

CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Level

MARK SCHEME for the May/June 2015 series

9706 ACCOUNTING

9706/41

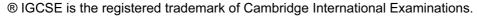
Paper 4 (Problem Solving – Supplement), maximum raw mark 120

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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•	PLATINUM BUSINESS ACADEMY
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Zapf plc (a) (i) Budgeted income statement for the year ending 30 September 2015

Revenue Cost of sales Gross profit (786 × 0.42)	\$000	\$000 786 (1) (<u>456)</u> (1)OF 330 (1)OF	
Distribution costs Administrative expenses	(99) (1) (<u>185</u>) (1)	(284)	
Profit from operations Income from investments Finance costs Profit before taxation Taxation Profit for the year		46 (1)OF 5 (1) (10) (1) 41 (1)OF (8) (1)OF 33 (1)OF	
(1) mark for correct rounding.			[12]
Retained earnings Balance at 1 October 2014 Profit for the year Preference dividends (1) paid (100 00)	0 × 5%)	\$000 30 (1) 33 (1)OF <u>(5)</u> (1)	
Balance at 30 September 2015		<u>58</u> (1) 0F	[5]

(b) (i) Zapf plc Note to the budgeted statement of financial position for the year ending 30 September 2015

(ii)

Property, plant and equipment	Buildings \$000	Plant and equipment \$000	Motor vehicles \$000	Total \$000	
Cost	·	158	·	·	(4)
Balance at 1 October 2014 Additions	320 _40	<u>18</u>	36 <u>9</u> 45	514 <u>67</u>	(1)
Balance at 30 September 201	5 360	<u>176</u>	<u>45</u>	<u>581</u>	(1)OF
Depreciation					
Balance at 1 October 2014	112	78	20	210	` '
Charge for the year Balance at 30 September 201	5 <u>130</u>	<u>44</u> <u>122</u>	<u>12</u> <u>32</u>	<u>74</u> <u>284</u>	(1) (1)OF
Net book value		==			
Balance at 30 September 201	5 <u>230</u>	<u>54</u>	<u>13</u>	<u>297</u>	(1)OF for both NBV.
Balance at 30 September 201	4 <u>208</u>	<u>80</u>	<u>16</u>	<u>304</u>	[7]

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Zapf plc Budgeted statement of financial position at 30 September 2015 (ii)

	\$000	
Non-current assets		
Tangible (1) Property, plant and equipment (230 + 54 + 13) Investments	297 (1)OF <u>75</u> (1) 372	
Intangible (1)	3.2	
Goodwill	<u>60</u> (1) 432	
Current assets		
Inventories	70 (1)	
Trade receivables	<u>97</u> (2)OF 167	
Total assets	599 (1) OF	
Equity and liabilities Capital and reserves		
Ordinary shares 5% Non-redeemable preference shares Share premium	180 (1) for all three 100 30	
Retained earnings	<u>58</u> (1)	
Non-current liabilities	<u>368</u>	
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		[16]

[Total: 40]

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2 (a)	Equ Curr Curr Non	perty ipment rent assets rent liabiliti -current lia assets	ies	(\$ 93400 (39450 39360 (11880) ((8000) (52330 ((1) (1) (1)					
	W1										
	510	00 – 2460	0 + 1600	00 (1) – 1	1 275 (1)	– 1675 (1)					[8]
(b)	Ope	sing net as ning net a wings it		(1	\$ 52330 (42400)(<u>9170</u> (19100 ((1) (1)					[4]
(c)		A	N	Z			A		N	Z \$	
Goodwi	II	\$ 6000	\$ 3000	\$ 3000	(1) row	Balance b/d	\$ 70 000	(1)	\$ 50000 (1)	\$	
Balance	c/d	112400	71 200	67000	` '	Cash		` ,	()	10000	` '
		118400	74200	70000		Property Revaluation Goodwill Balance b/d	40 400 <u>8 000</u> <u>118 400</u> 112 400		20 200 (1) <u>4000</u> (1) <u>74 200</u> 71 200	70 000 67 000	(1) (1)OF row [10]

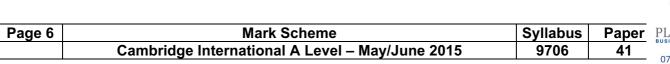
(d)	Α		Ν		Z			Α		Ν		Z	
	\$		\$		\$			\$		\$		\$	
Drawings	3000		6170				Balance b/c	20400	(1)	2000	(1)		
Drawings	3000	(1)	7400	(1)	4100	(1)	IOC 1st	5250		3750			
SOP 2nd	1030	(1)OF	515	(1)OF	515	(1)OF	IOC 2nd	11240	(1)OF	7120	(1)OF	6700	(1)OF
Balance c/d	36 593		<u>2152</u>		<u> 2085</u>		SOP 1st	<u>6733</u>	_	3367			
	<u>43623</u>	<u>1</u>	<u>6237</u>		<u>6700</u>			<u>43623</u>	_	<u> 16237</u>		<u>6700</u>	
							Balance b/c	136593		2152		2085	(1)OF
													row
												[1	2]

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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]





[6]

3	(a)	Year	Revenue \$	Direct costs \$	Fixed costs	Net cash flows \$	8% discount factor	Present value \$	
		0		20000		(20000)	1	(20 000) (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	12 155	2251	1600	8304 (1)	0.681	5655 (1)OF	
						Net pre	esent value	8968 (1)OF	[12]

(b)	(i)	Year	Net cash	25% discount	Present	
			flows	factor	value	
			\$		\$	
		0	(20000)	1.000	(20000)	
		1	6400	0.800	5120 (1)OF	
		2	6840	0.640	4377 (1)OF	
		3	7 304	0.512	3740 (1)OF	
		4	7791	0.410	3194 (1)OF	
		5	8 304	0.328	2723 (1) OF	
			Net p	resent 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 = $(\$36639 \ (1)OF \$20000) \ (1)/5 \ (1)$ = $\$3328 \ (1)OF$

Average investment = \$10000 (1)

- (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)
- (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]