

**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

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.

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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	<u>9 908 (1)</u>	<u>22 092 (1)</u>	Profit	<u>23 728 (1)</u>	<u>35 592</u>
	<u>33 228</u>	<u>43 292</u>		<u>33 228</u>	<u>43 292</u>

[8]

Alternative layout

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

(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	<u>(945) (1)</u>
Corrected net profit	<u>70 365 (1of)</u>

[10]

(c) Profit and loss appropriation account for the year ended 31 December 2009

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

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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	<u>17 626 (1of)</u>	<u>9 339</u>	Profit	<u>37 558 (1of)</u>	<u>25 039</u>
	<u>45 058</u>	<u>30 939</u>		<u>45 058</u>	<u>30 939</u>
			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	<u>555 000 (1of)</u>		
	582 000		
Inventory (stock)	<u>60 000 (1 both)</u>	<u>522 000</u>	
Gross profit		348 000	
Less expenses		<u>217 500 (1)</u>	
Operating profit		130 500 (1of)	
Finance costs		<u>6 000 (1)</u>	
Profit for the year		<u>124 500 (1of)</u>	<b>[7]</b>

Statement of changes in equity

Retained earnings

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

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**(b)** Balance sheet at 31 May 2010

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

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

**(ii)**  $\frac{150\,500}{526\,233} \times 100 = 28.50\%$  **(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]**

3

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

(b)

		\$			\$
Materials	(70000)	1,120,000	Scrap	(7000 x 20)	140,000
		(1)			(1)
Labour	(70kx3x10)	2,100,000	Process		
	(1of) (1) (1)		2	(63000)	4,480,000
VO	(70kx3x6)	1,260,000			(1of)
	(1of) (1) (1)				
FO	(70k x 2)	140,000			
	(1of) (1)				
		4,620,000			4,620,000
					[11]

		\$			\$
Process 1		140,000	Scrap a/c		140,000
		(1)	Bank		(1)
					[2]

(c) Equivalent units for materials

1,000	at 50%	500			
1,200	at 75%	900			
60,800	at 100%	60,800	of		
				x 2kg x \$12	
63,000		62,200	=	\$1,492,800	
		(1of)	(1)	(1)	(1of)
					[7]

(d)

		WiP 1	WiP 2		
		(1000)	(1200)		
		\$	\$		
P1	71,111		85,333	(3of)	
	(3of)				
Materials	12,000		21,600	(1)	
	(1)of				
Labour	22,000		31,680	(1)	
	(1)of				
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]