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

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UNIVERSITY of CAMBRIDGE International Examinations

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	–36 800	480 700	**(2)**	
Gross profit		121 300	**1of**	
Rent and rates	30 000		**1**	
Electricity	18 000		**1**	
Selling and admin	39 000	87 000		
		34 300		
Manufacturing profit	63 000		**1**	
Less increase in provision for unrealised profit	–300	62 700	**2**	
Total profit for the year (net profit)		97 000	**1of**	**[12]**

(b) Value of inventory (stock):

Raw materials		18 000	**1**	
Finished goods	36 800		**1of**	
Less PUP	–4 800	32 000	**1**	
		50 000	**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	4.00	**1of**	
	1	**1**	574.40	**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

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

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]