UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the October/November 2010 question paper for the guidance of teachers

9706 ACCOUNTING

9706/43 Paper 4 (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.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

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1 Current accounts (to find opening balances)

	Boris		Cheong			Boris		Cheong		
Drawings	22 000	**(1)**	20 000		Op'g Bal'ces	1 500	**(1of)**	500	**(1of)**	
Int. on drawings	1 320	**(1)**	1 200		Int. on capital	8 000	**(1)**	7 200		
Closing Balances	9 908	**(1)**	22 092	**(1)**	Profit	23 728	**(1)**	35 592		
	33 228		43 292			33 228		43 292		**[8]**

Alternative layout

	Boris $		Cheong $	
Closing balances	9 908	**(1)**	22 092	**(1)**
Int. on drawings	1 320	**(1)**	1 200	
Drawings	22 000	**(1)**	20 000	
	33 228		43 292	
Int. on capital	(8 000)	**(1)**	(7 200)	
Profit	(23 728)	**(1)**	(35 592)	
Opening balances	1 500	**(1of)**	500	**(1of)**

(b)

	$		
Original net profit	72 000	**(1)**	
Depreciation	(14 400)	**(1)**	
Loss on disposal	(500)	**(1)**	
Sales	10 500	**(1)**	
Discount received	600	**(1)**	
Drawings	3 400	**(1)**	
Bad debt	(500)	**(1)**	
Recovery bad debt	210	**(1)**	
Provision for doubtful debts	(945)	**(1)**	
Corrected net profit	70 365	**(1of)**	**[10]**

(c) Profit and loss appropriation account for the year ended31 December 2009

	$		$		
Net profit			70 365	**(1of)**	
Interest on drawings	B 2 032	**(3)**			(24 500 **(1)** × 8% **(1)** = 2032 **(1)**)
	C 1 600	**(1)**	3 632		
			73 997		
Interest on capital	B 6 000				
	C 5 400		11 400	**(1)**	
			62 597		
Share of profits			B 37 558	**(1of)**	
			C 25 039	**(1of)**	**[8]**

(d) Current accounts

	B		C			B		C	
Interest on drawings	2 032	**(1of)**	1 600		Balance b/d	1 500	**(1of)**	500	**(1)**
Drawings	25 400	**(2)**	20 000		Int on capital	6 000	**(1of)**	5 400	
Balance c/d	17 626	**(1of)**	9 339		Profit	37 558	**(1of)**	25 039	
	45 058		30 939			45 058		30 939	
					Balance b/d	17 626		9 339	**[8]**

(e) Keeps permanent capital separate (0–3)
Shows partners who withdraws more than their earnings (0–3)
Essential if agreement provides for interest on capital. (0–3) **[max 6]**

2 Sanaa Malik Ltd

(a) Income statement for the year ended 31 May 2010

	$		$		
Revenue (sales)			870 000	**(1)**	
Less cost of sales					
Inventory (stock)	27 000				
Purchases	555 000	**(1of)**			
	582 000				
Inventory (stock)	60 000	**(1 both)**	522 000		
Gross profit			348 000		
Less expenses			217 500	**(1)**	
Operating profit			130 500	**(1of)**	
Finance costs			6 000	**(1)**	
Profit for the year			124 500	**(1of)**	**[7]**

Statement of changes in equity

Retained earnings

	$		
Balance at 1 June 2009	93 733	**(1)**	
Profit for the year	124 500	**(1of)**	
	218 233		
Dividends paid	(22 000)		
4 000 **(1)** + 18 000 **(1)**			
Balance at 31 May 2010	196 233	**(1of)**	**[5]**

(b) Balance sheet at 31 May 2010

Non current (fixed) assets			435 000	**(1)**
Current assets				
Inventory (stock)	13 000	**(1of)**		
Trade receivables (debtors)	53 630	**(3of)**		
Bank (balancing figure)	38 425	**(1of)**		
	152 055			
Current liabilities				
Trade payables (creditors)	60 822	**(3of)**		
Net current assets			91 233	
			526 233	
Non current (long term) liabilities				
6% debentures (2027)			100 000	**(1)**
Net assets			426 233	
Equity				
Ordinary shares of $1 each			180 000	**(1)**
8% preference shares of $1 each			50 000	**(1)**
Retained earnings			196 233	**(1of)**
			426 233	

[13]

(c) **(i)** $\frac{130\,500\ \textbf{(1of)}}{10\,000\ \textbf{(1)}}$ × 100 = 1305% **(1of)** or 2175% (if only interest used) **[3]**

(ii) $\frac{150\,500\ \textbf{(1of)}}{526\,233\ \textbf{(1)}}$ × 100 = 28.50% **(1of)** **[3]**

(d) Interest is easily covered by current profit **(1of)** so low risk **(1of)**
Gearing ratio is below 50% so is low **(1of)** low risk **(1of)** **[max 3]**

(e) Current ratio shows that there are enough current assets to cover the current liabilities 2.5 times **(1)** the acid test ratio is also strong at 1.51 :1 **(1of)** the bank balance is sufficient to cover around 4 months expenses **(1)** perhaps some of the current assets could be more usefully used **(1)** to fund more productive non current assets **(1)**

Debtors days seem rather long **(1)** faster turnover would give the company still more cash **(1)**
Creditors days are shorter than debtors days **(1)** will 40 days antagonise suppliers ? **(1)**

Other valid comments re liquidity to be rewarded **[max 6]**

3

(a) 70000 - 7000 = 63000
(1) **(1of)** **[2]**

(b) Process 1

		$			$
Materials	(70000)	1,120,000 **(1)**	Scrap	(7000 x20)	140,000 **(1)**
Labour	(70kx3x10) **(1of) (1) (1)**	2,100,000	Process 2	(63000)	4,480,000 **(1of)**
VO	(70kx3x6) **(1of) (1) (1)**	1,260,000			
FO	(70k x 2) **(1of) (1)**	140,000			
		4,620,000			4,620,000

[11]

Scrap a/c

	$		$
Process 1	140,000 **(1)**	Bank	140,000 **(1)**

[2]

(c) Equivalent units for materials

1,000	at 50%	5001		
1,200	at 75%	9001		
60,800	at 100%	60,8001of		
			x 2kg x $12	
63,000		62,200=		$1,492,800
		(1of)	**(1)** **(1)**	**(1of)**

[7]

(d)

	WiP 1 (1000) $	WiP 2 (1200) $		
P1	71,111 **(3of)**	85,333**(3of)**		
Materials	12,000 **(1)**of	21,600**(1)**		
Labour	22,000 **(1)**of	31,680**(1)**		
VO	6,000 **(1)**of	8,640**(1)**		
	111,111 **(1)**	147,253**(1of)**	$258,364	**(1of)**

[15]

(e) Identical products **(1)**
Produced in large number **(1)**
E.g. loaves of bread, radio sets **(1)** **[3]**

[40]