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

	Aneeqa		Emilita		Partnership	
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]