CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Level

MARK SCHEME for the October/November 2014 series

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 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)** Finance costs = 75 000
5625 **(1)** × 8% **(1)** × 2/12 **(1)** = 75 **[3]**

(b) Profit before tax = 3296 – 75 = 3221 **(1)OF**
Profit attributable to equity holders = 3221 – 782 = 2439 **(1)OF** **[2]**

(c)

Profit from operations	3296	**(1)**
Depreciation	2050	**(1)**
Gain on disposal	(395)	**(1)**
Dividends received	(750)	**(1)**
Increase in inventories	(389)	**(1)**
Increase in trade receivables	(404)	**(1)**
Increase in trade payables	939	**(1)**
	4347	
Interest paid	(75)	**(1)OF**
Tax paid	(579)	**(3)**
Net cash from operating activities	3693	**(1)OF**

609 * + 782 (**1) –** 812 * **1 both** = 579 **(1) of**

[12]

(d) Statement of cash flows for year ended 30 June 2014

	$		$	
Cash flow from operating activities			3693	**(1)OF**
Cash flows from investing activities				
Purchase of property, plant and equipment (W1)	(11 401)	**(4)**		
Proceeds from property, plant and equipment	520	**(1)**		
Dividends received	750	**(1)**		
Net cash used in investing activities			(10 131)	**(1)OF**
Cash flows from financing activities				
Proceeds from share issue	1500	**(1)**		
Proceeds from issue of debentures	5625	**(1)**		
Dividends paid	(150)	**(1)**		
Net cash from financing activities			6975	**(1)OF**
Net increase in cash and cash equivalents			537	**(1)OF**
Cash and cash equivalents at start of year			(83)	**(1)**
Cash and cash equivalents at end of year			454	**(1)OF**
W1				**(+1)CF**
Purchase of property, plant and equipment				
Property, plant and equipment at start of period	10 509	**(1)**		
Depreciation	(2050)	**(1)**		
NBV of disposed property, plant and equipment	(125)	**(1)**		
Property, plant and equipment at end of period	(19 735)	**(1 both)**		
Property, plant and equipment additions	(11 401)	**(1)OF**		

[16]

(e) **(i)** Non-adjusting.**(1)** Note to the accounts. **(1)**

(ii) Adjusting. **(1)** Write off in the accounts. **(1)**

(iii) Non-adjusting. **(1)** The dividend of $120 000 **(1)** should be treated as a note to the accounts. **(1)** **[7]**

[Total: 40]

2 **(a)** Budgeted income statement for year ended 30 June 2015

	$	$	
Revenue ($3 000 000 × 1.6 × 1.1)		5 280 000	**(1)**
Cost of goods sold (60% of sales)		<u>3 168 000</u>	**(1)OF**
Gross profit (40% of sales		2 112 000	**(2)OF**
Less: Operating expenses			
Administrative salaries ($700 000 × 1.05)	735 000		**(1)**
Heating and lighting ($98 000 × 1.05)	102 900		
Rent and rates ($340 000 × 1.05)	357 000		**(1)**
Sundry expenses ($72 000 × 1.05)	75 600		
Depreciation:			
Plant and machinery ($300 000 + $220 000) × 20%	104 000		**(1)**
Motor vehicles ($240 000 + $130 000) × 20%	74 000		**(1)**
Provision for doubtful debt ($5 280 000 / 12) **(1)** × 2% **(1)**	8800		
Salaries to salesmen	123 000		**(1)**
Commission to salesmen (5 280 000 × 3%)	158 400		**(1)OF**
Loan interest $100 000 × 10%	<u>10 000</u>		**(1)**
	1 748 700		
Bonus ($2 112 000 – $1 748 700) **(1)** × (5 / 105) **(1)**	<u>17 300</u>	<u>1 766 000</u>	
Budgeted net profit for the year		<u>346 000</u>	**(1)OF**

[16]

Gross profit for 2014 is 45% ($1 350 000 / $3 000 000). It will be reduced by 5% in 2015, which is 40% (45% – 5%).

(b) Bank account (for the year 2015)

	$			$	
Balance b/d	86 000		Plant & machinery	220 000	**(1)**
Trade receivables ($5 280 000 × 11/12) **(1)OF** + $245 000 **(1)**	5 085 000		Motor vehicles	130 000	
			Trade payables		
Loan	100 000	**(1)**	($3 228 000 × 10 / 12) **(1)OF** + $186 000) **(1)**	2 876 000	
Share capital	250 000		Administrative salaries ($735 000 + $9 000)	744 000	**(1)**
			Heating and lighting	102 900	
			Rent and rates	357 000	
			Sundry expenses	75 600	
			Salaries to salesmen	123 000	
			Balance c/d	892 500	**(1)OF**
	5 521 000			5 521 000	

Calculation of purchases:

Given that opening inventory $120 000; closing inventory $180 000 and cost of goods sold $3 168 000, purchases for the year is:

$3 168 000 + $180 000 – $120 000 = $3 228 000 **[8]**

(c) Budgeted statement of financial position at 30 June 2015

Assets	$000		$000	
Non-current assets				
Plant and machinery	520	**(1)**		
Accumulated provision for depreciation	264	**(1)OF**	256	
Motor vehicles	370	**(1)**		
Accumulated provision for depreciation	224	**(1)OF**	146	
			402	
Current assets				
Inventory	180			
Trade receivables	431.2	**(1)OF**		
Cash and cash equivalent	892.5	**(1)OF**	1503.7	
Total assets			1905.7	
Equity and liabilities				
Equity				
Ordinary shares			450	
Retained earnings ($286 + $346)			632	**(1)OF**
			1082	
Non-current liabilities				
Loan			100	**(1)**
Current liabilities				
Trade payables	538	**(1)OF**		
Accrued commission	158.4	**(1)OF**		
Accrued bonus	17.3	**(1)OF**		
Accrued interest	10	**(1)OF**	723.7	
Total equity and liabilities			1905.7	

[12]

(d) **1** For planning purpose – a budget serves as a blueprint; it sets the direction / target for the business to achieve

2 For controlling purpose – a budget serves as a yardstick; it sets the standard / frame and the managers are aware that the actual expenditure will not exceed the budgeted expenditure.

3 For performance evaluating purpose – the actual result is compared to the budgeted; the managers are accountable to any departure from the budget (i.e. actual expenditure in excess of the budgeted expenditure). **[4]**

Any 2 points, 2 marks each

[Total: 40]

3 **(a)** Annual profit = [6 000 000 – 5 600 000 – 300 000] = $100 000 **(1)**

Years to clear loss (2014, 2015, 2016, 2017) = 4 **(1)**

First year for dividend 2018 **(1)** **[3]**

(b) Capital reduction scheme **(1)**. Face value of each share is reduced **(1)** to eliminate the debit balance on retained earnings **(1)**.
Face value = 1.6m / 2m = $0.80 **(2)** **[5]**

(c)

Year	Cash flows $000	Discount factor	Net cash flow $000	
0 (2014)	(400) **(1)**	1	(400.00)	**(1)OF**
1 (2015)	500 – 300 **(1)** = 200 **(1)**	0.909	181.80	**(1)OF**
2 (2016)	700 – 490 **(1)** = 210 **(1)**	0.826	173.46	**(1)OF**
3 (2017)	1100 – 740 **(1)** = 360 **(1)**	0.751	270.36	**(1)OF**
4 (2018)	300 – 610 **(1)** = (310) **(1)**	0.683	(211.73)	**(1)OF**
			13.89	**(1)OF**

[15]

(d)

$$\text{IRR} = 10\%\ \mathbf{(1)} + 5\%\ \mathbf{(1)}\ \left(\frac{13\,890\ \mathbf{(1)OF}}{13\,890 + 7\,830\ \mathbf{(1)OF}}\right)$$

= 13.2% **(1)OF**

[5]

(e) Average profit = $\dfrac{(200 + 210 + 360 - 310)\ \mathbf{(1)OF} - 400\ \mathbf{(1)}}{4\ \mathbf{(1)}}$

= 15 000 per annum **(1)OF**

Average capital = 200 **(1)**

ARR = 15 / 200 = 7.5% **(1)OF** **[6]**

(f) The directors should purchase the machinery **(1)**. NPV is positive **(1)**. IRR is greater than cost of capital **(1)**.
Directors might consider stopping project at the end of year 3 **(1)** to avoid the loss making year **(1)**. Stopping early might mean there is a second hand value to the machinery **(1)**.

[6]

[Total: 40]