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

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.

Cambridge is publishing the mark schemes for the May/June 2015 series for most Cambridge IGCSE®, Cambridge International A and AS Level components and some Cambridge O Level components.

CAMBRIDGE
International Examinations

1 (a) (i)

Zapf plc
Budgeted income statement for the year ending 30 September 2015

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

(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%)	(5)	**(1)**
Balance at 30 September 2015	58	**(1)OF**

[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	40	18	9	67	**(1)**
Balance at 30 September 2015	360	176	45	581	**(1)OF**
Depreciation					
Balance at 1 October 2014	112	78	20	210	**(1)**
Charge for the year	18	44	12	74	**(1)**
Balance at 30 September 2015	130	122	32	284	**(1)OF**
Net book value					
Balance at 30 September 2015	230	54	13	297	**(1)OF for both NBV.**
Balance at 30 September 2014	208	80	16	304	

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

[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	(8 000)	**(1)**
Net assets	152 330	**(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	9 170	**(1)**
Profit	19 100	**(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	8 000	**(1)**	4 000	**(1)**		
	118 400	74 200	70 000			118 400		74 200		70 000	
					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	36 593		2 152		2 085		SOP 1st	6 733		3 367			
	43 623		16 237		6 700			43 623		16 237		6 700	
							Balance b/d	36 593		2 152		2 085	**(1)OF row**

[12]

(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		20000		(20000)	1	(20000) **(1)**
1	10000	2000	1600	6400 **(1)**	0.926	5926 **(1)OF**
2	10500	2060	1600	6840 **(1)**	0.857	5862 **(1)OF**
3	11025	2121	1600	7304 **(1)**	0.794	5799 **(1)OF**
4	11576	2185	1600	7791 **(1)**	0.735	5726 **(1)OF**
5	12155	2251	1600	8304 **(1)**	0.681	5655 **(1)OF**
					Net present value	8968 **(1)OF**

[12]

(b) (i)

Year	Net cash flows $	25% discount factor	Present value $
0	(20000)	1.000	(20000)
1	6400	0.800	5120 **(1)OF**
2	6840	0.640	4377 **(1)OF**
3	7304	0.512	3740 **(1)OF**
4	7791	0.410	3194 **(1)OF**
5	8304	0.328	2723 **(1)OF**
		Net present value	(846) **(1)OF**

[6]

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

(c) Average profits = net cash less depreciation per year
= ($36639 **(1)OF** – $20000) **(1)**/5 **(1)**
= $3328 **(1)OF**

Average investment = $10000 **(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]

(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]