</b>	
Goodwill	1 500	<b>(2)</b>	(500) (1) + 2000 (1)
Stock	<u>19 500</u>		
	171 000		
Debentures	<u>75 000</u>	<b>(1)</b>	
	<u>96 000</u>		
Ordinary share capital	72 000	<b>(1)</b>	
Share premium	<u>24 000</u>	<b>(1 of)</b>	
	<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	<b>(2)</b>	(\$341(1) – \$193(1))
Debenture interest	81	<b>(2)</b>	(\$36 (1) + \$45 (1))
Taxation	60	<b>(1)</b>	
Preference dividends paid	24	<b>(1)</b>	
Ordinary dividend paid	34	<b>(1)</b>	
Ordinary dividend proposed	<u>52</u>	<b>(1)</b>	
Operating profit	<u>399</u>	<b>(1 of)</b>	

[9]

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

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

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Reconciliation of operating profit to net cash flow from operating activities

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

<b>3 (a)</b>	Materials price variance	\$60.50 favourable	<b>(2)</b>	
	Materials usage variance	\$336.00 adverse	<b>(2)</b>	
	Total materials variance	\$275.50 adverse	<b>(2 of)</b>	
	Labour rate variance	\$180 favourable	<b>(2)</b>	
	Labour efficiency variance	\$189 favourable	<b>(2)</b>	
	Total labour variance	\$369 favourable	<b>(2 of)</b>	[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) <b>(1)</b>	1	(40 000.00) <b>(1)</b>	
1	21 750 <b>(1)</b>	0.935	20 336.25 <b>(1of)</b>	
	15 750 <b>(1)</b>	0.873	13 749.75 <b>(1of)</b>	
3	9 450 <b>(1)</b>	0.816	7 711.20 <b>(1of)</b>	
4	2 835 <b>(1)</b>	0.763	<u>2 163.105</u> <b>(1of)</b>	
			<u>43 960.305</u>	
		NPV <b>(1)</b>	<u>3 960.305</u> <b>(1of)</b>	[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]