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

9706/42 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.

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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 470 **(1)** + 508 **(1)** + 400 **(1)**	1 378	
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 450 **(1)** + 1350 **(1)** + 620 **(1)** + 1270 **(1)**	(3 690)		
Proceeds from sale of non-current assets 6 **(1)** + 37 **(1)**	43		
Net cash (used in) / from investing activities		(3647)	
Cash flows from financing activities			
Proceeds from issue of share capital 500 **(2)** + 1000 **(2)**	1500		
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

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