UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2010 question paper

for the guidance of teachers

9706 ACCOUNTING

9706/41 Paper 41 (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, which would have considered the acceptability of alternative answers.

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1 (a)

Aneeqa and Emilita
Partnership balance sheet at 1 April 2010

	$		$		$	
Non-current (fixed) assets						
Premises					120 000)	**1**
Equipment					36 000)	
Fixtures					9 300)	**1**
Motor vehicle					12 100)	
					177 400	
Current assets						
Inventory (stock)			19 900			**1**
Trade receivables (debtors)	35 000					
PDD	–1 750		33 250			**1**
			53 150			
Current liabilities						
Trade payables (creditors)	23 000					
Cash and cash equivalents (bank)	1 800		24 800			**1**
					28 350	
					205 750	
Capital	Aneeqa		Emilita			
Bal b/d	56 250	**1**	108 850	**1**		
Revaluation	16 350	**(3)**	38 300	**(3)**		
Goodwill	–5 600	**1**	–8 400	**1**		
Bal c/d	67 000	**1of**	138 750	**1of**	205 750	

[17]

Revaluation				
Goodwill	9 000	**1**	5 000	**1**
Premises			34 000	
Equipment	4 000		1 000	
Fixtures	500		–200	
Vehicle	3 900	**2***		**2***
PDD	–850		–900	
Stock	–200		–600	
	16 350		38 300	

*or 1 for three components

(b)

	$		Aneeqa $		Emilita $	
New profit (16 + 34) × 1.1	55 000	**1**				
Salaries	–20 000		10 000		10 000	**1 for both**
IOC	–20 575		6 700	**1of**	13 875	**1of**
Share of profit	–14 425		5 770	**1of**	8 655	**1of**
	0		22 470		32 530	
Old profit			16 000		34 000	
Change in profit			6 470	**1of**	–1 470	**1of**

Partner with increased income is Aneeqa **1** **[9]**

(c)

	Aneeqa		Emilita		Partnership	
If candidate uses original figures						
Current ratio	3.73 : 1	**1**	1.04 : 1	**1**	2.14 : 1	**1of**
Acid test	2.37 : 1	**1**	0.79 : 1	**1**	1.34 : 1	**1of**
OR						
If candidate uses revalued figures						
Current ratio	3.64 : 1	**1**	0.97 : 1	**1**	2.14 : 1	**1of**
Acid test	2.29 : 1	**1**	0.75 : 1	**1**	1.34 : 1	**1of**

Aneeqa's ratios are very high, suggesting working capital not well utilised.
Emilita's ratios are very low, suggesting a shortage of working capital.
Partnership's ratios are closer to average.
Both ladies have a lot of capital tied up in debtors and need to improve credit control.
Emilita was in danger of not being able to meet liabilities when they fell due. **[3 × 1]**

Emilita is the partner benefitting from being no longer in danger of business insolvency. **[1]**

[10]

(d) 1 470 × 5 ÷ 3 = 2 450 **1of**

+ 55 000 **1of**

57 450

÷ 50 000 **1** =1.149

14.9% increase **1of** **[4]**

[Total: 40]

2 (a)

Income statement
(Trading and profit and loss account) for the year ended 30 April 2010

		$	$		
Sales			602 000		
	1 **1**				
Finished goods at 1 May 2090	4 500 × 15 ÷ 115	34 500		**(2)**	
Transfer from manufacturing account		483 000		**1**	
	1 **1of**				
Finished goods at 30 April 2010	4 800 × 15 ÷ 115	<u>–36 800</u>	<u>480 700</u>	**(2)**	
Gross profit			121 300	**1of**	
Rent and rates		30 000		**1**	
Electricity		18 000		**1**	
Selling and admin		<u>39 000</u>	<u>87 000</u>		
			34 300		
Manufacturing profit		63 000		**1**	
Less increase in provision for unrealised profit		<u>–300</u>	<u>62 700</u>	**2**	
Total profit for the year (net profit)			<u>97 000</u>	**1of**	**[12]**

(b) Value of inventory (stock):

Raw materials		18 000	**1**	
Finished goods	36 800		**1of**	
Less PUP	<u>–4 800</u>	<u>32 000</u>	**1**	
		<u>50 000</u>	**1of**	**[4]**

(c)

Engine	7.00 + 0.80 + 10/2 = 12.80	**2**	
Carriage	5.00 + 0.50 + 10/5 = 7.50	**2**	
Track	2.00 + 0.25 + 10/10 = 3.25	**2**	**[6]**

(d)

Plain engines	14 + 18 – 20 =	12 @ 7.00	84.00	**1of**	
	1 **1** **1**		**1**		
Painted engines	26 + 21 – 18 + 10 – 1 =	38 @ 12.80	486.40	**1of**	
	1 **1** **1** **1** **1**	**1of**			
Damaged engine	1	1 @ 4.00	<u>4.00</u>	**1of**	
	1	**1**	<u>574.40</u>	**1of**	**[16]**

(e) IAS 2 **2** **[2]**

[Total: 40]

3 (a) (i)

	A		B		
annual net cash flow	100 000		120 000		
	–40 000		–65 000		
	–8 000		–6 000		
	52 000	**1**	49 000	**1**	

(ii) ARR

	A		B		
average profit	14 500	**1of**	14 000	**1of**	
average capital	85 000	**1**	88 000	**1**	
ARR	17.06%	**1of**	15.91%	**1of**	

(iii) payback period

	A			B			
outlay	–150 000		**1**	–140 000		**1**	
y1	52 000	)	**1of**	49 000	)	**1of**	
y2	52 000	)		49 000	)		
bal	–46 000			–42 000			
y3	46 000/52 000	× 365		42 000/49 000	× 365		
	1of **1of**			**1of** **1of**			
	2 yrs 323 days		**1of**	2 yrs 313 days		**1of**	**[18]**

(b) NPV of Project A

	CF			DCF		
y0	–150 000	**1**	1	–150 000	**1**	
y1	52 000	**1of**	0.909	47 268	**1of**	
y2	52 000	**1of**	0.826	42 952	**1of**	
y3	52 000	**1of**	0.751	39 052	**1of**	
y4	52 000	**1of**	0.683	35 516	**1of**	
total				14 788	**1of**	**[11]**

(c) Limitations

(i) ARR
- ignores timing of cash flows
- ignores risk
- average profit and average capital may be difficult to estimate

(ii) Payback
- ignores length of project life
- ignores timing of cash flows

(iii) NPV
- complex calculations
- cash flows are estimates
- difficulties in deciding on cost of capital **[6]**

(d) Select B.
ARR better for A.
Payback better for B.
NPV better for B.
NPV indicator takes priority over the others. **[5]**

[Total: 40]