

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

**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.

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

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

Page 2	Mark Scheme: Teachers' version	Syllabus	Paper
	GCE AS/A LEVEL – May/June 2010	9706	41

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			<u>12 100</u>	
			177 400	
 Current assets				
Inventory (stock)		19 900		1
Trade receivables (debtors)	35 000			
PDD	<u>-1 750</u>	<u>33 250</u>		1
		53 150		
 Current liabilities				
Trade payables (creditors)	23 000			
Cash and cash equivalents (bank)	<u>1 800</u>	<u>24 800</u>		1
			<u>28 350</u>	
			<u>205 750</u>	
 Capital	Aneeqa	Emilita		
Bal b/d	56 250	108 850		1
Revaluation	16 350	38 300		(3)
Goodwill	<u>-5 600</u>	<u>-8 400</u>		1
Bal c/d	<u>67 000</u>	<u>138 750</u>	205 750	1of

[17]

Revaluation				
Goodwill	9 000	5 000		1
Premises		34 000		
Equipment	4 000	1 000		
Fixtures	500	-200		
Vehicle	3 900			2*
PDD	-850	-900		
Stock	<u>-200</u>	<u>-600</u>		
	16 350	38 300		

*or 1 for three components

(b)

	\$	\$	\$	
New profit (16 + 34) × 1.1	55 000			1
Salaries	-20 000	10 000	10 000	1 for both
IOC	-20 575	6 700	13 875	1of
Share of profit	<u>-14 425</u>	<u>5 770</u>	<u>8 655</u>	1of
	0	22 470	32 530	
Old profit		<u>16 000</u>	<u>34 000</u>	
Change in profit		<u>6 470</u>	<u>-1 470</u>	1of

Partner with increased income is Aneeqa

1

[9]

Page 3	Mark Scheme: Teachers' version	Syllabus	Paper
	GCE AS/A LEVEL – May/June 2010	9706	41

(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

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) $1\,470 \times 5 \div 3 =$ 2 450 **1of**

$$\begin{array}{r} + 55\,000 \\ \hline 57\,450 \end{array} \quad \mathbf{1of}$$

$$\div 50\,000 \quad \mathbf{1} \quad = 1.149$$

14.9% increase **1of**

[4]**[Total: 40]**

Page 5	Mark Scheme: Teachers' version	Syllabus	Paper
	GCE AS/A LEVEL – May/June 2010	9706	41

3 (a) (i)		A		B	
	annual net cash flow	100 000		120 000	
		-40 000		-65 000	
		-8 000		-6 000	
		<u>52 000</u>	1	<u>49 000</u>	1
(ii) ARR					
	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					
	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	<u>35 516</u>	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]