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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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 (a) Akram, Bhupesh and Chuck

Profit and loss appropriation account for the year ended 31 March 2010.

\[
\begin{array}{ccc}
\$ & \$ & \$ \\
\text{Gross profit} & 383 000 & \\
\text{General expenses} & 306 600 & (1) \\
\text{Bad debts} & 300 & (1) \text{could be split 500 – 200} \\
\text{Depreciation – buildings} & 6 200 & \text{all three 2 marks or two 1 mark} \\
\text{Depreciation – machinery} & 18 700 & \\
\text{Depreciation – vehicles} & 17 200 & \\
\hline \\
\text{Net profit for the year} & 42 100 & 349 000 (1of) \\
\text{Salary Akram} & 8 000 & (1) \\
\text{Interest on capital Akram} & 9 600 & \\
\text{Bhupesh} & 6 600 & \text{all three (1)} \\
\text{Chuck} & 4 800 & 29 000 \\
\text{residual profit before profit share} & & 5 000 \\
\text{Share of profit/loss} & Akram & (1 320) (1of) \\
\text{} & Bhupesh & (880) (1of) \\
\text{} & Chuck & 7 200 (2of) 5 000 [11] \\
\end{array}
\]

(b) Current accounts

\[
\begin{array}{ccc}
\text{A} & \text{B} & \text{C} \\
\text{Balance b/d} & 14 000 & 27 000 & 37 000 (1) \\
\text{Salary} & 8 000 & (1) \\
\text{Int on cap} & 9 600 & 6 600 & 4 800 (1of) \\
\text{Profit} & 7 200 (1of) \\
\hline \\
\text{Balance c/d} & 14 000 & \\
\text{Balance c/d} & 9 720 & 680 & \\
\hline \\
41 320 & 34 280 & 49 000 & [6] \\
\end{array}
\]

(c) Capital accounts

\[
\begin{array}{ccc}
\text{A} & \text{B} & \text{C} \\
\text{Bal b/d} & 160 000 & 110 000 & 80 000 (1) \\
\text{Curr acc} & 14 000 & (1) \\
\text{Surpl} & 106 200 & 70 800 & 35 400 *7) \\
\text{Bank} & 9 400 (1of) & \\
\text{Surpl} & 3 520 (1of) & 9 880 (1of) \\
\hline \\
269 720 & 190 680 & 129 400 \\
269 720 & 190 680 & 129 400 & \\
\end{array}
\]

* 600 000 (1) – (367 000 (1) – 42 100 (1of) + 23 500 (1) +(37 000 – 18 000) (1) + 20 200 (1))
= 212 400
plus (1of) for the correct profit share between partners. [16]

(d) Bank account

\[
\begin{array}{ccc}
\text{Bad debt} & 200 (1) & \\
\text{EDC Ltd} & 30 000 (1) & \\
\text{Akram} & 3 520 (1of) & \\
\text{Bhupesh} & 9 880 (1of) & \\
\hline \\
43 600 & 43 600 & \\
\end{array}
\]

[Total: 40]
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) 219 (1)
Cash from operations 1 961 (1)
Interest paid (30)
Income taxes paid (306) (1)
Net cash (used in) generated by operating activities 1 625 [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 31 March 2010

$000
Net cash (used in) / from operating activities 1 625 (1of)
Cash flows from investing activities
Purchase of non-current assets (3 690)
450 (1) + 1350 (1) + 620 (1) + 1270 (1)
Proceeds from sale of non-current assets 43
6 (1) + 37 (1)
Net cash (used in) / from investing activities (3647)
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 1 355
Net incr / (decr) in cash and cash equivalents (bank) (667) (1of) (2cf)
Cash and cash equivalents (bank) at beginning of year 580
Cash and cash equivalents (bank) at end of year (87) [16]

(c) Net debt 1 April 2009 (580 – 500) 80 (2) or 0
Decrease in cash (667) (1of)
Debentures repurchase 140 (2) or 0
Net debt 31 March 2010 (87 + 360) (447) (2) or 0 [7]

(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 [4]

[Total: 40]
3 (a)  

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>working 1</td>
<td>1,715,610</td>
</tr>
<tr>
<td>purchase cost</td>
<td>(200,000)</td>
<td>1</td>
</tr>
<tr>
<td>salary</td>
<td>(30,000 + 36,000 + 43,200 + 51,840 + 62,208)</td>
<td>(223,248)</td>
</tr>
<tr>
<td>rent</td>
<td>(3,600 + 3,600 + 4,500 + 4,500 + 4,500)</td>
<td>(20,700)</td>
</tr>
<tr>
<td>air fare</td>
<td>(1,000 × 5)</td>
<td>(5,000)</td>
</tr>
<tr>
<td>Net cash flow</td>
<td></td>
<td>1,266,662 (1of)</td>
</tr>
</tbody>
</table>

working 1

<table>
<thead>
<tr>
<th>Amount</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,000,000 × 1.1 - 1000,000</td>
<td>100,000</td>
</tr>
<tr>
<td>(1000,000 + 100,000 × .1.1) - 1000,000</td>
<td>210,000</td>
</tr>
<tr>
<td>(1000,000 + 210,000 × .1.1) - 1000,000</td>
<td>331,000</td>
</tr>
<tr>
<td>(1000,000 + 331,000 × .1.1) - 1000,000</td>
<td>464,100</td>
</tr>
<tr>
<td>(1000,000 + 464,100 × .1.1) - 1000,000</td>
<td>610,510</td>
</tr>
<tr>
<td></td>
<td>1,715,610</td>
</tr>
</tbody>
</table>

(b)

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual net cash flow</th>
<th>Dis factor</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>(200,000 + 3600)</td>
<td>1</td>
<td>(203,600) (1of)</td>
</tr>
<tr>
<td>1</td>
<td>(100,000 − 30,000 − 3600 − 1000)</td>
<td>0.893</td>
<td>58,402.20 (1of)</td>
</tr>
<tr>
<td>2</td>
<td>(210,000 − 36,000 − 4500 − 1000)</td>
<td>0.797</td>
<td>134,294.50 (1of)</td>
</tr>
<tr>
<td>3</td>
<td>(331,000 − 43,200 − 4500 − 1000)</td>
<td>0.712</td>
<td>200,997.60 (1of)</td>
</tr>
<tr>
<td>4</td>
<td>(464,100 − 51,840 − 4500 − 1000)</td>
<td>0.636</td>
<td>258,699.36 (1of)</td>
</tr>
<tr>
<td>5</td>
<td>(610,510 − 62,208 − 1000)</td>
<td>0.507</td>
<td>277,482.11 (1of)</td>
</tr>
<tr>
<td></td>
<td>N.P.V (1)</td>
<td></td>
<td>726,275.77 (1of)</td>
</tr>
</tbody>
</table>
(c) Brad discounted payback

\[
\frac{10\,903.30}{200\,997.60} = 0.054 \quad \text{(1of)} \quad \text{plus 2 years (1of) = 2.054 years} \quad [4]
\]

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]