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	52	**(1)**
	162	
Preference dividend paid	(4)	**(1)**
Retained earnings at 31 March 2015	158	**(1)OF**

[4]

(b)

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

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

[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	112	**(1)OF**
	334	
Investments	55	**(1)**
	389	
Intangible (1)		
Goodwill (80 – 20)	60	**(1)**
	449	
Current assets		
Inventories (45 **(1)** + 30 **(1)**)	75	
Trade and other receivables (56 **(1)** + 40 **(1)**)	96	
	171	
Total assets	620	**(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	158	**(1)OF**
	438	
Non-current liabilities		
5% debentures	50	**(1)**
Current liabilities		
Trade and other payables (24 **(1)** + 30 **(1)**)	54	
Taxation	15	**(1)**
Cash and cash equivalents	63	**(1)**
	132	
Total equity and liabilities	620	

[21]

(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)**. **[4]**

[Total: 40]

2 (a)

Capital accounts

	A	B	C		A	B	C
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 **(1OF)**	282 000	**(1)of**

[10]

(b) Statement of financial position at 1 May 2015

Assets		
Non-current assets		
Property	500 000	
Equipment	132 000	
Motor vehicles	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		
Capital – Abdul	423 000	**(1)OF**
Capital – Barry	282 000	**(1)OF**
	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]

(d)

	Richards Limited		Sobers Limited	
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)** ÷ 57 **(1)OF** = 12 000 **(1)OF** **[3]**

(b) (i)

Process 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	108 000	**(1)OF**			
	684 000			684 000	

[5]

(ii)

Process 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 12 000 × 4	48 000	**(1)OF**			
Fixed overhead 12 000 × 6	72 000	**(1)OF**			
	1 212 000			1 212 000	

[8]

Scrap 1200 **(1)OF** × 50 = 60 000 **(1)OF**

(c) **(i)** 12 000 × 90% **(1)** = 10 800 **(1)OF** **[2]**

(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 × 2 × 3	72 000	**(1)**
Gross cost	1 284 000	**(1)OF**
Scrap	(30 000)	**(1)OF**
Net cost	1 254 000	**(1)OF**
Divided by units	11 400	**(1)OF**
Cost per unit	$110	**(1)OF**
Cost per unit has increased		**(1)OF**
New materials should not be used		**(1)OF**

[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]

(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]