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

9706/42 Paper 4 (Problem Solving (Supplement)), maximum raw mark 120

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UNIVERSITY of CAMBRIDGE
International Examinations

1 (a)

Akram, Bhupesh and Chuck
Profit and loss appropriation account for the year ended 31 March 2010.

		$	$		$	
Gross profit					383 000	
General expenses			306 600	**(1)**		
Bad debts			300	**(1)** could be split 500 – 200		
Depreciation –	buildings	6 200		all three **2** marks **or** two **1** mark		
	machinery	18 700				
	vehicles	17 200	42 100		349 000	
Net profit for the year					34 000	**(1of)**
Salary Akram			8 000	**(1)**		
Interest on capital Akram			9 600			
Bhupesh			6 600	all three **(1)**		
Chuck			4 800		29 000	
residual profit before profit share					5 000	
Share of profit/loss	Akram		(1 320)	**(1of)**		
	Bhupesh		(880)	**(1of)**		
	Chuck		7 200	**(2of)**	5 000	**[11]**

(b)

Current accounts

	A	B	C			A	B	C	
	$	$	$			$	$	$	
					Balance b/d	14 000	27 000	37 000	**(1)**
Drawings	40 000	33 400	35 000	**(1)**	Salary	8 000			**(1)**
					Int on cap	9 600	6 600	4 800	**(1of)**
Loss	1 320	880			Profit			7 200	**(1of)**
Balance c/d			14 000		Balance c/d	9 720	680		
	41 320	34 280	49 000			41 320	34 280	49 000	**[6]**

(c)

Capital accounts

	A		B		C			A		B		C	
	$		$		$			$		$		$	
Curr acc	9 720		680				Bal b/d	160 000		110 000		80 000	**(1)**
Deb's	50 000		50 000		50 000	**(1)**	Curr acc					14 000	**(1of)**
Shares	210 000	**(1)**	140 000	**(1)**	70 000	**(1)**	Surpl	106 200		70 800		35 400	*(7)
Bank			9 400	**(1of)**			Bank	3 520	**(1of)**	9 880	**(1of)**		
	269 720		190 680		129 400			269 720		190 680		129 400	

* 600 000 **(1)** – (367 000 **(1)** – 42 100 **(1of)** + 23 500 **(1)** +(37 000 – 18 000) **(1)** + 20 200 **(1)**)
= 212 400
plus **(1of)** for the correct profit share between partners. **[16]**

(d)

Bank account

	$			$	
Bad debt	200	**(1)**	Balance	14 000	**(1)**
EDC Ltd	30 000	**(1)**	Expenses	20 200	**(1)**
Akram	3 520	**(1of)**	Chuck	9 400	**(1of)**
Bhupesh	9 880	**(1of)**			
	43 600			43 600	**[7]**

[Total: 40]

2 **(a)** Reconciliation of profit from operations (operating profit) to net cash flow from operating activities for the year ended 31 March 2010

	$000	
Profit from operations	393	**(1)**
Adjustments for:		
Depreciation for the year	1 378	
470 **(1)** + 508 **(1)** + 400 **(1)**		
Gains on sale of non-current (fixed) assets	(7)	**(1)**
Loss on sale of non-current (fixed) assets	26	**(2)**
Increase in inventories (stock)	(28)	**(1)**
Increase in trade receivables (debtors)	(20)	**(1)**
Increase in trade payables (creditors)	219	**(1)**
Cash from operations	1 961	**(1of)**
Interest paid	(30)	**(1)**
Income taxes paid	(306)	**(1)**
Net cash (used in) generated by operating activities	1 625	**[13]**

Note for marking: candidate may use FRS1 format. If so, give credit for tax paid and interest paid if they appear in **(b)** instead of in **(a)**.

(b) Costello plc

Statement of cash flows for the year ended 31 March 2010

		$000	
Net cash (used in) / from operating activities		1 625	**(1of)**
Cash flows from investing activities			
Purchase of non-current assets	(3 690)		
450 **(1)** + 1350 **(1)** + 620 **(1)** + 1270 **(1)**			
Proceeds from sale of non-current assets	43		
6 **(1)** + 37 **(1)**			
Net cash (used in) / from investing activities		(3647)	
Cash flows from financing activities			
Proceeds from issue of share capital	1500		
500 **(2)** + 1000 **(2)**			
Repayment of debentures	(140) **(1)**		
Dividends paid	(5) **(2)**		
Net cash (used in) / from financing activities		1 355	
Net incr / (decr) in cash and cash equivalents (bank)		(667)	**(1of) (2cf)**
Cash and cash equivalents (bank) at beginning of year		580	
Cash and cash equivalents (bank) at end of year		(87)	**[16]**

(c)

Net debt 1 April 2009 (580 – 500)	80	**(2) or 0**	
Decrease in cash	(667)	**(1of)**	
Debentures repurchase	140	**(2) or 0**	
Net debt 31 March 2010 (87 + 360)	(447)	**(2) or 0**	**[7]**

(d) Legal requirement for some limited companies **(2)**
Shows how cash and cash equivalents have been used / generated **(2)** internally and externally
Link between two balance sheets **(2)** and between cash and profit **(2)**
Movement in cash receipts and cash payments **(2)**
Completes the picture given by financial statements **(2)**
2 marks each **[4]**

[Total: 40]

3 (a)

		$
Revenue	**working 1**	1 715 610
purchase cost		(200 000) **(1)**
salary	(30 000 + 36 000 + 43 200 + 51 840 + 62 208)	(223 248) **(2)**
rent	(3600 + 3600 + 4500 + 4500 + 4500)	(20 700) **(2)**
air fare	(1000 × 5)	(5000) **(1)**
	Net cash flow	**1 266 662 (1of)**

working 1

	$
1 000 000 x 1.1 - 1000 000	100 000 **(1)**
(1000 000 + 100 000 × .1.1) – 1000 000	210 000 **(1of)**
(1000 000 + 210 000 × .1.1) – 1000 000	331 000 **(1of)**
(1000 000 + 331 000 × .1.1) – 1000 000	464 100 **(1of)**
(1000 000 + 464 100 × .1.1) – 1000 000	610 510 **(1of)**
	1 715 610

[22]

(b)

year	**annual net cash flow**	**dis factor**	**$**
0	(200 000 + 3600)	1	(203 600) **(1of)**
1	(100 000 – 30 000 – 3600 – 1000)	0.893	58 402.20 **(1of)**
2	(210 000 – 36 000 – 4500 – 1000)	0.797	134 294.50 **(1of)**
3	(331 000 – 43 200 – 4500 – 1000)	0.712	200 997.60 **(1of)**
4	(464 100 – 51 840 – 4500 – 1000)	0.636	258 699.36 **(1of)**
5	(610 510 – 62 208 – 1000)	0.507	277 482.11 **(1of)**
		N.P.V (1)	**726 275.77 (1of)**

[8]

(c) Brad discounted payback

$\dfrac{10\,903.30 \textbf{ (1of)}}{200\,997.60 \textbf{ (1of)}}$ = 0.054 **(1of)** plus 2 years **(1of)** = 2.054 years **[4]**

accept also 2 years and 20 days
2 years and 0.65 months

(d) Tanzeel has a lower NPV over 3 years **(1of)** At the end of three years Brad has a positive NPV **(1of)** Tanzeel has a slower payback than Brad **(1of)** Brad should be employed **(1of)** as a quicker payback helps to improve liquidity.
However Brad continues to earn after the three years **(1)** when Tanzeel would need to be replaced **(1)** could a good replacement be found? **(1)**
Other factors – Brad is younger- fitter? **(1)** Less prone to injury? **(1)** Will he fulfil his potential? **(1)** If he does will he demand more pay **(1)** and benefits **(1)**

Other valid points to be rewarded **[max 6]**