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.

• CIE will not enter into discussions or correspondence in connection with these mark schemes.

CIE is publishing the mark schemes for the October/November 2010 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.



UNIVERSITY of CAMBRIDGE International Examinations

Pa	age 2			ners' version	Syllabus	Paper
		GCE A/AS LEV	EL – Octob	er/November 201	0 9706	42
1 (a)	Akram, Bhupesh and Chuck Profit and loss appropriation account for the year ended 31 March 2010. \$ \$ \$					
	Gross pr	ofit	Ψ	Ψ	383 000	
		expenses		306 600 (1)		
	Bad debt			• • •	could be split 500 – 2	
	Deprecia	machinery	6 200 18 700 }		hree 2 marks or two	1 mark
	Net profit	vehicles t for the year	<u>17 200</u> J	<u>42 100</u>	<u>349 000</u> 34 000 (1of)	
	Salary A	-		8 000 (1)		
	Interest of	on capital Akram		9 600		
	Bhupesh Chuck			6 600 all tl		
		profit before profit s	share	<u>4 800</u>	<u>29 000</u> 5 000	
		profit/loss Akram		(1 320) (1of		
		Bhupes	sh	(880) (1o	-	
		Chuck		<u>7 200</u> (2of	5 000	[11]
(b)			Currer	nt accounts		
		A B	C		A B	C
		\$\$	\$	Balance b/d	\$\$ 14 000 27 000 3	\$ 37 000 (1)
	Drawings	s 40 000 33 40	0 35 000 (8 000	(1)
	-		·	Int on cap	9 600 6 600	4 800 (1of)
	Loss Balance	1 320 88		Profit Polonoo o/d	0.720 690	7 200 (1of)
	Dalance	41 320 34 28	<u>14 000</u> 30 49 000	Balance c/d	<u>9 720 680</u> 41 320 34 280	<u>49 000</u> [6]
						<u> </u>
(c)	А	В	Capita C	al accounts A	В	С
	\$	\$	\$	\$	\$	\$
Curr ac				Bal b/d 160 000		80 000 (1)
Deb's	50 000		50 000 (1)	Curr acc		14 000 (1of)
Shares Bank	210 000	(1) 140 000 (1) <u>9 400</u> (1of	70 000 (1)	Surpl 106 200 Bank 3 520) 70 800 (1of) 9 880 (1of)	35 400 * (7)
Bank	<u>269 720</u>		, 1 <u>29 400</u>	<u>269 720</u>		<u>29 400</u>
	* 600 000	0 (1) _ (367 000 (1)) - 42 100 (1	of) + 23 500 (1) +	(37 000 – 18 000) (1) + 20 200 (1))
	= 212 40		J = 42 100 (1	01) + 23 300 (1) +	(37 000 - 10 000) (I) · 20 200 (I))
) for the correct pro	ofit share bet	ween partners.		[16]
(d)		¢	Banl	د account		
	Bad debt	\$ 200 (1)	Balance	\$ 14 000 (1)		
	EDC Ltd		Expenses	20 200 (1)		
	Akram	3 520 (1of)	Chuck	9 400 (1of)		
	Bhupesh	,		43 600		[7]
		<u>43 600</u>		<u>43 600</u>		[7]

[Total: 40]

Page 3	Mark Scheme: Teachers' version	Syllabus	Paper
	GCE A/AS LEVEL – October/November 2010	9706	42

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	1 378	
470 (1) + 508 (1) + 400 (1)		
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)	<u> 219</u> (1)	
Cash from operations	1 961 (1o	f)
Interest paid	(30) (1)	
Income taxes paid	<u>(306)</u> (1)	
Net cash (used in) generated by operating activities	<u>1 625</u>	[13]

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 3	1 March 2010		
	Net cash (used in) / from operating activities		\$000 1 625	(1of)
	450 (1) + 1350 (1) + 620 (1) + 1270 (1)	(3 690)		
	Proceeds from sale of non-current assets 6 (1) + 37 (1)	<u> 43</u>		
	Net cash (used in) / from investing activities Cash flows from financing activities		(3647)	
	Proceeds from issue of share capital 500 (2) + 1000 (2)	1500		
	Repayment of debentures Dividends paid	(140) (1) (5) (2)		
	Net cash (used in) / from financing activities Net incr / (decr) in cash and cash equivalents (bank) Cash and cash equivalents (bank) at beginning of year		<u>1 355</u> (667) 580	(1of) (2cf)
	Cash and cash equivalents (bank) at end of year		<u> (87)</u>	[16]
(c)	Net debt 1 April 2009 (580 – 500) 80 (2) or 0 Decrease in cash (667) (10f)			
	Debentures repurchase 140 (2) or 0 Net debt 31 March 2010 (87 + 360) (447) (2) or 0			[7]
(N				
(d)	Legal requirement for some limited companies (2) Shows how cash and cash equivalents have been us externally	ed / generate	ed (2) i	internally and
	Link between two balance sheets (2) and between cash a Movement in cash receipts and cash payments (2)	nd profit (2)		
	Completes the picture given by financial statements (2) 2 marks each			[4]
				[Total: 40]

Page 4	Mark Scheme: Teachers' version	Syllabus	Paper
	GCE A/AS LEVEL – October/November 2010	9706	42

3 (a)

		\$
Revenue	working 1	1 715 610
purchase cost		(200 000) (1)
salary	(30 000 + 36 000 + 43 200 + 51 840 + 62 208)	(223 248) (2)
rent	(3600 + 3600 + 4500 + 4500 + 4500)	(20 700) (2)
air fare	(1000 × 5)	(5000) (1)
	Net cash flow	1 266 662 (1of)

working 1

	\$
1 000 000 x 1.1 - 1000 000	100 000 (1)
(1000 000 + 100 000 × .1.1) – 1000 000	210 000 (1of)
(1000 000 + 210 000 × .1.1) – 1000 000	331 000 (1of)
(1000 000 + 331 000 × .1.1) – 1000 000	464 100 (1of)
(1000 000 + 464 100 × .1.1) – 1000 000	610 510 (1of)
	1 715 610

[22]

(b)

year	annual net cash flow	dis factor	\$
0	(200 000 + 3600)	1	(203 600) (1of)
1	(100 000 – 30 000 – 3600 – 1000)	0.893	58 402.20 (1of)
2	(210 000 – 36 000 – 4500 – 1000)	0.797	134 294.50 (1of)
3	(331 000 – 43 200 – 4500 – 1000)	0.712	200 997.60 (1of)
4	(464 100 – 51 840 – 4500 – 1000)	0.636	258 699.36 (1of)
5	(610 510 – 62 208 – 1000)	0.507	277 482.11 (1of)
		N.P.V (1)	726 275.77 (1of)

[8]

Page 5	Mark Scheme: Teachers' version	Syllabus	Paper
	GCE A/AS LEVEL – October/November 2010	9706	42

(c) Brad discounted payback

 $\frac{10\ 903.30}{200\ 997.60} \frac{(1\text{ of})}{(1\text{ of})} = 0.054 \ (1\text{ of}) \ \text{plus 2 years (1of)} = 2.054 \ \text{years}$ 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]

[4]