CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Level

MARK SCHEME for the May/June 2015 series

9706 ACCOUNTING

9706/43

Paper 4 (Problem solving – Supplement), maximum raw mark 120

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1 (a)

Plantin plc Retained earnings at 31 March 2015

	\$000		
Retained earnings at 1 April 2014	110	(1)	
Profit for the year	<u>52</u>	(1)	
	162		
Preference dividend paid	<u>(4)</u>	(1)	
Retained earnings at 31 March 2015	<u>158</u>	(1)OF	
			[4]

(b)

Plantin plc

Note to the statement of financial position at 31 March 2015.

Property, plant and equipment	Land and	Plant and	Total	
	buildings	equipment		
	\$000	\$000	\$000	
Cost				
Balance at 1 April 2014	260	152	412	(1)
Purchases	<u>80</u>	<u>80</u>	<u>160</u>	(1)
Balance at 31 March 2015	<u>340</u>	<u>232</u>	<u>572</u>	(1)OF
Depreciation				
Balance at 1 April 2014	90	87	177	(1)
Charge for the year	<u>28</u>	<u>33</u>	<u>61</u>	(1)
Balance at 31 March 2015	<u>118</u>	<u>120</u>	<u>238</u>	(1)OF
Net book value				
Balance at 31 March 2015	222	<u>112</u>	334	lwos postu
Balance at 31 March 2014	<u>170</u>	<u>65</u>	<u>235</u>	}(1)OF BOTH
				[7]

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(c)

Plantin plc Statement of Financial Position at 31 March 2015

\$000

Non-current assets Tangible Property, plant and equipment		
Land and buildings	222	(1)OF
Plant and equipment	112 334	(1)OF
Investments	<u>55</u> 389	(1)
Intangible (1)	309	
Goodwill (80 – 20)	<u>60</u> 449	(1)
Current assets		
Inventories (45 (1) + 30 (1))	75	
Trade and other receivables (56 (1) + 40 (1))	<u>96</u>	
	<u>171</u>	
Total assets	<u>620</u>	(1)OF
Equity		
Ordinary share capital (\$1 shares)(100 (1) + 50 (1))	150	
Non-redeemable \$1 preference shares (80 + 20)	100	(1) + (1)
Share premium	30	(1)
Retained earnings	<u>158</u>	(1)OF
G	438	()
Non-current liabilities		
5% debentures	<u>50</u>	(1)
Current liabilities		
Trade and other payables (24 (1) + 30 (1))	54	
Taxation	15	(1)
Cash and cash equivalents	<u>63</u>	(1)
	132	
Total equity and liabilities	<u>620</u>	

- (d) (i) In this case, revenue (1), profit for the year (1), trade receivables (1) and retained earnings (1) have all been overstated by \$30 000. [4]
 - (ii) IAS 8 states that where an error is discovered a business must correct material errors (1) from prior periods (1) in the next set of financial statements (1). Comparative amounts from prior periods must be restated (1).

[Total: 40]

[21]

Page 4				Mark Sche			Sy. Sy.	per
		С	ambridge In	ternational A L	evel – May/J	une 2015	970	20
2	(a)							C 147 Mage
	(-,			Capita	al accounts		`	Dr.
		Α	В	C		Α	В	C 8
Bank				60 000 (1)	Balance b/d	441 000	294 000	147
Loan				117 000 (1)of	Goodwill	90 000 (1)	60 000 (1)	30 000
Goodw	/ill	108 000 (1)	72 000 (1)					
Balanc	e c/d	<u>423 000</u>	<u>282 000</u>					
		<u>531 000</u>	<u>354 000</u>	<u>177 000</u>		<u>531 000</u>	<u>354 000</u>	<u>177 000</u>
					Balance b/d	423 000 (10F)	282 000	(1)of
								[10]

(b)	Statement of financial position at 1 I	May 2015
-----	--	----------

Assets	
Non-current assets	
Property	500 000
Equipment	132 000
Motor vehicles	150 000
	782 000 (1)
Current assets	、,
Inventories	38 000
Trade and other receivables	1 000
Cash and cash equivalents	<u>6 000</u> (1)
'	45 000
Total assets	827 000
Capital	
Capital – Abdul	423 000 (1) OF
Capital – Barry	282 000 (1) O F
, , , , , , , , , , , , , , , , , , ,	705 000
Liabilities	
Non-current liabilities	
Long-term loan – Chandra	117 000 (1)OF
Current liabilities	555 (1,51
Trade payables	5 000
Total capital & liabilities	827 000
i otal dapital a liabilitioo	<u>52, 555</u>

(c) Debentures are bonds which record a long term loan to be redeemed at a fixed future date (1) to the company at a fixed interest rate. (1) Interest will be paid whether the company is profitable or not. (1)

Likewise holders of convertible loan stock have made a long term loan to the company. (1) The major difference is that these holders have the right to exchange the stock for ordinary shares in the company at a predetermined price at a specified future date. (1)

[5]

[5]

Page 5		Mark Sch	eme		Sy.	per
	Cambridge Interna	ational A L	_evel – Ma	y/June 2015	970	700
(4)					`	Papa Cambridge
(d)	F	Richards Li	mited	Sobers L	imited	36.
	Current ratio	1.61 : 1	(1)	2.11 : 1	(1)	100
	Return on capital employed	19.13%	(1)	15.74%	(1)	00
	Gearing ratio	21.74%	(1)	32.79%	(1)	
	Income gearing	9.09%	(1)	16.67%	(1)	
	Earnings per share	\$0.20	(1)	\$0.20	(1)	
	Price earnings ratio	9.00	(1)	12.00	(1)	
	Dividend yield	3.33%	(1)	3.75%	(1)	
	Dividend yield	0.0070	(- /	0.70	(·)	[14]
						£ 3
(e)	Both companies have a retur Richards Limited has the hig					` '
	investment. (1)	ner retarn	uncreiore b	asca on this wo	aid make the i	octici
	Both companies have low ge	arina hain	a loce than	50% (1)		
	Richards Limited again has t	•	•	JU /0.(1)		
	Although neither company ca			come gearing Ri	charde Limita	d again has
	the better ratio as it can pay					
	times). (1)	1116162111	uiiies 110111	pront nom oper	ations (compa	area to o
	All of these ratios indicate that	at Richards	s Limited w	ould be a hettor	investment 1	1)

3 (a) (i) 24 + 20 + 4 + 9 = 57 (1)

[1]

[Total: 40]

\$

[6]

(ii) 684 000 (1) ÷ 57 (1)**OF** = 12 000 (1)**OF**

Scrap 1200 (1)OF \times 50 = 60 000 (1)OF

[3]

(b) (i)

	Direct material 12 000 × 24	288 000	(1)OF	Process 2	684 000	(1)
	Direct material 12 000 × 20	240 000	(1)OF			
	Variable overhead 12 000 × 4	48 000	(1)OF			
	Fixed overhead 12 000 × 9	108 000	(1)OF			
		684 000	` ,		684 000	
						[5]
(ii)						
` ,		Pro	cess 2			
		\$				
	Process 1	684 000	(1)	Scrap 1200 × 50	60 000	(2)OF
	Direct material 12 000 × 10	120 000	(1)OF	Process 3	1 152 000	(1)OF
	Direct labour 12 000 × 24	288 000	(1)OF			` ,
	Variable overhead 12 000 × 4	48 000	(1)OF			
	Fixed overhead 12 000 × 6	72 000	(1)OF			
		1 212 000	(- /		1 212 000)
	-	000				<u>-</u> [8]
						[~]

Process 1

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- (c) (i) $12\,000 \times 90\%$ (1) = 10 800 (1)OF
 - (ii) $1\ 152\ 000\ (1)$ **OF** $\div\ 10\ 800\ (1)$ **OF** $=\ \$106.67$

(d)

	\$
Existing P2 cost	1 212 000 (1)OF
Extra material cost $12\ 000 \times 2 \times 3$	<u>72 000</u> (1)
Gross cost	1 284 000 (1)OF
Scrap	(30 000) (1)OF
Net cost	1 254 000 (1)OF
Divided by units	<u>11 400</u> (1)OF
Cost per unit	<u>\$110</u> (1) OF
Cost per unit has increased	(1)OF
New materials should not be used	(1)OF

[9]

(e) Work-in-progress

\$	
320 000	(1) OF
6 750	(1)
31 500	(1)
4 500	(1)
<u>362 750</u>	(1) OF
	6 750 31 500 4 500

[5]

(f) Costs to date

Expected costs to completion

Estimated total costs

Percentage complete at report date

Time analysis of costs

Other reasonable point (1 each to max 5)

[5]

[Total: 40]