

**MARK SCHEME for the May/June 2009 question paper  
for the guidance of teachers**

<b>9706/04</b>	<b>9706 ACCOUNTING</b> Paper 4 (Problem Solving (Supplementary Topics)), 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, which would have considered the acceptability of alternative answers.

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1 (a) Frame-Patel plc profit and loss and appropriation account for the year ended 31 March 2009

	\$000	\$000	
Gross profit		1532	(1)
Bad debt recovered		<u>40</u>	(1)
		1572	
Expenses	873		
Depreciation – fixed assets	76		(1)
– premises	<u>10</u>		(1)
		<u>959</u>	
Operating profit (must say)		613	(1 of)
Interest paid		<u>15</u>	(1)
Net profit before tax		598	
Taxation		<u>160</u>	(1)
Net profit after tax (1)		438	
Ordinary dividends		<u>42</u>	(1)
Retained profit for the year		<u>396</u>	(1 of)

[10]

(b) Balance sheet at 31 March 2009

	\$000	\$000	
Fixed assets			
Premises at valuation (1)		490	(2) (500 (1) – 10 (1))
Other fixed assets		<u>684</u>	
		1174	(1 of) no goodwill
Current assets	265		
Creditors:			
amount due in less than one year	<u>245</u>	<u>20</u>	(1)
		1194	
Creditors: amounts due more than one year		<u>(200)</u>	(1) position
		<u>994</u>	
Ordinary shares of \$0.50 each		300	(2) (250 (1) + 50 (1))
Share premium account		50	(2) (100 (1) – 50 (1))
Revaluation reserve		200	(1)
			bonus issue may be debited to revaluation reserve
Retained earnings W1		<u>444</u>	(8 of)
		<u>994</u>	

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W1 Retained earnings at 31 March 2009

	\$000	
Balance	904	(1)
Bonus issue	(50)	(1)
Profit and loss account	(316)	(1)
Revaluation	(200)	(1)
Goodwill	(250)	(1)
Bad debt	<u>(40)</u>	(1)
	48	
Profit and loss account	<u>396</u>	(1 of)
Corrected retained earnings	<u>444</u>	(1 of)

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(c) (i) Dividend per share =  $\frac{\text{total dividend}}{\text{number of shares issued}}$  (1) = \$0.084 (1)

(ii) Dividend cover =  $\frac{\text{profit after tax and interest}}{\text{total dividend}}$  (1) = 10.43 times (1)

(iii) Dividend yield =  $\frac{\text{dividend per share}}{\text{market price per share}} \times 100$  (1) = 4.9% (1) [6]

- (d) Debentures are safer investment for Brian (0–3)  
 Debentures will currently give a greater yield (0–3)  
 Ordinary shares may give greater rewards (dividends) in the future (0–3)  
 Potential for greater capital growth with ordinary shares (0–3)  
 Ordinary shares give ownership rights (0–3)

[max 4]

1 mark for advice based on analysis

[1]

2 (a) Financial consequences from

**Option 1**

\$000

Sale of assets	362	(1)
Creditors	(9)	(1)
Costs	(18)	(1)
Redundancy payout	<u>(55)</u>	(1)
	<u>280</u>	(1of)

(Loss of \$116 000 (\$280 – \$396))

Other layouts are acceptable

**Option 2**

\$000

Shares	250
Debentures	40 (2 all 3)
Cash	110
Debtors	<u>(8)</u> (1)
	<u>392</u> (1of)

(Loss of \$4000 (\$400 – \$404))

[9]

- (b) Option 2 is recommended (1 of) because  
 Higher financial benefit immediately (1)  
 Lower social costs (1) e.g. redundancies (1)  
 There is an investment in the “new” business (1) – potential growth (1) – potential dividends (1) plus \$2400 interest on debentures (1) [max 5]

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(c) Balance sheet after implementation of option 1

			\$000	
Fixed assets				
Land and buildings			1000*	} 1 mark per pair = 2
Plant and machinery			550*	
Fixtures and fittings			160*	
			<u>1710</u>	
Current assets				
Stock	74*			
Trade debtors	42	(1)		
Bank	<u>264</u>	(4)		
	380			((16) (1) + 362 (1) – 9 (1) – 73 (1))

Creditors: amounts falling due in less than one year

Trade creditors	(21)	(1)	<u>359</u>
			2069

Creditors: amounts falling due in more than one year

7% debentures (2021)			<u>(150)</u>	(1)
			1919	

Share capital and reserves

Ordinary shares			1000	(1)	
Share premium account			500	(1)	
Profit and loss account			<u>419</u>	(3)	(535 (1) – 116 (2 of))
			1919		

[14]

(d) Balance sheet after implementation of option 2

			\$000	
Fixed assets				
Land and buildings			1000*	} 1 of mark per pair* = 2
Plant and machinery			550*	
Fixtures and fittings			160*	
Ordinary shares in "new" business	250	(1)		
Debentures in "new" business	40	(1)		
Current assets				
Stock	74*			
Debtors	34	(1)		
Bank	94	(2)		
Current liabilities				
Creditors	(21)	(1)		
Long term liabilities				
Debentures			<u>(150)</u>	(1) only one figure
			2031	
Share capital and reserves				
Ordinary shares (only one figure)	1000			(1 both)
Share premium account	500			
Profit and loss account	<u>531</u>	(2)		(535 (1) – 4 (1))
	2031			

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3 (a)		\$		
(i)	Sales volume variance	40 000	(1) adverse	(1)
(ii)	Sales price variance	10 000	(1) adverse	(1)
(iii)	Total sales variance	50 000	(1) adverse	(1)
(iv)	Material usage variance	3 200	(1) favourable	(1)
(v)	Material price variance	2 700	(1) adverse	(1)
(vi)	Total material variance	500	(1) favourable	(1)
(vii)	Labour efficiency variance	5 600	(1) adverse	(1)
(viii)	Labour rate variance	600	(1) favourable	(1)
(ix)	Total labour variance	5 000	(1) adverse	(1)

[18]

(b) Budgeted contribution statement

	\$	\$	
Sales		240 000	(1)
Raw materials	107 520 (4)	24 000	(1) × 1.4 (1) × \$3.20 (1)
Labour	<u>33 600 (4)</u>	24 000	(1) × 1/6 <sup>th</sup> (1) × \$8.40 (1)
Contribution		<u>141 120</u>	(1)
		<u>98 880</u>	(1)

[10]

(c) All based on 'own figures' from part (a).

- (i) Lower sales volume than predicted (1)  
 Less good quality of finished product? (1)  
 Development - poorer materials (material usage variance) (2)  
 Less skilled workforce (labour rate variance) (2)  
 Competition (1) – customers buying from other businesses (1)  
 Selling price still too high? (1) – competitors cheaper? (1)
- (ii) Decrease in supply of materials (0–2)  
 Increase in taxes levied on materials (import duties etc) (0–2)  
 Lowering of subsidies. (0–2)
- (iii) Unemployment in particular skills (1) more workers seeking work (1)  
 Increase in supply of labour for other reasons (0–2)

Other reasonable reasons to be rewarded 1 mark for identification further marks for development. [max 6]

- (d) If a favourable material usage variance is evident then fewer materials have been used than was planned then this generally means that more highly skilled workers have been employed or that training has been undertaken in this particular part of the business; the workers have taken less time to produce the goods. [0–6]

If an adverse material usage variance is evident then more materials have been used than was planned then this generally means that less skilled workers have been and they have therefore taken longer to complete their work than had been anticipated. [0–6]  
 [max 6]