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

**9706/42** Paper 42 (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**

| | 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]**