

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

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Page 2	Mark Scheme	Syllabus	Page
	Cambridge International A Level – May/June 2015	9706	42

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 \$000	Plant and equipment \$000	Motor vehicles \$000	Total \$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</u> [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	<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 (1) – 1 275 (1) – 1 675 (1) [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>
					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>
					Balance b/d	36 593	2 152 2 085 (1)OF

row [12]

Page 5	Mark Scheme	Syllabus	Page
	Cambridge International A Level – May/June 2015	9706	42

- (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]

Page 6	Mark Scheme	Syllabus	Page
	Cambridge International A Level – May/June 2015	9706	42

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 [6]

(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]

Page 7	Mark Scheme	Syllabus	Paper
	Cambridge International A Level – May/June 2015	9706	42

- (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]