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Mark schemes must be read in conjunction with the question papers and the report on the examination.

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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.
1

Current accounts (to find opening balances)

<table>
<thead>
<tr>
<th></th>
<th>Boris</th>
<th>Cheong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drawings</td>
<td>22 000</td>
<td>20 000</td>
</tr>
<tr>
<td>Int. on drawings</td>
<td>1 320</td>
<td>1 200</td>
</tr>
<tr>
<td>Closing Balances</td>
<td>9 908</td>
<td>22 092</td>
</tr>
<tr>
<td>Int. on capital</td>
<td>8 000</td>
<td>7 200</td>
</tr>
<tr>
<td>Profit</td>
<td>23 728</td>
<td>35 592</td>
</tr>
</tbody>
</table>

Alternative layout

<table>
<thead>
<tr>
<th></th>
<th>Boris</th>
<th>Cheong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closing balances</td>
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</tr>
<tr>
<td>Profit</td>
<td>23 728</td>
<td>35 592</td>
</tr>
<tr>
<td>Opening balances</td>
<td>1 500</td>
<td>500</td>
</tr>
</tbody>
</table>

(b) $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 (945) (1)
Corrected net profit 70 365 (1)

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

<table>
<thead>
<tr>
<th></th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit</td>
<td>70 365 (1)</td>
<td>2032 (1)</td>
</tr>
<tr>
<td>Interest on drawings</td>
<td>B 2 032 (3)</td>
<td>3 632</td>
</tr>
<tr>
<td>Interest on capital</td>
<td>B 6 000</td>
<td>11 400 (1)</td>
</tr>
<tr>
<td>Share of profits</td>
<td>B 37 558 (1)</td>
<td>C 25 039 (1)</td>
</tr>
</tbody>
</table>

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(d) Current accounts

<table>
<thead>
<tr>
<th></th>
<th>B</th>
<th>C</th>
<th></th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on drawings</td>
<td>2 032</td>
<td>1 600</td>
<td>Balance b/d</td>
<td>1 500</td>
<td>500</td>
</tr>
<tr>
<td>Drawings</td>
<td>25 400</td>
<td>20 000</td>
<td>Int on capital</td>
<td>6 000</td>
<td>5 400</td>
</tr>
<tr>
<td>Balance c/d</td>
<td>17 626</td>
<td>9 339</td>
<td>Profit</td>
<td>37 558</td>
<td>25 039</td>
</tr>
<tr>
<td></td>
<td>45 058</td>
<td>30 939</td>
<td></td>
<td>45 058</td>
<td>30 939</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>$</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (sales)</td>
<td>870 000 (1)</td>
<td></td>
</tr>
<tr>
<td>Less cost of sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory (stock)</td>
<td>27 000</td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
<td>555 000 (1of)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>582 000</td>
<td></td>
</tr>
<tr>
<td>Inventory (stock)</td>
<td>60 000 (1 both)</td>
<td>522 000</td>
</tr>
<tr>
<td>Gross profit</td>
<td>348 000</td>
<td></td>
</tr>
<tr>
<td>Less expenses</td>
<td>217 500 (1)</td>
<td></td>
</tr>
<tr>
<td>Operating profit</td>
<td>130 500 (1of)</td>
<td></td>
</tr>
<tr>
<td>Finance costs</td>
<td>6 000 (1)</td>
<td></td>
</tr>
<tr>
<td>Profit for the year</td>
<td>124 500 (1of)</td>
<td></td>
</tr>
</tbody>
</table>

Statement of changes in equity

Retained earnings

<table>
<thead>
<tr>
<th></th>
<th>$</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 1 June 2009</td>
<td>93 733 (1)</td>
<td></td>
</tr>
<tr>
<td>Profit for the year</td>
<td>124 500 (1of)</td>
<td>218 233</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(22 000)</td>
<td></td>
</tr>
<tr>
<td>4 000 (1) + 18 000 (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at 31 May 2010</td>
<td>196 233 (1of)</td>
<td></td>
</tr>
</tbody>
</table>

[5]

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(b) Balance sheet at 31 May 2010

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

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

(ii) \( \frac{150 500}{526 233} \times 100 = 28.50\% \)  [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
   \[1\text{ of } 1\]\[2\]

(b) Process 1

\[
\begin{align*}
\text{Materials} & : (70000) \times 1,120,000 & \text{Scrap} & : (7000 \times 20) \times 140,000 \\
(1) & & (1) & \\
\text{Labour} & : (70k \times 3 \times 10) \times 2,100,000 & \text{Process} & : (63000) \times 4,480,000 \\
(1\text{ of }) & & (1) & \\
\text{VO} & : (70k \times 3 \times 6) \times 1,260,000 & \text{FO} & : (70k \times 2) \times 140,000 \\
(1\text{ of }) & & (1) & \\
\hline 
4,620,000 & & 4,620,000 & \\
\end{align*}
\]
\[11\]

Scrap a/c

\[
\begin{align*}
\text{Process 1} & : 140,000 & \text{Bank} & : 140,000 \\
(1) & & (1) & \\
\end{align*}
\]
\[2\]

(c) Equivalent units for materials

\[
\begin{align*}
1,000 \text{ at } 50\% & : 5001 \\
1,200 \text{ at } 75\% & : 9001 \\
60,800 \text{ at } 100\% & : 60,800 \\
63,000 & & 62,200 = 1,492,800 \\
& & (1\text{ of }) (1) (1)
\end{align*}
\]
\[7\]

(d) WiP 1 WiP 2

\[
\begin{align*}
P1 & : 71,111 \text{ (3 of )} & 85,333 \text{ (3 of )} \\
(1\text{ of }) & & (1\text{ of }) \\
\text{Materials} & : 12,000 & 21,600 (1) \\
(1\text{ of }) & & (1\text{ of }) \\
\text{Labour} & : 22,000 & 31,680 (1) \\
(1\text{ of }) & & (1\text{ of }) \\
\text{VO} & : 6,000 (1) & 8,640 (1) \\
\hline 
111,111 (1) & 147,253 (1) & $258,364 (1) \\
\end{align*}
\]
\[15\]
(e) Identical products (1)
   Produced in large number (1)
   E.g. loaves of bread, radio sets (1) [3]

[40]