

CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Level

MARK SCHEME for the May/June 2015 series

9706 ACCOUNTING

9706/43

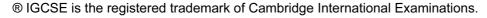
Paper 4 (Problem solving – Supplement), maximum raw mark 120

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)

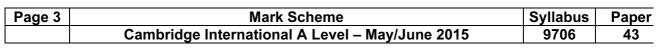
Plantin plc Retained earnings at 31 March 2015

	\$000		
Retained earnings at 1 April 2014	110	(1)	
Profit for the year	<u>52</u>	(1)	
	162		
Preference dividend paid	<u>(4)</u>	(1)	
Retained earnings at 31 March 2015	<u>158</u>	(1)OF	
			[4]

(b)

Plantin plc Note to the statement of financial position at 31 March 2015.

Property, plant and equipment	Land and	Plant and	Total	
	buildings	equipment		
	\$000	\$000	\$000	
Cost				
Balance at 1 April 2014	260	152	412	(1)
Purchases	<u>80</u>	<u>80</u>	<u>160</u>	(1)
Balance at 31 March 2015	<u>340</u>	<u>232</u>	<u>572</u>	(1)OF
Depreciation				
Balance at 1 April 2014	90	87	177	(1)
Charge for the year	<u>28</u>	<u>33</u>	<u>61</u>	(1)
Balance at 31 March 2015	<u>118</u>	<u>120</u>	<u>238</u>	(1)OF
Net book value				
Balance at 31 March 2015	<u>222</u>	<u>112</u>	<u>334</u>	WAS DOT!
Balance at 31 March 2014	<u>170</u>	<u>65</u>	<u>235</u>	}(1)OF BOTH
				[7]





(c)

Plantin plc Statement of Financial Position at 31 March 2015

\$000

Non-current assets Tangible Property, plant and equipment		
Land and buildings	222	(1)OF
Plant and equipment	<u>112</u> 334	(1)OF
Investments	<u>55</u> 389	(1)
Intangible (1)		
Goodwill (80 – 20)	60	(1)
300dWiii (00 20)	<u>449</u>	(1)
Current assets	443	
	7.5	
Inventories (45 (1) + 30 (1))	75	
Trade and other receivables (56 (1) + 40 (1))	<u>96</u>	
	<u>171</u>	
Total assets	<u>620</u>	(1)OF
Equity		
Ordinary share capital (\$1 shares)(100 (1) + 50 (1))	150	
Non-redeemable \$1 preference shares (80 + 20)	100	(1) + (1)
Share premium	30	(1)
Retained earnings	<u>158</u>	(1)OF
Retained carnings	438	(1)01
Non-current liabilities	430	
	F 0	(4)
5% debentures	<u>50</u>	(1)
Current liabilities		
Trade and other payables (24 (1) + 30 (1))	54	
Taxation	15	(1)
		(1)
Cash and cash equivalents	<u>63</u>	(1)
	<u>132</u>	
Total equity and liabilities	<u>620</u>	

- (d) (i) In this case, revenue (1), profit for the year (1), trade receivables (1) and retained earnings (1) have all been overstated by \$30 000. [4]
 - (ii) IAS 8 states that where an error is discovered a business must correct material errors (1) from prior periods (1) in the next set of financial statements (1). Comparative amounts from prior periods must be restated (1).

[Total: 40]

[21]

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2 (a)

Capital accounts

	Α	В	C		Α	В	С
Bank			60 000 (1)	Balance b/d	441 000	294 000	147 000 (1)
Loan			117 000 (1)of	Goodwill	90 000 (1)	60 000 (1)	30 000 (1)
Goodwill	108 000 (1)	72 000 (1)	. ,		. ,		. ,
Balance c/d	423 000	282 000					
	531 000	354 000	177 000		531 000	354 000	177 000
				Balance b/d	423 000 (10F)	282 000	(1)of
							[10]

500 000

Statement of financial position at 1 May 2015 (b)

Non-current assets	
Property	
Equipment	
Motor vehicles	

132 000 150 000 782 000 **(1) Current assets**

Inventories 38 000 Trade and other receivables 1 000 Cash and cash equivalents 6 000 **(1)** 45 000 Total assets 827 000

Capital

Assets

Capital - Abdul 423 000 **(1)OF** 282 000 (1)OF Capital – Barry 705 000

Liabilities

Non-current liabilities

Long-term loan - Chandra 117 000 **(1)OF**

Current liabilities

Trade payables 5 000 Total capital & liabilities 827 000

[5]

(c) Debentures are bonds which record a long term loan to be redeemed at a fixed future date (1) to the company at a fixed interest rate. (1) Interest will be paid whether the company is profitable or not. (1)

Likewise holders of convertible loan stock have made a long term loan to the company. (1) The major difference is that these holders have the right to exchange the stock for ordinary shares in the company at a predetermined price at a specified future date. (1)

[5]

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(d)

	Richards Lii	mited	Sobers Li	mited
Current ratio	1.61 : 1	(1)	2.11 : 1	(1)
Return on capital employed	19.13%	(1)	15.74%	(1)
Gearing ratio	21.74%	(1)	32.79%	(1)
Income gearing	9.09%	(1)	16.67%	(1)
Earnings per share	\$0.20	(1)	\$0.20	(1)
Price earnings ratio	9.00	(1)	12.00	(1)
Dividend yield	3.33%	(1)	3.75%	(1)

[14]

(e) Both companies have a return far in excess of the debenture rate so are feasible. (1) Richards Limited has the higher return therefore based on this would make the better investment. (1)

Both companies have low gearing being less than 50%.(1)

Richards Limited again has the 'better' ratio. (1)

Although neither company causes concern with income gearing Richards Limited again has the better ratio as it can pay interest 11 times from profit from operations (compared to 6 times). (1)

All of these ratios indicate that Richards Limited would be a better investment. (1)

[6]

[Total: 40]

3 (a) (i)
$$24 + 20 + 4 + 9 = 57$$
 (1)

[1]

(ii)
$$684\ 000\ (1) \div 57\ (1)OF = 12\ 000\ (1)OF$$

[3]

(b) (i)

	Pro	ocess 1			
	\$			\$	
Direct material 12 000 × 24	288 000	(1)OF	Process 2	684 000	(1)
Direct material 12 000 × 20	240 000	(1)OF			
Variable overhead 12 000 × 4	48 000	(1)OF			
Fixed overhead 12 000 × 9	<u>108 000</u>	(1)OF			
	684 000			684 000	
					[5]

(ii)

	Pro	cess 2			
	\$				
Process 1	684 000	(1)	Scrap 1200 × 50	60 000	(2)OF
Direct material 12 000 × 10	120 000	(1)OF	Process 3	1 152 000	(1)OF
Direct labour 12 000 × 24	288 000	(1)OF			
Variable overhead 12000×4	48 000	(1)OF			
Fixed overhead 12 000 × 6	72 000	(1)OF			
<u> </u>	<u>1 212 000</u>			<u>1 212 000</u>	
					[8]

Scrap 1200 (1)OF \times 50 = 60 000 (1)OF

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•	-			0777898626



(c) (i) $12000 \times 90\%$ (1) = 10800 (1)OF	[2]	
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(ii) 1 152 000 (1)OF ÷ 10 800 (1)OF = \$106.67 [2]

(d)

	\$	
Existing P2 cost	1 212 000 (1)OF	
Extra material cost $12\ 000 \times 2 \times 3$	<u>72 000</u> (1)	
Gross cost	1 284 000 (1)OF	
Scrap	(30 000) (1)OF	
Net cost	1 254 000 (1)OF	
Divided by units	<u>11 400</u> (1)OF	
Cost per unit	<u>\$110</u> (1)OF	
Cost per unit has increased	(1)OF	
New materials should not be used	(1)OF	
	(1)01	[9]

(e) Work-in-progress

	\$		
Process 2	320 000	(1) OF	
Direct materials	6 750	(1)	
Direct labour	31 500	(1)	
Variable overhead	4 500	(1)	
	362 750	(1) OF	
		` ,	[5

[5]

(f) Costs to date

Expected costs to completion Estimated total costs Percentage complete at report date Time analysis of costs

Other reasonable point (1 each to max 5)

[5] [Total: 40]