

CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Level

MARK SCHEME for the May/June 2015 series

9706 ACCOUNTING

9706/43

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

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	Cambridge International A Level – May/June 2015	9706	43

1 (a)

Plantin plc
Retained earnings at 31 March 2015

	\$000	
Retained earnings at 1 April 2014	110	(1)
Profit for the year	<u>52</u>	(1)
	162	
Preference dividend paid	<u>(4)</u>	(1)
Retained earnings at 31 March 2015	<u>158</u>	(1)OF

[4]

(b)

Plantin plc
Note to the statement of financial position at 31 March 2015.

Property, plant and equipment	Land and buildings \$000	Plant and equipment \$000	Total \$000	
Cost				
Balance at 1 April 2014	260	152	412	(1)
Purchases	<u>80</u>	<u>80</u>	<u>160</u>	(1)
Balance at 31 March 2015	<u>340</u>	<u>232</u>	<u>572</u>	(1)OF
Depreciation				
Balance at 1 April 2014	90	87	177	(1)
Charge for the year	<u>28</u>	<u>33</u>	<u>61</u>	(1)
Balance at 31 March 2015	<u>118</u>	<u>120</u>	<u>238</u>	(1)OF
Net book value				
Balance at 31 March 2015	<u>222</u>	<u>112</u>	<u>334</u>	} (1)OF BOTH
Balance at 31 March 2014	<u>170</u>	<u>65</u>	<u>235</u>	

[7]

(c)

Plantin plc
Statement of Financial Position at 31 March 2015

\$000

Non-current assets

Tangible

Property, plant and equipment

Land and buildings	222	(1)OF
Plant and equipment	<u>112</u>	(1)OF
	334	
Investments	<u>55</u>	(1)
	389	

Intangible (1)

Goodwill (80 – 20)	<u>60</u>	(1)
	<u>449</u>	

Current assets

Inventories (45 (1) + 30 (1))	75	
Trade and other receivables (56 (1) + 40 (1))	<u>96</u>	
	<u>171</u>	
Total assets	<u>620</u>	(1)OF

Equity

Ordinary share capital (\$1 shares)(100 (1) + 50(1))	150	
Non-redeemable \$1 preference shares (80 + 20)	100	(1) + (1)
Share premium	30	(1)
Retained earnings	<u>158</u>	(1)OF
	<u>438</u>	

Non-current liabilities

5% debentures	<u>50</u>	(1)
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Current liabilities

Trade and other payables (24 (1) + 30 (1))	54	
Taxation	15	(1)
Cash and cash equivalents	<u>63</u>	(1)
	<u>132</u>	
Total equity and liabilities	<u>620</u>	

[21]

- (d) (i) In this case, revenue (1), profit for the year (1), trade receivables (1) and retained earnings (1) have all been overstated by \$30 000. [4]
- (ii) IAS 8 states that where an error is discovered a business must correct material errors (1) from prior periods (1) in the next set of financial statements (1). Comparative amounts from prior periods must be restated (1). [4]

[Total: 40]

2 (a)

		Capital accounts					
	A	B	C		A	B	C
Bank			60 000 (1)	Balance b/d	441 000	294 000	147 000 (1)
Loan			117 000 (1)of	Goodwill	90 000 (1)	60 000 (1)	30 000 (1)
Goodwill	108 000 (1)	72 000 (1)					
Balance c/d	<u>423 000</u>	<u>282 000</u>			<u>531 000</u>	<u>354 000</u>	<u>177 000</u>
	<u>531 000</u>	<u>354 000</u>	<u>177 000</u>	Balance b/d	423 000 (1OF)	282 000	(1)of
							[10]

(b) Statement of financial position at 1 May 2015

Assets	
Non-current assets	
Property	500 000
Equipment	132 000
Motor vehicles	<u>150 000</u>
	<u>782 000 (1)</u>
Current assets	
Inventories	38 000
Trade and other receivables	1 000
Cash and cash equivalents	<u>6 000 (1)</u>
	<u>45 000</u>
Total assets	<u>827 000</u>
Capital	
Capital – Abdul	423 000 (1)OF
Capital – Barry	<u>282 000 (1)OF</u>
	<u>705 000</u>
Liabilities	
Non-current liabilities	
Long-term loan – Chandra	117 000 (1)OF
Current liabilities	
Trade payables	<u>5 000</u>
Total capital & liabilities	<u>827 000</u>

[5]

- (c) Debentures are bonds which record a long term loan to be redeemed at a fixed future date (1) to the company at a fixed interest rate. (1) Interest will be paid whether the company is profitable or not. (1)
Likewise holders of convertible loan stock have made a long term loan to the company. (1)
The major difference is that these holders have the right to exchange the stock for ordinary shares in the company at a predetermined price at a specified future date. (1)

[5]

(d)

	Richards Limited		Sobers Limited	
Current ratio	1.61 : 1	(1)	2.11 : 1	(1)
Return on capital employed	19.13%	(1)	15.74%	(1)
Gearing ratio	21.74%	(1)	32.79%	(1)
Income gearing	9.09%	(1)	16.67%	(1)
Earnings per share	\$0.20	(1)	\$0.20	(1)
Price earnings ratio	9.00	(1)	12.00	(1)
Dividend yield	3.33%	(1)	3.75%	(1)

[14]

(e) Both companies have a return far in excess of the debenture rate so are feasible. **(1)**
 Richards Limited has the higher return therefore based on this would make the better investment. **(1)**

Both companies have low gearing being less than 50%. **(1)**

Richards Limited again has the 'better' ratio. **(1)**

Although neither company causes concern with income gearing Richards Limited again has the better ratio as it can pay interest 11 times from profit from operations (compared to 6 times). **(1)**

All of these ratios indicate that Richards Limited would be a better investment. **(1)**

[6]

[Total: 40]

3 (a) (i) $24 + 20 + 4 + 9 = 57$ **(1)**

[1]

(ii) $684\ 000 \text{ (1)} \div 57 \text{ (1)OF} = 12\ 000 \text{ (1)OF}$

[3]

(b) (i)

		Process 1		Process 2	
		\$		\$	
Direct material	$12\ 000 \times 24$	288 000	(1)OF	Process 2	684 000 (1)
Direct material	$12\ 000 \times 20$	240 000	(1)OF		
Variable overhead	$12\ 000 \times 4$	48 000	(1)OF		
Fixed overhead	$12\ 000 \times 9$	108 000	(1)OF		
		<u>684 000</u>			<u>684 000</u>

[5]

(ii)

		Process 2			
		\$			
Process 1		684 000	(1)	Scrap 1200×50	60 000 (2)OF
Direct material	$12\ 000 \times 10$	120 000	(1)OF	Process 3	1 152 000 (1)OF
Direct labour	$12\ 000 \times 24$	288 000	(1)OF		
Variable overhead	$12\ 000 \times 4$	48 000	(1)OF		
Fixed overhead	$12\ 000 \times 6$	72 000	(1)OF		
		<u>1 212 000</u>			<u>1 212 000</u>

[8]

Scrap $1200 \text{ (1)OF} \times 50 = 60\ 000 \text{ (1)OF}$

- (c) (i) $12\,000 \times 90\%$ (1) = 10 800 (1)OF [2]
- (ii) $1\,152\,000$ (1)OF \div 10 800 (1)OF = \$106.67 [2]

(d)

	\$	
Existing P2 cost	1 212 000	(1)OF
Extra material cost $12\,000 \times 2 \times 3$	<u>72 000</u>	(1)
Gross cost	1 284 000	(1)OF
Scrap	<u>(30 000)</u>	(1)OF
Net cost	1 254 000	(1)OF
Divided by units	<u>11 400</u>	(1)OF
Cost per unit	<u>\$110</u>	(1)OF

Cost per unit has increased (1)OF
 New materials should not be used (1)OF

[9]

(e) Work-in-progress

	\$	
Process 2	320 000	(1) OF
Direct materials	6 750	(1)
Direct labour	31 500	(1)
Variable overhead	<u>4 500</u>	(1)
	<u>362 750</u>	(1) OF

[5]

(f) Costs to date

Expected costs to completion
 Estimated total costs
 Percentage complete at report date
 Time analysis of costs
 Other reasonable point (1 each to max 5)

[5]
 [Total: 40]