MARK SCHEME for the May/June 2010 question paper

for the guidance of teachers

9706 ACCOUNTING

9706/41	Paper 41 (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)

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]

(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

		Aneeqa		Emilita		Partnership	
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]

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

		A		B	
	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

	A		B	
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**		1	–150 000	**1**
y1	52 000 **1of**		0.909	47 268	**1of**
y2	52 000 **1of**		0.826	42 952	**1of**
y3	52 000 **1of**		0.751	39 052	**1of**
y4	52 000 **1of**		0.683	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]