CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Level

MARK SCHEME for the October/November 2014 series

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 should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge will not enter into discussions about these mark schemes.

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1 (a)

	$000	
Profit from operations	3752	**(1)**
Finance costs (W1)	(132)	**(2)**
Profit before tax	3620	**(1) OF**
Tax	(905)	**(1) OF**
Profit for the year	2715	**(1) OF**

W1: Finance costs:
1800 × 8% **(1)** × 11/12 **(1) =** 132

[6]

(b)

$000

	Share Capital	Share Premium	Rev Reserve	Gen Reserve	Ret Earnings	Total
Balance at 01 June 2013	25000	5000	1000	Zero	2950 **(1) row**	33950 **(1)**
Final dividend 01.09.13					(1000) **(1)**	(1000)
Share issue 01.10.13	5000 **(1)**	500 **(1)**				5500
Rights issue 01.11.13	6000 **(4)**					6000
Revaluation 01.02.14			1500 **(1)**			1500
Interim dividend 01.02.14					(1080) **(5)**	(1080)
Transfer 01.03.14				500 **(1)**	(500) **(1)**	
Profit 31.05.14					2715 **(1)**	2715
Balance at 31 May 2014	36000	5500	2500	500	3085 **(1) OF row**	47585 **(1) OF**

<u>Workings</u>

Rights issue (25000 + 5000) **(1)** / 5 **(1)** × \$1 **(1)** = \$6000000 **(1)**
Revaluation 7500000 – 6000000 **(1)** = \$1500000 **(1)**
Interim dividend (25000000 + **(1)** + 5000000 **(1)** + 6000000 **(1)** × 0.03 **(1)** = \$1080000 **(1)**
Final dividend (25000000 × 0.04 = \$1000000 **(1)** **[20]**

(c) The final dividend is not a liability **(1)** at the statement of financial position date. **(1)**
It is therefore disclosed as a note to the accounts. **(1)** Non adjusting event **(1)**
treated in next financial year **(1)** **[max 4]**

(d) A bonus issue would result in 1 share for each 5 held being given to the existing shareholders. **(1)**
This is a bookkeeping exercise and a reserve is debited **(1)** and no cash is raised. **(1)**
Therefore, the expansion plans of Aston plc would not be assisted. **(1)** **[4]**

(e) **(i)** When the carrying amount of property, plant and equipment exceeds the recoverable amount impairment has occurred. **(1)**
The recoverable amount is the higher of the net realisable value and the value in use

(ii)

Asset 1	310	**(1)**	
Asset 2	No impairment	**(1)**	
Asset 3	55	**(1)**	
Total loss to income statement = 310 + 0 + 55 = 365		**(1) OF**	**[4]**

[Total: 40]

2 **(a)** Contribution (50 – 31.1) **(1)** × 20 000 = $378 000 **(1)**

Net cash flow 378 000 – 120 000 **(1)** = $258 000 **(1) OF**

Profit 258 000 – 150 000 **(1)** = 108 000 **(1) OF** **[6]**

(b) $\dfrac{120\,000\ \mathbf{(1)} + 150\,000\ \mathbf{(1)}}{18.9\ \mathbf{(1)}} = \dfrac{270\,000}{18.9}$ = 14 286 units **(1) OF**

14 286 × $50 = $714 300 **(1) OF** **[5]**

(c) Purchase of machinery should be included in year 0 **(1)** as that is when the cash flow arises **(1)**.
The annual cash flows to be discounted should not include depreciation **(1)** as depreciation does not involve the movement of funds **(1)**.
NPV based on net cash flows and not profit **(1)**. **[max 4]**

(d)

	Cash flow	Discount factor	Discounted cash flow	
Year 0	(600 000)	1	(600 000)	**(1)**
Years 1 – 4	258 000 **(2) OF**	3.169 **(1)**	817 602	**(1) OF**
		NPV	217 602	**(1) OF**

[6]

(e) $\dfrac{217\,602\ \mathbf{(1)\ OF}}{600\,000\ \mathbf{(1)}}$ × 100 = 36.27% **(2) OF** **[4]**

(f) $\dfrac{217\,602\ \mathbf{(1)\ OF}}{3.169\ \mathbf{(1)}}$ = 68 665.8 a year **(1) OF**

$\dfrac{68\,665.8\ \mathbf{(1)\ OF}}{20\,000\ \mathbf{(1)}}$ = $3.43 per unit **(1) OF**

$\dfrac{3.43\ \mathbf{(1)\ OF}}{50\ \mathbf{(1)}}$ × 100 = 6.86% **(1) OF** **[9]**

(g) IAS16 **(1)**
import duties and taxes
site preparation
delivery and handling costs
installation and assembly
costs of testing/inspection
fees
regularly replaced parts

any five × **(1)** each **[6]**

[Total: 40]

3 (a)

Cash budget 2015

	Jan	Feb	March	April	
	$	$	$	$	
Receipts					
Cash sales	3000	2600	2800	3200	**(1) row**
Credit sales					
1 Month (90% × 50% × 96%)	11232 }**(1)**	12960 }**(1)**	11232 }**(1)**	12096 }**(1)**	
2 Months (90% × 50%)	10800	11700	13500	11700	
Loan received			10000 **(1)**		
Vehicle sale proceeds				1100 **(1)**	
	25032	27260	37532	28096	
Payments					
Suppliers	16150 **(1)**	17100	14250 **(1)**	18050 **(1)**	**any 3**
Vehicle purchase			12000 **(1)**		
Rent		4500 **(1)**			
Dividend	3100 **(1)**				
Sales and administration	6200	6200	6800	7100	**(1) row**
	25450	27800	33050	25150	
Difference	(418)	(540)	4482	2946	
Bank b/f	(1303) **(1)**	(1721)	(2261)	2221	
Bank c/f	(1721)	(2261)	2221	5167 **(1) OF**	

[15]

(b)

Budgeted income statement for the four months ending 30 April 2015

	$	$
Revenue		116 000 **(1)**
Opening inventory	2 100	
Purchases	65 000 **(1)**	
	67 100	
Closing inventory	3 800 **(1) both**	
Cost of sales		63 300
Gross profit		52 700 **(1) OF**
Discount received 69 000 **(1)** × 5% **(1)**		3 450
Less:		
Administration costs	26 800 **(1)**	
Discount allowed 110 000 **(1)** × (45% × 4%) **(1)**	1 980	
Loss on disposal	1 000 **(1)**	
Depreciation	540 **(1)**	
Interest	130 **(1)**	
Rent	3 000 **(1)**	
		33 450
Profit for the period		22 700 **(1) OF**

[14]

(c) Capital expenditure appears in the cash budget but not in the income statement. **(1)**
Capital receipts appear in the cash budget but not in the income statement. **(1)**
Non-cash items appear in the income statement but not in the cash budget. **(1)**
Credit items are recorded in the income statement but not in the cash budget. **(1)**
Examples **(max 2)** **[4]**

(d) To plan for cash surpluses so that money can be wisely invested or used. **(1)**
To plan for cash shortages so that alternative sources of finance may be found. **(1)** **[2]**

(e) <u>56 750</u> **(3)** = 6.1 times **(1) OF**
9 300 **(1)**

Note: 56 750 **(1) OF** = <u>22 700</u> **(1) OF** **[5]**
0.4 **(1)**

[Total: 40]