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

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

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

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]**