

**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

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.

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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 | | | <u>12 100</u> | |
| | | | <u>177 400</u> | |
| Current assets | | | | |
| Inventory (stock) | | 19 900 | | 1 |
| Trade receivables (debtors) | 35 000 | | | |
| PDD | <u>-1 750</u> | <u>33 250</u> | | 1 |
| | | 53 150 | | |
| Current liabilities | | | | |
| Trade payables (creditors) | 23 000 | | | |
| Cash and cash equivalents (bank) | <u>1 800</u> | <u>24 800</u> | | 1 |
| | | | <u>28 350</u> | |
| | | | <u>205 750</u> | |
| Capital | Aneeqa | Emilita | | |
| Bal b/d | 56 250 | 108 850 | | 1 |
| Revaluation | 16 350 | 38 300 | | (3) |
| Goodwill | <u>-5 600</u> | <u>-8 400</u> | | 1 |
| Bal c/d | <u>67 000</u> | <u>138 750</u> | <u>205 750</u> | |
| | 1of | 1of | | |

[17]

| | | | | |
|-------------|-------------|-------------|--|----|
| Revaluation | | | | |
| Goodwill | 9 000 | 5 000 | | 1 |
| Premises | | 34 000 | | |
| Equipment | 4 000 | 1 000 | | |
| Fixtures | 500 | -200 | | |
| Vehicle | 3 900 | | | 2* |
| PDD | -850 | -900 | | |
| Stock | <u>-200</u> | <u>-600</u> | | |
| | 16 350 | 38 300 | | |

*or 1 for three components

| | | 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 | <u>-14 425</u> | <u>5 770</u> | 1of | <u>8 655</u> | 1of |
| | 0 | 22 470 | | 32 530 | |
| Old profit | | <u>16 000</u> | | <u>34 000</u> | |
| Change in profit | | <u>6 470</u> | 1of | <u>-1 470</u> | 1of |

Partner with increased income is Aneeqa 1 [9]

| | | | |
|---------------|---------------------------------------|-----------------|--------------|
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| | | | | | |
|------------|------------------------------------|----------|----------|-------------|------------|
| (c) | | Aneeqa | Emilita | Partnership | |
| | If candidate uses original figures | | | | |
| | Current ratio | 3.73 : 1 | 1.04 : 1 | 2.14 : 1 | 1of |
| | Acid test | 2.37 : 1 | 0.79 : 1 | 1.34 : 1 | 1of |

OR

If candidate uses revalued figures

| | | | | | |
|--|---------------|----------|----------|----------|------------|
| | Current ratio | 3.64 : 1 | 0.97 : 1 | 2.14 : 1 | 1of |
| | Acid test | 2.29 : 1 | 0.75 : 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) $1\,470 \times 5 \div 3 =$ **2\,450 1of**

$$\begin{array}{r} + 55\,000 \\ \hline 57\,450 \end{array} \quad \mathbf{1of}$$

$\div 50\,000 \quad \mathbf{1} = 1.149$

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 2010 | $4\,500 \times 15 \div 115$ | 34 500 | | (2) | |
| Transfer from manufacturing account | | 483 000 | | 1 | |
| | 1 | | | | |
| Finished goods at 30 April 2010 | $4\,800 \times 15 \div 115$ | <u>-36 800</u> | <u>480 700</u> | (2) | |
| Gross profit | | | 121 300 | 1of | |
| Rent and rates | | 30 000 | | 1 | |
| Electricity | | 18 000 | | 1 | |
| Selling and admin | | <u>39 000</u> | <u>87 000</u> | | |
| | | | 34 300 | | |
| Manufacturing profit | | 63 000 | | 1 | |
| Less increase in provision for unrealised profit | | <u>-300</u> | <u>62 700</u> | 2 | |
| Total profit for the year (net profit) | | | <u>97 000</u> | 1of | [12] |
| (b) Value of inventory (stock): | | | | | |
| Raw materials | | | 18 000 | 1 | |
| Finished goods | | 36 800 | | 1of | |
| Less PUP | | <u>-4 800</u> | <u>32 000</u> | 1 | |
| | | | <u>50 000</u> | 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 | |
| | | | 1of | | |
| Damaged engine | | 1 | 1 @ 4.00 | 4.00 | 1of |
| | 1 | | 1 | <u>574.40</u> | 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 | | |
| | | | <u>-8 000</u> | | <u>-6 000</u> | | |
| | | | 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 | <u>35 516</u> | 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]