

CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge International Advanced Level

MARK SCHEME for the May/June 2015 series

9706 ACCOUNTING

9706/41

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

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1 (a) (i) Zapf plc
Budgeted income statement for the year ending 30 September 2015

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

(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%)	<u>(5) (1)</u>	
Balance at 30 September 2015	<u>58 (1)OF</u>	[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	Plant and equipment	Motor vehicles	Total
	\$000	\$000	\$000	\$000
Cost				
Balance at 1 October 2014	320	158	36	514 (1)
Additions	<u>40</u>	<u>18</u>	<u>9</u>	<u>67 (1)</u>
Balance at 30 September 2015	<u>360</u>	<u>176</u>	<u>45</u>	<u>581 (1)OF</u>
Depreciation				
Balance at 1 October 2014	112	78	20	210 (1)
Charge for the year	<u>18</u>	<u>44</u>	<u>12</u>	<u>74 (1)</u>
Balance at 30 September 2015	<u>130</u>	<u>122</u>	<u>32</u>	<u>284 (1)OF</u>
Net book value				
Balance at 30 September 2015	<u>230</u>	<u>54</u>	<u>13</u>	<u>297 (1)OF for both NBV.</u>
Balance at 30 September 2014	<u>208</u>	<u>80</u>	<u>16</u>	<u>304 [7]</u>

(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	<u>75</u>	(1)
	372	
Intangible (1)		
Goodwill	<u>60</u>	(1)
	432	
Current assets		
Inventories	70	(1)
Trade receivables	<u>97</u>	(2)OF
	167	
Total assets	<u>599</u>	(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	<u>58</u>	(1)
	368	
Non-current liabilities		
6% Debentures (2021)	<u>150</u>	(1)
Current liabilities		
Trade payables	50	(2)OF
Taxation	8	(1)OF
Cash and cash equivalents	<u>23</u>	(1)OF
	81	
Total equity and liabilities	<u>599</u>	[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	<u>(8 000)</u>	(1)
	Net assets	<u>152 330</u>	(1)OF

W1

$$51\,000 - 24\,600 + 16\,000 \text{ (1)} - 1\,275 \text{ (1)} - 1\,675 \text{ (1)} \quad [8]$$

(b)		\$	
	Closing net assets	152 330	(1)OF
	Opening net assets	(142 400)	(1)
	Drawings	<u>9 170</u>	(1)
	Profit	<u>19 100</u>	(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	<u>8 000</u>	(1)	<u>4 000</u> (1)
	<u>118 400</u>	<u>74 200</u>	<u>70 000</u>			<u>118 400</u>	<u>74 200</u>	<u>70 000</u>
					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	<u>36 593</u>	<u>2 152</u>	<u>2 085</u>		SOP 1st	<u>6 733</u>	<u>3 367</u>	
	<u>43 623</u>	<u>16 237</u>	<u>6 700</u>			<u>43 623</u>	<u>16 237</u>	<u>6 700</u>
					Balance b/d	36 593	2 152	2 085 (1)OF

row
[12]

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- (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		20 000		(20 000)	1	(20 000)	(1)	
	1	10 000	2 000	1 600	6 400	(1)	0.926	5 926	(1)OF
	2	10 500	2 060	1 600	6 840	(1)	0.857	5 862	(1)OF
	3	11 025	2 121	1 600	7 304	(1)	0.794	5 799	(1)OF
	4	11 576	2 185	1 600	7 791	(1)	0.735	5 726	(1)OF
	5	12 155	2 251	1 600	8 304	(1)	0.681	5 655	(1)OF
					Net present value		8 968	(1)OF	[12]

(b) (i)	Year	Net cash flows \$	25% discount factor	Present value \$	
	0	(20 000)	1.000	(20 000)	
	1	6 400	0.800	5 120	(1)OF
	2	6 840	0.640	4 377	(1)OF
	3	7 304	0.512	3 740	(1)OF
	4	7 791	0.410	3 194	(1)OF
	5	8 304	0.328	2 723	(1)OF
				Net present value	(846) (1)OF

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

(c) Average profits = net cash less depreciation per year
 $= (\$36\,639 (1)OF - \$20\,000) (1) / 5 (1)$
 $= \$3\,328 (1)OF$

Average investment = \$10 000 (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]

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- (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]