

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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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. | [7] |
| Balance at 30 September 2014 | 208 | 80 | 16 | 304 | |

| | | | |
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(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 |
| | <u>167</u> | |
| 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) |
| | <u>368</u> | |
| 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 |
| | <u>81</u> | |
| 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> |
| | | | | | 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]

| | | | |
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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]

| | | | |
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| | | | | | | | | |
|--------------|------|---------|--------------|-------------|-------------------|--------------------|---------------|--------------|
| 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 | 0.926 | 5 926 | (1)OF |
| | 2 | 10 500 | 2 060 | 1 600 | 6 840 | 0.857 | 5 862 | (1)OF |
| | 3 | 11 025 | 2 121 | 1 600 | 7 304 | 0.794 | 5 799 | (1)OF |
| | 4 | 11 576 | 2 185 | 1 600 | 7 791 | 0.735 | 5 726 | (1)OF |
| | 5 | 12 155 | 2 251 | 1 600 | 8 304 | 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 | | <u>(846)</u> | (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
= (\$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]