# 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.

(b)

| Current accounts |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | A | B | C |  | A | B | C |  |
|  | \$ | \$ | \$ |  | \$ | \$ | \$ |  |
|  |  |  |  | Balance b/d | 14000 | 27000 | 37000 | (1) |
| Drawings | 40000 | 33400 | 35000 (1) | Salary | 8000 |  |  | (1) |
|  |  |  |  | Int on cap | 9600 | 6600 | 4800 | (1of) |
| Loss | 1320 | 880 |  | Profit |  |  | 7200 | (1of) |
| Balance c/d |  |  | 14000 | Balance c/d | 9720 | 680 |  |  |
|  | 41320 | 34280 | 49000 |  | 41320 | 34280 | 49000 | [ |

(c)

Capital accounts

| (c) | A | B |  | C | , | accoun | A | B | C |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | \$ | \$ |  | \$ |  |  | \$ | \$ | \$ |  |
| Curr acc | 9720 | 680 |  |  |  | Bal b/d | 160000 | 110000 | 80000 | (1) |
| Deb's | 50000 | 50000 |  | 50000 | (1) | Curr acc |  |  | 14000 | (1of) |
| Shares | 210000 | (1) 140000 | (1) | 70000 | (1) | Surpl | 106200 | 70800 | 35400 | *(7) |
| Bank |  | 9400 | (10) |  |  | Bank | 3520 | f) 9880 |  |  |
|  | $\underline{269720}$ | 190680 |  | 129400 |  |  | $\underline{\underline{269720}}$ | 190680 | 129400 |  |

$* 600000(1)-(367000(1)-42100(1$ of) $+23500(1)+(37000-18000)(1)+20200(1))$
$=212400$
plus (1of) for the correct profit share between partners.
(d)

Bank account

|  | \$ |  | \$ |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Bad debt | 200 | (1) | Balance | 14000 | (1) |
| EDC Ltd | 30000 | (1) | Expenses | 20200 | (1) |
| Akram | 3520 | (1of) | Chuck | 9400 | (1of) |
| Bhupesh | 9880 | (1of) |  |  |  |
|  | 43600 |  |  | 43600 |  |


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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 $470(1)+508(1)+400(1)$ | 1378 |
| 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 | 1961 (1of) |
| Interest paid | (30) (1) |
| Income taxes paid | (306) (1) |
| Net cash (used in) generated by operating activities | 1625 |

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
Net cash (used in) / from operating activities 1625 (1of)
Cash flows from investing activities
Purchase of non-current assets
$450(1)+1350(1)+620(1)+1270(1)$
Proceeds from sale of non-current assets $\quad 43$
6 (1) + 37 (1)
Net cash (used in) / from investing activities
Cash flows from financing activities
Proceeds from issue of share capital 1500
$500(2)+1000(2)$
Repayment of debentures
(140) (1)

Dividends paid
(5) (2)

Net cash (used in) / from financing activities
1355
Net incr / (decr) in cash and cash equivalents (bank)
Cash and cash equivalents (bank) at beginning of year
(667) (1of) (2cf)

Cash and cash equivalents (bank) at end of year
(c) Net debt 1 April 2009 (580-500)

Decrease in cash
Debentures repurchase
Net debt 31 March $2010(87+360)$
(447) (2) or 0
(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

3 (a)

|  |  | $\$$ |
| :--- | :--- | ---: |
| Revenue | working 1 | 1715610 |
| purchase cost |  | $(200000)(\mathbf{1})$ |
| salary | $(30000+36000+43200+51840+62$ 208 $)$ | $(223248)(\mathbf{2})$ |
| rent | $(3600+3600+4500+4500+4500)$ | $(20700)(\mathbf{2})$ |
| air fare | $(1000 \times 5)$ | $(5000)(\mathbf{1})$ |
|  | Net cash flow | $\mathbf{1 2 6 6 6 6 2 ( 1 o f )}$ |

working 1

|  | $\$$ |
| :--- | ---: |
| $1000000 \times 1.1-1000000$ | 100000 (1) |
| $(1000000+100000 \times .1 .1)-1000000$ | 210000 (1of) |
| $(1000000+210000 \times .1 .1)-1000000$ | 331000 (1of) |
| $(1000000+331000 \times .1 .1)-1000000$ | 464100 (1of) |
| $(1000000+464100 \times .1 .1)-1000000$ | 610510 (1of) |
|  | $\mathbf{1 7 1 5} \mathbf{6 1 0}$ |

(b)

| year | annual net cash flow | dis factor | $\$$ |
| :--- | :--- | :--- | ---: |
| 0 | $(200000+3600)$ | 1 | $(203600)$ (1of) |
| 1 | $(100000-30000-3600-1000)$ | 0.893 | 58402.20 (1of) |
| 2 | $(210000-36000-4500-1000)$ | 0.797 | 134294.50 (1of) |
| 3 | $(331000-43200-4500-1000)$ | 0.712 | 200997.60 (1of) |
| 4 | $(464100-51840-4500-1000)$ | 0.636 | 258699.36 (1of) |
| 5 | $(610510-62208-1000)$ | 0.507 | 277482.11 (1of) |
|  |  | N.P.V (1) | $\mathbf{7 2 6} 275.77$ (1of) |


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(c) Brad discounted payback
$\frac{10903.30}{200997.60(1 \text { (1of) })}=0.054$ (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]

