

**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

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>	
	<b>1of</b>	<b>1of</b>		

[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

(b)

	\$	\$	\$	
New profit (16 + 34) × 1.1	55 000			1
Salaries	-20 000	10 000	10 000	1 for both
IOC	-20 575	6 700	13 875	1of
Share of profit	<u>-14 425</u>	<u>5 770</u>	<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>	<u>-1 470</u>	1of

Partner with increased income is Aneeqa

1

[9]

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<b>(c)</b>		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)**  $1\,470 \times 5 \div 3 =$                       2 450 **1of**

$$\begin{array}{r} + 55\,000 \\ \hline 57\,450 \end{array}$$

**1of**

$\div 50\,000$  **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		
	<b>1</b>	<b>1</b>			
Finished goods at 1 May 2010	$4\,500 \times 15 \div 115$	34 500		(2)	
Transfer from manufacturing account		483 000		1	
	<b>1</b>				
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 $7.00 + 0.80 + 10/2 = 12.80$ <b>2</b>					
Carriage $5.00 + 0.50 + 10/5 = 7.50$ <b>2</b>					
Track $2.00 + 0.25 + 10/10 = 3.25$ <b>2</b>					[6]
 (d) Plain engines $14 + 18 - 20 =$ <b>1 1 1</b> 12 @ 7.00 84.00 <b>1of</b>					
			<b>1</b>		
Painted engines $26 + 21 - 18 + 10 - 1 =$ <b>1 1 1 1 1</b> 38 @ 12.80 486.40 <b>1of</b>					
				<b>1of</b>	
Damaged engine 1 <b>1</b> 1 @ 4.00 4.00 <b>1of</b>			<u>4.00</u>		
			<u>574.40</u>	1of	[16]
 (e) IAS 2 <b>2</b> <span style="float: right;">[2]</span>					
					[Total: 40]

3 (a) (i)		<b>A</b>		<b>B</b>	
	annual net cash flow	100 000 –40 000 <u>–8 000</u> 52 000		120 000 –65 000 <u>–6 000</u> 49 000	1
(ii) ARR	average profit	14 500	<b>1of</b>	14 000	<b>1of</b>
	average capital	85 000	<b>1</b>	88 000	<b>1</b>
	ARR	17.06%	<b>1of</b>	15.91%	<b>1of</b>
(iii) payback period	outlay	–150 000	<b>1</b>	–140 000	<b>1</b>
	y1	52 000 )	<b>1of</b>	49 000 )	<b>1of</b>
	y2	52 000 )		49 000 )	
	bal	–46 000		–42 000	
	y3	46 000/52 000 × 365		42 000/49 000 × 365	
		<b>1of 1of</b>		<b>1of 1of</b>	
		2 yrs 323 days	<b>1of</b>	2 yrs 313 days	<b>1of</b>
					<b>[18]</b>

**(b) NPV of Project A**

	CF			DCF	
y0	–150 000	<b>1</b>	1	–150 000	<b>1</b>
y1	52 000	<b>1of</b>	0.909	47 268	<b>1of</b>
y2	52 000	<b>1of</b>	0.826	42 952	<b>1of</b>
y3	52 000	<b>1of</b>	0.751	39 052	<b>1of</b>
y4	52 000	<b>1of</b>	0.683	<u>35 516</u>	<b>1of</b>
total				14 788	<b>1of</b>
					<b>[11]</b>

**(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	<b>[6]</b>

(d) Select B. ARR better for A. Payback better for B. NPV better for B. NPV indicator takes priority over the others.	<b>[5]</b>
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**[Total: 40]**