

CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the May/June 2013 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.

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1 (a)

Kaunus plc

Statement of financial position at 1 January 2010

| | | | |
|---|------------|--|-----|
| | \$000 | | |
| Current assets | | | |
| Cash and cash equivalents | 515 | | (2) |
| Non-current liabilities | | | |
| 6% debentures | <u>100</u> | | (1) |
| Redeemable preference shares of \$1.00 each | 150 | | (1) |
| | <u>265</u> | | |
| Equity | | | |
| Ordinary shares of \$1.00 each | 200 | | |
| Share premium (50 + 15) | <u>65</u> | | (2) |
| | <u>265</u> | | |
| | | | [6] |

(b)

Movement in cash and cash equivalents on 1 January 2013

| | | | |
|--|------------|--|-----|
| | \$000 | | |
| Balance at 31 December 2012 | 440 | | |
| 1 January 2013 | | | |
| Redemption of debentures | (100) | | (1) |
| Redemption of preference shares (\$150 000 + \$45 000) | (195) | | (2) |
| Rights issue (\$100 000 + \$10 000) | <u>110</u> | | (1) |
| Balance at 1 January 2013 | <u>255</u> | | (1) |
| | | | [5] |

(c) (i)

Capital redemption reserve

| | | | |
|----------------------|--------------|--|-----|
| | \$000 | | |
| Redemption of shares | 165 | | (1) |
| New issue | <u>(110)</u> | | (1) |
| Transfer to CRR | <u>55</u> | | (2) |
| | | | [4] |

| | | | |
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| | | | |
|------|-----------------------|-----------|-----|
| (ii) | Share premium account | \$000 | |
| | Premium on new issue | <u>10</u> | (2) |

[2]

| | | | |
|-----|---|------------|-----|
| (d) | Statement of changes in retained earnings | \$000 | |
| | Balance at 1 Jan 2012 | 80 | (1) |
| | Profit for the year | 140 | (1) |
| | Premium on redemption (\$45 000 – 15 000) | (30) | (2) |
| | Transfer to CRR | (55) | (1) |
| | | <u>135</u> | (2) |

[7]

| | | | |
|-----|---|------------|-------|
| (e) | Kaunus plc | | |
| | Statement of financial position at 1 January 2013 | \$000 | |
| | Non-current assets (1) | | |
| | Property plant and equipment | 305 | (1) |
| | Current assets (1) | | |
| | Cash and cash equivalents | <u>255</u> | (1of) |
| | | <u>560</u> | |
| | Equity (1) | | |
| | Ordinary shares of \$1 each (\$200 000 + 100 000) | 300 | (2) |
| | Share premium | 60 | (2) |
| | Capital redemption reserve | 55 | (1of) |
| | Retained earnings | 135 | (1of) |
| | Revaluation reserve | <u>10</u> | (1) |
| | Shareholders' funds | <u>560</u> | |

[12]

- (f) (i) The share premium account may be used
- 1 to pay up new shares issued as fully paid bonus shares (1)
 - 2 to write off expenses of a share issue (1)
- (ii) The retained earnings may be used
- 1 to pay dividends (1)
 - 2 pay up fully paid bonus shares (1)
 - 3 to fund a reduction or repayment of capital (1)
 - 4 for transfers to capital redemption reserve (1)
 - 5 for transfers to another revenue reserve e.g. general reserve (1)

[Max 2]

[Total: 40]

| | | | |
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2 (a) Calculation of drawings for the year ended 31 December 2012

| | | | |
|-----------------------|---------------|-------|-----|
| | \$000 | | |
| Opening capital | 2260 | (1) | |
| Revaluation | 1500 | (1) | |
| Net profit | <u>180</u> | | |
| | 3940 | | |
| Less: closing capital | <u>(3540)</u> | (1) | |
| Drawings | <u>400</u> | (10F) | [4] |

(b) Statement of cash flows for the year ended 31 December 2012

| | | | | |
|---------------------------------------|--------------|-------|--------------|----------|
| | | | \$000 | |
| Cash from operating activities | | | | |
| Net profit | | | 180 | (1) |
| Add: Depreciation | | | 30 | (3) |
| Loss on disposal of asset | | | 2 | (1) |
| Increase in inventory | | | (10) | (1) |
| Decrease in trade receivables | | | 30 | (1) |
| Decrease in trade payables | | | <u>(40)</u> | (1) |
| Cash from operating activities | | | <u>192</u> | |
| Cash (used)/from investing activities | \$000 | | | |
| Purchase of non-current assets | (200) | (1) | | |
| Cash from disposal of nca | <u>18</u> | (2) | (182) | |
| Cash (used)/from investing activities | | | | |
| Loan repayment | (150) | (1) | | |
| Drawings (from (a)) | <u>(400)</u> | (10F) | <u>(550)</u> | |
| | | | (540) | (1) |
| Cash and cash equivalents at start | | | 10 | (1) |
| Cash and cash equivalents at end | | | (530) | (1) [16] |

(c) Notes regarding overdraft v profit

The business has made a profit for the year. However, this has not generated enough cash (1) to cover the following major items of expenditure:

- purchase of new non-current assets (\$200) (1)
- repayment of loan (\$150) (1)
- drawings (\$400) (1)

This has resulted in the bank overdraft for the year (1). [5]

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(d) Calculation of ratios

$$\begin{array}{l} \text{Gearing} \\ \frac{500(1)}{(500 + 2625)(1)} \times 100 = 16\% \quad (1) \end{array}$$

$$\begin{array}{l} \text{Interest cover} \\ \frac{(200 + 50)(1)}{(50)(1)} = 5 \text{ times} \quad (1) \end{array}$$

$$\begin{array}{l} \text{Dividend yield} \\ \$150\,000/1 \text{ million} = \$0.15/\text{share} \quad (1) \end{array}$$

$$\frac{0.15}{(4.0)(1)} \times 100 = 3.75\% \quad (1)$$

[9]

(e) Choice of investment

- putting the money into the bank is a safe investment but will not earn as much as investing in the shares of either A or B (1)
- Company B pays a higher return (1), but is more highly geared (1)
- Company A has a lower return, but should be safer (1) if interest rates increase (1)
- If Winston is looking for a safe investment paying a better return than the bank then invest in company B (1)

Note: must be a decision in one type of investment for mark. Allow other choices provided they are supported with reasoning. [Max 6]

[Total: 40]

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- 3 (a) Sales price variance = AQ (SP – AP) (1)
 Materials price variance = AM (SP – AP) (1)
 Materials usage variance = SP (SM – AM) (1)
 Labour rate variance = AH (SR – AR) (1)
 Labour efficiency variance = SR (SH – AH) (1) [5]

(b) (i) $55 + \frac{20\,000}{10\,000} = \57 (1) for adjustment and (1) for direction

(ii) $40\,000 + \frac{10\,000}{5} = 42\,000$ kilos (1) for adjustment and (1) for direction

(iii) $5 - \frac{8\,400}{42\,000}$ (1) = \$4.80 plus (1) for direction
 (1of)

(iv) $20\,000 + \frac{4\,500}{9} = 20\,500$ hours (1) for adjustment and (1) for direction

(v) $9 + \frac{2\,050}{20\,500}$ (1) = \$9.10 plus (1) for direction
 (1of) [12]

(c)

| | | | | |
|-----------------------|-----------------------|----|----------------------|-----|
| Budgeted contribution | 17 (2) × 10 000 (1) = | \$ | 170 000 (1) | |
| Total variances | | | 11 850 (2) | |
| Actual contribution | | | <u>181 850</u> (1of) | [7] |

(d) (i) Materials usage (1) A (1)

(ii) Materials price (1) A (1)

(iii) Sales price (1) A (1)

(iv) Labour efficiency (1) F (1)

(v) Materials price (1) A (1)

OR

Materials usage (1) F (1)

(vi) Labour rate (1) F (1) [12]

Credit will be given for other variances where appropriate.

| | | | |
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(e) Cost of purchase – purchase price
import duty
transport costs
handling costs
other directly attributable costs

Any 2 for 1 mark each

Cost of conversion –

direct labour
direct materials
production overheads
Any 2 for 1 mark each

[4]

[Total: 40]