

**MARK SCHEME for the October/November 2006 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 students, 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.

The grade thresholds for various grades are published in the report on the examination for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses.

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

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**QUESTION 1**

<b>(a)</b>	Capital reconstruction account			
Goodwill	110 000 (1)	Preference share capital	100 000 (1)	
Profit & loss account	410 000 (1)	Ordinary share capital	375 000 (1)	
Stock	4 000 (1)	Freehold land	45 000 (1)	
Bad debt	<u>21 000 (1)</u>	Investments	<u>25 000 (1)</u>	
	<u>545 000</u>		<u>545 000</u>	<b>[8]</b>

**(b)** Balance sheet at 30 April 2006

	\$000	\$000
Fixed assets		
Premises		260 (1)
Vehicles		<u>60 (1)</u>
		320
Current assets		
Stock	36 (1)	
Debtors	35 (1)	
Bank	160 (1)	
Cash	<u>4 (1)</u>	
	235	
Creditors	<u>80 (1)</u>	<u>155</u>
		<u>475</u>
Share capital and reserves		
Ordinary shares of \$0.25 each (1)		(1) 149 (500 (1) – 375 (1) + 24 (1) )
Preference shares of \$0.50 each (1)		(1) 100 (200 (1) – 00 (1) )
Share premium		(1) <u>226</u> (250 – 24 (1 of) )
		<u>475</u> (1 of)
Authorised share capital		
1 000 000 ordinary shares of \$0.25 each		\$250 000
500 000 8% preference shares of \$0.50 each		\$250 000

**[20]**

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(c) (i) \$0.68 (1)  $\frac{340\ 000}{500\ 000}$  (2)

(1) for \$ sign in both answers

(ii) \$0.63 (1)  $\frac{375\ 000}{596\ 000}$  (2)

**[9]**

(d) Share holders not disadvantaged (0 – 3)

Creditors not disadvantaged (0 – 3)

Business will be profitable after the reconstruction (0 – 3)

1 mark for identification a further two marks for development.

**[3]**

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**Question 2**

<b>(a)</b>				<b>\$</b>	<b>\$</b>		
	Sq	×	Sp				
	18 000		4	=	72 000		
							640 favourable material usage (2)
	Aq	×	Sp				
	17 840		4	=	71 360		
							(1784) adverse material price (2)
	Aq	×	Ap				
	17 840		4.10	=	73 144		
							<u>(1144)</u> adverse total material variance (2)

**[6]**

<b>(b)</b>							
	36 000	×	7	=	252 000		
							(2100) adverse labour efficiency (2)
	36 300	×	7	=	254 100		
							(9075) adverse wage rate (2)
	36 300	×	7.25	=	263 175		
							<u>(11175)</u> adverse total labour variance (2)

**[6]**

<b>(c)</b>							
	27 000	×	8	=	216 000		
							(3200) adverse labour efficiency
	27 400 (2)	×	8	=	219 200		
							2740 favourable wage rate
	27 400	×	\$7.9 (2)	=	216 460		
							<u>(460)</u> adverse total labour variance (2)

**[6]**

**(d)** 2 marks for each reason why the variances have arisen

- (i) use of better quality materials
- (ii) use of better quality materials costing more
- (iii) less skilful labour being used
- (iv) pay rise awarded to workers
- (v) less skilful workers being used
- (vi) lower grade workers being used

1 mark for identification plus one mark for development.

**[12]**

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- (e) More expensive, better quality materials being used which have cost more than expected (machining).  
Employment of unskilled workers at a time when unions have negotiated a pay rise (machining).  
Employment of lower skilled workers who are paid at a lower wage rate than anticipated (finishing).

1 mark for identifying the interrelationship, two further marks for a clear explanation how the interrelationship occurs. **[6]**

- (f) Makes budgets easier to prepare (0 – 2)  
Makes budgets more realistic (0 – 2)  
Differences between actual expenditure and budgeted expenditure is easy to identify (0 – 2)  
Essential for responsibility accounting (0 – 2)  
Can help in calculating costs for quotations and orders (0 – 2) etc. **[4]**

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**QUESTION 3**

(a) Trading, Profit and Loss and Appropriation Account for the year ended 30 September 2006

	\$000	\$000	
Sales		1626	
Cost of sales		<u>819</u>	
Gross profit		807 (1)	
Operating expenses		<u>672</u>	
Operating profit		135 (1 of)	
Interest paid		<u>12</u> (1)	
Profit before tax		123 (1 of)	
Taxation		<u>28</u> (1)	
Profit after tax		95 (1 of)	
Preference dividend paid	5 (1)		
Proposed dividends preference	5 (1)		
Ordinary	<u>35</u> (1)	<u>45</u>	
Retained profit for the year		50 (1 of)	
Balance brought forward		<u>130</u>	
Balance carried forward		<u>180</u>	<b>[10]</b>

<b>(b)</b>	<b>2006</b>	<b>2005</b>	
Interest cover	11.25 times (1) of	10 times (1) of	
EPS	\$0.14 or 14.17 c (1) of	\$0.12 or 12.17 c (1) of	
P/E ratio	11.29 (1) of	11.09 (1) of	
Dividend yield	3.64% (1) of	2.47% (1) of	
Dividend cover	2.43 times (1) of	3.65 times (1) of	<b>[10]</b>

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- (c) Interest cover shows how many times interest payments are covered by operating profits cover has improved (1) and interest charges are still comfortably covered (1) increased by 1.2 times (1). Earnings per share shows how much profit (after interest, tax and preference dividends) is attributable to each ordinary share the ratio is used as a convenient measure of success. The ratio has improved (1) by 2 cents in the second year (1 of). Price earnings ratio relates the market price of a share to its earnings. There has been a slight improvement (1) indicating greater confidence of Investors in the company (1). Dividend yield expresses the dividend as a percentage of the market price of a share this will indicate to investors how much they can expect as a return on each \$ invested. There has been an improvement (1) of about 50% (1 of) over the year. Dividend cover shows how many times the ordinary dividend can be paid out of profits after interest, tax and preference dividends. There has been a deterioration (1) of about 1/3 this year which might indicate that future dividends might be at risk (1).

Maximum of 2 marks for each ratio

**[10]**

<b>(d) Share capital and reserves</b>	<b>\$000</b>	
Ordinary shares of \$0.50 each	450 (300 (1) + 150 (1) )	
Revaluation reserve	140 (290 (1) – 150 (1) )	
Capital redemption reserve	100 (2)	
Profit and Loss account	<u>70</u> (180 (1) – 100 (1) – 10 (1) )	
	<u>760</u> (1 of)	<b>[10]</b>