**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

**Cambridge International Advanced Level**

# MARK SCHEME for the May/June 2015 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.

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CAMBRIDGE
International Examinations

**1 (a) (i)**

Zapf plc
Budgeted income statement for the year ending 30 September 2015

| | $000 | $000 | |
|---|---|---|---|
| Revenue | | 786 | **(1)** |
| Cost of sales | | (456) | **(1)OF** |
| Gross profit (786 × 0.42) | | 330 | **(1)OF** |
| Distribution costs | (99) **(1)** | | |
| Administrative expenses | (185) **(1)** | | |
| | | (284) | |
| Profit from operations | | 46 | **(1)OF** |
| Income from investments | | 5 | **(1)** |
| Finance costs | | (10) | **(1)** |
| Profit before taxation | | 41 | **(1)OF** |
| Taxation | | (8) | **(1)OF** |
| Profit for the year | | 33 | **(1)OF** |

**(1)** mark for correct rounding. [12]

**(ii)**

| Retained earnings | $000 | |
|---|---|---|
| Balance at 1 October 2014 | 30 | **(1)** |
| Profit for the year | 33 | **(1)OF** |
| Preference dividends **(1)** paid (100 000 × 5%) | (5) | **(1)** |
| Balance at 30 September 2015 | 58 | **(1)OF** |

[5]

**(b) (i)**

Zapf plc
Note to the budgeted statement of financial position
for the year ending 30 September 2015

| Property, plant and equipment | Buildings $000 | Plant and equipment $000 | Motor vehicles $000 | Total $000 | |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at 1 October 2014 | 320 | 158 | 36 | 514 | **(1)** |
| Additions | 40 | 18 | 9 | 67 | **(1)** |
| Balance at 30 September 2015 | 360 | 176 | 45 | 581 | **(1)OF** |
| **Depreciation** | | | | | |
| Balance at 1 October 2014 | 112 | 78 | 20 | 210 | **(1)** |
| Charge for the year | 18 | 44 | 12 | 74 | **(1)** |
| Balance at 30 September 2015 | 130 | 122 | 32 | 284 | **(1)OF** |
| **Net book value** | | | | | |
| Balance at 30 September 2015 | 230 | 54 | 13 | 297 | **(1)OF for both NBV.** |
| Balance at 30 September 2014 | 208 | 80 | 16 | 304 | |

[7]

**(ii)** Zapf plc
Budgeted statement of financial position at 30 September 2015

| | $000 | |
| --- | --- | --- |
| **Non-current assets** | | |
| **Tangible (1)** | | |
| Property, plant and equipment (230 + 54 + 13) | 297 | **(1)OF** |
| Investments | 75 | **(1)** |
| | 372 | |
| **Intangible (1)** | | |
| Goodwill | 60 | **(1)** |
| | 432 | |
| **Current assets** | | |
| Inventories | 70 | **(1)** |
| Trade receivables | 97 | **(2)OF** |
| | 167 | |
| **Total assets** | 599 | **(1)OF** |
| | | |
| **Equity and liabilities** | | |
| **Capital and reserves** | | |
| Ordinary shares | 180 | **(1) for all three** |
| 5% Non-redeemable preference shares | 100 | |
| Share premium | 30 | |
| Retained earnings | 58 | **(1)** |
| | 368 | |
| **Non-current liabilities** | | |
| 6% Debentures (2021) | 150 | **(1)** |
| **Current liabilities** | | |
| Trade payables | 50 | **(2)OF** |
| Taxation | 8 | **(1)OF** |
| Cash and cash equivalents | 23 | **(1)OF** |
| | 81 | |
| **Total equity and liabilities** | 599 | [16] |

**[Total: 40]**

**2 (a)**

| | $ | |
|---|---|---|
| Property | 93 400 | **(1)** |
| Equipment | 39 450 | |
| Current assets | 39 360 | **(1)** |
| Current liabilities | (11 880) | **(1)** |
| Non-current liabilities | (8 000) | **(1)** |
| Net assets | 152 330 | **(1)OF** |

**W1**

51 000 – 24 600 + 16 000 **(1)** – 1 275 **(1)** – 1 675 **(1)** [8]

**(b)**

| | $ | |
|---|---|---|
| Closing net assets | 152 330 | **(1)OF** |
| Opening net assets | (142 400) | **(1)** |
| Drawings | 9 170 | **(1)** |
| Profit | 19 100 | **(1)OF** |

[4]

**(c)**

| | A | N | Z | | | A | | N | | Z | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | | | $ | | $ | | $ | |
| Goodwill | 6 000 | 3 000 | 3 000 | **(1) row** | Balance b/d | 70 000 | **(1)** | 50 000 | **(1)** | | |
| Balance c/d | 112 400 | 71 200 | 67 000 | | Cash | | | | | 10 000 | **(1)** |
| | | | | | Property | | | | | 60 000 | **(1)** |
| | | | | | Revaluation | 40 400 | **(1)** | 20 200 | **(1)** | | |
| | | | | | Goodwill | 8 000 | **(1)** | 4 000 | **(1)** | | |
| | 118 400 | 74 200 | 70 000 | | | 118 400 | | 74 200 | | 70 000 | |
| | | | | | Balance b/d | 112 400 | | 71 200 | | 67 000 | **(1)OF row** |

[10]

**(d)**

| | A | | N | | Z | | | A | | N | | Z | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $ | | $ | | $ | | | $ | | $ | | $ | |
| Drawings | 3 000 | | 6 170 | | | | Balance b/d | 20 400 | **(1)** | 2 000 | **(1)** | | |
| Drawings | 3 000 | **(1)** | 7 400 | **(1)** | 4 100 | **(1)** | IOC 1st | 5 250 | | 3 750 | | | |
| SOP 2nd | 1 030 | **(1)OF** | 515 | **(1)OF** | 515 | **(1)OF** | IOC 2nd | 11 240 | **(1)OF** | 7 120 | **(1)OF** | 6 700 | **(1)OF** |
| Balance c/d | 36 593 | | 2 152 | | 2 085 | | SOP 1st | 6 733 | | 3 367 | | | |
| | 43 623 | | 16 237 | | 6 700 | | | 43 623 | | 16 237 | | 6 700 | |
| | | | | | | | Balance b/d | 36 593 | | 2 152 | | 2 085 | **(1)OF row** |

[12]

**(e)**
- A's drawings are very steady at $500 a month **(1)**
- A's drawings are lower than his profit from the partnership **(1)**, in 2014 $16 060 lower **(1)OF**
- A appears to wish to retain profit in the partnership for the growth of the business **(1)**
- N's drawings appear to have a rising trend **(1)**
- N's relatively small balance on her current account at the start of the year indicates a history of taking almost all her profits as drawings **(1)**
- In the first half of 2014 N took almost all her profits as drawings **(1)**
- In the second half of 2014 N was overdrawing **(1)**
- N appears to consider maximising short-term drawings more important rather than leaving cash in the partnership for growth. [max 6]

**[Total: 40]**

**3** **(a)**

| Year | Revenue $ | Direct costs $ | Fixed costs $ | Net cash flows $ | 8% discount factor | Present value $ |
|---|---|---|---|---|---|---|
| 0 | | 20000 | | (20000) | 1 | (20000) **(1)** |
| 1 | 10000 | 2000 | 1600 | 6400 **(1)** | 0.926 | 5926 **(1)OF** |
| 2 | 10500 | 2060 | 1600 | 6840 **(1)** | 0.857 | 5862 **(1)OF** |
| 3 | 11025 | 2121 | 1600 | 7304 **(1)** | 0.794 | 5799 **(1)OF** |
| 4 | 11576 | 2185 | 1600 | 7791 **(1)** | 0.735 | 5726 **(1)OF** |
| 5 | 12155 | 2251 | 1600 | 8304 **(1)** | 0.681 | 5655 **(1)OF** |
| | | | | | Net present value | 8968 **(1)OF** |

[12]

**(b)** **(i)**

| Year | Net cash flows $ | 25% discount factor | Present value $ |
|---|---|---|---|
| 0 | (20000) | 1.000 | (20000) |
| 1 | 6400 | 0.800 | 5120 **(1)OF** |
| 2 | 6840 | 0.640 | 4377 **(1)OF** |
| 3 | 7304 | 0.512 | 3740 **(1)OF** |
| 4 | 7791 | 0.410 | 3194 **(1)OF** |
| 5 | 8304 | 0.328 | 2723 **(1)OF** |
| | | Net present value | (846) **(1)OF** |

[6]

**(ii)** Internal rate of return: 8% **(1)** + 17% **(1)** × (8968/(8968 + 846)) **(1)OF** = 23.53% **(1)OF** [4]

**(c)** Average profits = net cash less depreciation per year
= ($36639 **(1)OF** – $20000) **(1)**/5 **(1)**
= $3328 **(1)OF**

Average investment = $10000 **(1)**

Accounting rate of return = 33.28% **(1)OF** [6]

**(d)** The NPV is higher for the London taxi **(1)**. The IRR is lower for the London taxi **(1)**. The ARR is higher for the London taxi **(1)**. However, NPV is a better measure **(1)** as it takes into account time value of money **(1)**. Therefore Abdul should buy the London taxi **(1)**. [Max 4] [4]

**(e)** **(i)** Advantage – dividends need not be paid if profits are insufficient **(1)**
Disadvantage – ordinary shareholders control the company as they have the vote **(1)** [2]

**(ii)** Advantage – entitled to vote at the AGM/may earn a higher dividend as profits increase **(1)**
Disadvantage – Ordinary shareholders must stand any losses on a winding-up/may not receive any dividend at all if profits insufficient. The dividend is variable and based on profits **(1)** [2]

**(f)** **(i)** Advantage – fixed dividend assists cash flow management **(1)**
Disadvantage – may be treated as financing costs if shares are redeemable/rate of interest on overdraft/capital may be lower than rate of dividend payable on shares. No control over the amount of dividend as it is fixed. **(1)** [2]

**(ii)** Advantage – preference shares receive their dividend, usually at a fixed rate, in priority to the ordinary shareholders. Receive the dividend before ordinary shareholders **(1)**.
Disadvantage – preference dividend is a fixed amount **(1)** [2]

[Total: 40]