## MARK SCHEME for the May/June 2012 question paper

## for the guidance of teachers

## 9706 ACCOUNTING

9706/43

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

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Pa	ge 2	Mark Scheme: Teachers' version		Syllabus	Paper
	<b>U</b>	GCE A LEVEL – May/June 2012		9706	43
1 (a)	Deprecia Profit on Increase Increase Increase Interest p Tax paid Net cash Deprecia Plant & r 64 900 * Office ec 38 355 – Total dep Tax paid	m operations $345481$ ation 133365   disposal (2100)2   in trade receivables (5106)1   in inventories (2237)1   in trade payables $4104$ 1   42545 -   paid (1600)1   (4650)3 -   a from operating activities 36295   ation: -   machinery -   - 7900 10F + 35 000 10F - 82 500 * 1 both   quipment -   - 34519 = 38361   preciation = 9 500 + 3836 = 13336			
	4 200 * +	- 5 800 <b>1</b> – 5 350 * <b>1 both</b> = 4 650 <b>10F</b>			[16]
(b)	Cash flo Purchase Proceed Net cash Cash flo Proceed Redemp Net cash Net incre Cash &	s from sale of machinery <u>1</u> used in investing activities <b>ows from financing activities</b> s from issue of shares 3	30 April 2 \$ 5 000) <b>1</b> <u>0 000</u> <b>1</b> 80 000 <b>3</b> 20 000) <b>1</b>	\$ 36 295 (25 000) <u>10 000</u> 21 295 <u>6 459</u>	10F 10F 10F
	Proceed	s from issue of shares:			
	20 000 <b>1</b>	+ 10 000 <b>1</b> = 30 000 <b>10F</b>			[13]
(c)	22	623 672 × 365 days <b>1</b> = 17 days <b>10F</b> 2758 329 1 × 365 days <b>1</b> = 33 days <b>10F</b>			[5]

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	T age 0		VEL – May/June 2012	9706	43
				5700	
		trade receivables tu roved cash flow. <b>1</b>	rnover days has reduced. 1 D	ebts are being	paid faster. <b>1</b> [3]
		trade payables turno ebts. 1 Improved casł	ver days has increased. <b>1</b> The c h flow. <b>1</b>	ompany is taking	g longer to pay [3]
					[Total: 40]
2	(a)	Statement	Chipperfields Ltd of Financial Position at 1 May 20	)12	
			\$	\$	
	Non curr	rent assets	ψ	Ψ	
	Intangib				
	Goodwil			4 200 <b>4</b>	
	Tangible		240.000 *		
	Property Fixtures	and fittings	240 000 * 82 250 *		
		d machinery	<u>31 250</u> <b>1</b>		
		, , , , , , , , , , , , , , , , , , ,		353 500	
	Current				
	Inventor		66 950  * 22 630 <b>1</b>		
	Bank	ceivables	<u>14 675</u> <b>6</b>		
	Bank		<u></u> •	<u>104 255</u>	
	Total as			461 955	
		liabilities		(32 625) <b>1</b>	
	Trade pa Non-curi	rent liabilities		(32 023)	
		benture 2020		<u>(18 000</u> ) <b>3</b>	
	Net asse	≥ts		<u>411 330</u>	
	<b>–</b> "				
	Equity	Ordinary shares of \$0	2.50	210 000 <b>2</b>	
		5% non-redeemable p		210 000 2	
		of \$0.50 (1)		15 000 <b>1</b>	
	Share pr	remium		87 000 <b>2</b>	
	Retained	d earnings		<u>99 300</u> 1	1001
				<u>411 330</u>	[22]
	Working	ıs:			
	Goodwil		– [169 750 <b>1</b> – 13 950 <b>1</b> ] = 4 200	)	10F
	Bank		[160 000 <b>1</b> – 18 000 <b>1</b> – 72 000	<b>1</b> – 15 000 <b>1</b> ] =	
	Debentu	re 12 000 <b>1</b> +	6 000 <b>1</b> = 18 000		10F

Debenture	12 000 <b>1</b> + 6 000 <b>1</b> = 18 000	10F
Ordinary shares	150 000 + 60 000 <b>1</b> = 210 000	10F
Share premium	75 000 + 12 000 <b>1</b> = 87 000	10F

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(b) ROCE 2012 =  $\frac{82350}{324330}$  **1** × 100% = 25.39% **10F** 

ROCE 2013 =  $\frac{116\,000}{429\,330}$ **1** × 100% = 27.02% **10F** 

The ROCE has increased so Chipperfield Ltd has benefited from the acquisition. **10F** [7]

(c) Bonus issue: Not a feasible option 1 since cash will not be raised 1

**Issue of 10% debentures**: Interest payments must be made even if the company makes a loss **1** but if the company makes higher profits than anticipated they will not be required to increase the interest payments **1**.

Cash will be required for the redemption 1

New share issue: The issue of new shares could affect control 1.

Dividends would only be paid if sufficient profits are available 1.

**Rights issue:** The issue would not affect control **1**. Dividends would only be paid if sufficient profits are available **1**.

[11]

[7]

[11]

Conclusion with a reason 2

3	<b>(a)</b> Y	′ear	Inflow \$		Outflow \$	Net Cash Flo \$	w		
	0	)			(250 000)	(250 000)	1		
	1		320 000	1	260 000 <b>1</b>	60 000	10F		
	2	2	396 000	1	286 000 <b>1</b>	110 000	10F		
	3	} 4	435 600	1	338 800 <b>1</b>	96 800	10F		
	4		262 500	1	245 000 <b>1</b>	17 500	10F	[13	]

(b) ARR = 
$$\frac{\text{Average profit}}{\text{Average investment}} \times 100\%$$
  
 $\frac{284\,300\,10F}{4\,1} - 62\,500\,1 = \frac{8\,575}{125\,000}\,10F \times 100\% = 6.86\%\,10F$   
 $\frac{250\,000}{2} = 125\,000\,2$ 

(c) Year	Net Cash Flow		
0	(250 000) <b>10F</b>	1.000	(250 000) <b>10F</b>
1	60 000 <b>10F</b>	0.909	54 540 <b>10F</b>
2	110 000 <b>10F</b>	0.826	90 860 1 <b>0F</b>
3	96 800 1 <b>0F</b>	0.751	72 697 <b>10F</b>
4	17 500 <b>10F</b>	0.683	<u>11 953</u> <b>10F</b>
			( <u>19 950</u> ) <b>10F</b>

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- (d) The directors should not proceed with the proposal 1 because the NPV is negative 1. The calculated ARR, however, is poor and is below the cost of capital 1. Other factors may also affect the decision 1. [4]
- (e) (i) The internal rate of return is the rate which gives a zero net present value. 2

or

Discount rates below the IRR will result in a feasible project and vice versa. 2 [2]

(ii) If it is lower. 1 the proposal should be rejected 1 and vice versa 1 Since the NPV is negative at 10% 1 the IRR is lower than the cost of capital 1. [Max 3]

[Total: 40]