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.**
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		20 000		(20 000)	1	(20 000) **(1)**
1	10 000	2 000	1 600	6 400 **(1)**	0.926	5 926 **(1)OF**
2	10 500	2 060	1 600	6 840 **(1)**	0.857	5 862 **(1)OF**
3	11 025	2 121	1 600	7 304 **(1)**	0.794	5 799 **(1)OF**
4	11 576	2 185	1 600	7 791 **(1)**	0.735	5 726 **(1)OF**
5	12 155	2 251	1 600	8 304 **(1)**	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	(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
= ($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]

(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]