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.

- CIE will not enter into discussions or correspondence in connection with these mark schemes.

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 ended 31 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]**

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

(ii) $\dfrac{150\,500 \ \textbf{(1of)}}{526\,233 \ \textbf{(1)}} \times 100 = 28.50\%$ **(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)	2,100,000 **(1of) (1) (1)**	Process 2	(63000)	4,480,000 **(1of)**
VO	(70kx3x6)	1,260,000 **(1of) (1) (1)**			
FO	(70k x 2)	140,000 **(1of) (1)**			
		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%	60,800 1of
		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]**

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

                                                                                      [40]