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

9706/43 Paper 4 (Problem Solving (Supplement), maximum raw mark 120

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UNIVERSITY of CAMBRIDGE International Examinations

1 Current accounts (to find opening balances)

	Boris		Cheong			Boris		Cheong	
Drawings	22 000	**(1)**	20 000		Op'g Bal'ces	1 500	**(1of)**	500	**(1of)**
Int. on drawings	1 320	**(1)**	1 200		Int. on capital	8 000	**(1)**	7 200	
Closing Balances	9 908	**(1)**	22 092	**(1)**	Profit	23 728	**(1)**	35 592	
	33 228		43 292			33 228		43 292	**[8]**

Alternative layout

	Boris $		Cheong $	
Closing balances	9 908	**(1)**	22 092	**(1)**
Int. on drawings	1 320	**(1)**	1 200	
Drawings	22 000	**(1)**	20 000	
	33 228		43 292	
Int. on capital	(8 000)	**(1)**	(7 200)	
Profit	(23 728)	**(1)**	(35 592)	
Opening balances	1 500	**(1of)**	500	**(1of)**

(b)

	$		
Original net profit	72 000	**(1)**	
Depreciation	(14 400)	**(1)**	
Loss on disposal	(500)	**(1)**	
Sales	10 500	**(1)**	
Discount received	600	**(1)**	
Drawings	3 400	**(1)**	
Bad debt	(500)	**(1)**	
Recovery bad debt	210	**(1)**	
Provision for doubtful debts	(945)	**(1)**	
Corrected net profit	70 365	**(1of)**	**[10]**

(c) Profit and loss appropriation account for the year ended31 December 2009

		$		$	
Net profit				70 365	**(1of)**
Interest on drawings	B	2 032	**(3)**	(24 500 **(1)** × 8% **(1)** = 2032 **(1)**)	
	C	1 600	**(1)**	3 632	
				73 997	
Interest on capital	B	6 000			
	C	5 400		11 400	**(1)**
				62 597	
Share of profits				B 37 558	**(1of)**
				C 25 039	**(1of)** **[8]**

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(d) Current accounts

	B		C		B		C	
Interest on drawings	2 032	**(1of)**	1 600	Balance b/d	1 500	**(1of)**	500	**(1)**
Drawings	25 400	**(2)**	20 000	Int on capital	6 000	**(1of)**	5 400	
Balance c/d	17 626	**(1of)**	9 339	Profit	37 558	**(1of)**	25 039	
	45 058		30 939		45 058		30 939	
				Balance b/d	17 626		9 339	**[8]**

(e) Keeps permanent capital separate (0–3)
Shows partners who withdraws more than their earnings (0–3)
Essential if agreement provides for interest on capital. (0–3) **[max 6]**

2 Sanaa Malik Ltd

(a) Income statement for the year ended 31 May 2010

	$		$	
Revenue (sales)			870 000	**(1)**
Less cost of sales				
Inventory (stock)	27 000			
Purchases	555 000	**(1of)**		
	582 000			
Inventory (stock)	60 000	**(1 both)**	522 000	
Gross profit			348 000	
Less expenses			217 500	**(1)**
Operating profit			130 500	**(1of)**
Finance costs			6 000	**(1)**
Profit for the year			124 500	**(1of)** **[7]**

Statement of changes in equity

Retained earnings

	$	
Balance at 1 June 2009	93 733	**(1)**
Profit for the year	124 500	**(1of)**
	218 233	
Dividends paid	(22 000)	
4 000 **(1)** + 18 000 **(1)**		
Balance at 31 May 2010	196 233	**(1of)** **[5]**

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(b) Balance sheet at 31 May 2010

Non current (fixed) assets		435 000	**(1)**
Current assets			
Inventory (stock)	13 000 **(1of)**		
Trade receivables (debtors)	53 630 **(3of)**		
Bank (balancing figure)	38 425 **(1of)**		
	152 055		
Current liabilities			
Trade payables (creditors)	60 822 **(3of)**		
Net current assets		91 233	
		526 233	
Non current (long term) liabilities			
6% debentures (2027)		100 000	**(1)**
Net assets		426 233	
Equity			
Ordinary shares of $1 each		180 000	**(1)**
8% preference shares of $1 each		50 000	**(1)**
Retained earnings		196 233	**(1of)**
		426 233	**[13]**

(c) (i) $\frac{130\,500}{10\,000}$ **(1of)** **(1)** × 100 = 1305% **(1of)** or 2175% (if only interest used) **[3]**

(ii) $\frac{150\,500}{526\,233}$ **(1of)** **(1)** × 100 = 28.50% **(1of)** **[3]**

(d) Interest is easily covered by current profit **(1of)** so low risk **(1of)**
Gearing ratio is below 50% so is low **(1of)** low risk **(1of)** **[max 3]**

(e) Current ratio shows that there are enough current assets to cover the current liabilities 2.5 times **(1)** the acid test ratio is also strong at 1.51 :1 **(1of)** the bank balance is sufficient to cover around 4 months expenses **(1)** perhaps some of the current assets could be more usefully used **(1)** to fund more productive non current assets **(1)**

Debtors days seem rather long **(1)** faster turnover would give the company still more cash **(1)**
Creditors days are shorter than debtors days **(1)** will 40 days antagonise suppliers ? **(1)**

Other valid comments re liquidity to be rewarded **[max 6]**

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(a) 70000 - 7000 = 63000
(1) (1of) **[2]**

(b)

Process 1

		$			$
Materials	(70000)	1,120,000 **(1)**	Scrap	(7000 x20)	140,000 **(1)**
Labour	(70kx3x10) **(1of) (1) (1)**	2,100,000	Process 2	(63000)	4,480,000 **(1of)**
VO	(70kx3x6) **(1of) (1) (1)**	1,260,000			
FO	(70k x 2) **(1of) (1)**	140,000			
		4,620,000			4,620,000

[11]

Scrap a/c

	$		$
Process 1	140,000 **(1)**	Bank	140,000 **(1)**

[2]

(c) Equivalent units for materials

1,000	at 50%	5001	
1,200	at 75%	9001	
60,800	at 100%	60,8001of	
		x 2kg x $12	
63,000		62,200=	$1,492,800
		(1of) (1) (1) (1of)	**[7]**

(d)

	WiP 1 (1000) $	WiP 2 (1200) $	
P1	71,111 **(3of)**	85,333**(3of)**	
Materials	12,000 **(1)**of	21,600**(1)**	
Labour	22,000 **(1)**of	31,680**(1)**	
VO	6,000 **(1)**of	8,640**(1)**	
	111,111 **(1)**	147,253**(1of)**	$258,364 **(1of)** [15]

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(e) Identical products **(1)**
Produced in large number **(1)**
E.g. loaves of bread, radio sets **(1)** **[3]**

[40]

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