UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

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

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UNIVERSITY of CAMBRIDGE
International Examinations

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

[17]

Revaluation					
Goodwill	9 000	**1**	5 000	**1**	
Premises			34 000		
Equipment	4 000		1 000		
Fixtures	500		–200		
Vehicle	3 900	**2***		**2***	
PDD	–850		–900		
Stock	–200		–600		
	16 350		38 300		

*or 1 for three components

(b)			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	–14 425		5 770	**1of**	8 655	**1of**
	0		22 470		32 530	
Old profit			16 000		34 000	
Change in profit			6 470	**1of**	–1 470	**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**	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 × 5 ÷ 3 =	2 450	**1of**	
	+ 55 000	**1of**	
	57 450		
	÷ 50 000	**1**	=1.149
	14.9% increase	**1of**	

[4]

[Total: 40]

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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 2090 4 500 × 15 ÷ 115	34 500		**(2)**	
Transfer from manufacturing account	483 000		**1**	
	1 **1of**			
Finished goods at 30 April 2010 4 800 × 15 ÷ 115	–36 800	480 700	**(2)**	
Gross profit		121 300	**1of**	
Rent and rates	30 000		**1**	
Electricity	18 000		**1**	
Selling and admin	39 000	87 000		
		34 300		
Manufacturing profit	63 000		**1**	
Less increase in provision for unrealised profit	–300	62 700	**2**	
Total profit for the year (net profit)		97 000	**1of**	**[12]**

(b) Value of inventory (stock):

Raw materials		18 000	**1**	
Finished goods	36 800		**1of**	
Less PUP	–4 800	32 000	**1**	
		50 000	**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** **1**	**1of**			
Damaged engine	1	1 @ 4.00	4.00	**1of**	
	1	**1**	574.40	**1of**	**[16]**

(e) IAS 2 **2** **[2]**

[Total: 40]

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3 (a) (i)

	A		B		
annual net cash flow	100 000		120 000		
	–40 000		–65 000		
	–8 000		–6 000		
	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**	–150 000	**1**
y1	52 000	**1of**	47 268	**1of**
y2	52 000	**1of**	42 952	**1of**
y3	52 000	**1of**	39 052	**1of**
y4	52 000	**1of**	35 516	**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]

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