CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the May/June 2013 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)

Kaunus plc

Statement of financial position at 1 January 2010

	$000	
Current assets		
Cash and cash equivalents	515	**(2)**
Non-current liabilities		
6% debentures	100	**(1)**
Redeemable preference shares of $1.00 each	150	**(1)**
	265	
Equity		
Ordinary shares of $1.00 each	200	
Share premium (50 + 15)	65	**(2)**
	265	

[6]

(b)

Movement in cash and cash equivalents on 1 January 2013

	$000	
Balance at 31 December 2012	440	
1 January 2013		
Redemption of debentures	(100)	**(1)**
Redemption of preference shares ($150 000 + $45 000)	(195)	**(2)**
Rights issue ($100 000 + $10 000)	110	**(1)**
Balance at 1 January 2013	255	**(1)**

[5]

(c) (i) Capital redemption reserve

	$000	
Redemption of shares	165	**(1)**
New issue	(110)	**(1)**
Transfer to CRR	55	**(2)**

[4]

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(ii) Share premium account

	$000	
Premium on new issue	10	**(2)**

[2]

(d)

Statement of changes in retained earnings

	$000	
Balance at 1 Jan 2012	80	**(1)**
Profit for the year	140	**(1)**
Premium on redemption ($45 000 – 15 000)	(30)	**(2)**
Transfer to CRR	(55)	**(1)**
	135	**(2)**

[7]

(e) Kaunus plc

Statement of financial position at 1 January 2013

	$000	
Non-current assets **(1)**		
Property plant and equipment	305	**(1)**
Current assets **(1)**		
Cash and cash equivalents	255	**(1of)**
	560	
Equity **(1)**		
Ordinary shares of $1 each ($200 000 + 100 000)	300	**(2)**
Share premium	60	**(2)**
Capital redemption reserve	55	**(1of)**
Retained earnings	135	**(1of)**
Revaluation reserve	10	**(1)**
Shareholders' funds	560	

[12]

(f) **(i)** The share premium account may be used

1 to pay up new shares issued as fully paid bonus shares **(1)**

2 to write off expenses of a share issue **(1)** **[2]**

(ii) The retained earnings may be used

1 to pay dividends **(1)**

2 pay up fully paid bonus shares **(1)**

3 to fund a reduction or repayment of capital **(1)**

4 for transfers to capital redemption reserve **(1)**

5 for transfers to another revenue reserve e.g. general reserve **(1)** **[Max 2]**

[Total: 40]

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2 (a) Calculation of drawings for the year ended 31 December 2012

	$000		
Opening capital	2260	**(1)**	
Revaluation	1500	**(1)**	
Net profit	180		
	3940		
Less: closing capital	(3540)	**(1)**	
Drawings	400	**(1OF)**	**[4]**

(b) Statement of cash flows for the year ended 31 December 2012

		$000		
Cash from operating activities				
Net profit		180	**(1)**	
Add: Depreciation		30	**(3)**	
Loss on disposal of asset		2	**(1)**	
Increase in inventory		(10)	**(1)**	
Decrease in trade receivables		30	**(1)**	
Decrease in trade payables		(40)	**(1)**	
Cash from operating activities		192		
Cash (used)/from investing activities	$000			
Purchase of non-current assets	(200)	**(1)**		
Cash from disposal of nca	18	**(2)**	(182)	
Cash (used)/from investing activities				
Loan repayment	(150)	**(1)**		
Drawings (from **(a)**)	(400)	**(1OF)**	(550)	
			(540)	**(1)**
Cash and cash equivalents at start			10	**(1)**
Cash and cash equivalents at end			(530)	**(1)** **[16]**

(c) Notes regarding overdraft v profit

The business has made a profit for the year. However, this has not generated enough cash **(1)** to cover the following major items of expenditure:

- purchase of new non-current assets ($200) **(1)**
- repayment of loan ($150) **(1)**
- drawings ($400) **(1)**

This has resulted in the bank overdraft for the year **(1)**. **[5]**

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(d) Calculation of ratios

Gearing

$$\frac{500\textbf{(1)}}{(500 + 2625)\textbf{(1)}} \times 100 = 16\% \quad \textbf{(1)}$$

Interest cover

$$\frac{(200 + 50)\textbf{(1)}}{(50)\textbf{(1)}} = 5 \text{ times} \quad \textbf{(1)}$$

Dividend yield
$150 000/1 million = $0.15/share **(1)**

$$\frac{0.15}{(4.0)\textbf{(1)}} \times 100 = 3.75\% \quad \textbf{(1)}$$

[9]

(e) Choice of investment

- putting the money into the bank is a safe investment but will not earn as much as investing in the shares of either A or B **(1)**
- Company B pays a higher return **(1)**, but is more highly geared **(1)**
- Company A has a lower return, but should be safer **(1)** if interest rates increase **(1)**
- If Winston is looking for a safe investment paying a better return than the bank then invest in company B **(1)**

Note: must be a decision in one type of investment for mark. Allow other choices provided they are supported with reasoning. **[Max 6]**

[Total: 40]

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3 **(a)** Sales price variance = AQ (SP – AP) **(1)**
Materials price variance = AM (SP – AP) **(1)**
Materials usage variance = SP (SM – AM) **(1)**
Labour rate variance = AH (SR – AR) **(1)**
Labour efficiency variance = SR (SH – AH) **(1)** **[5]**

(b) **(i)** $55 + \frac{20\,000}{10\,000} = \$57$ **(1)** for adjustment and **(1)** for direction

(ii) $40\,000 + \frac{10\,000}{5} = 42\,000$ kilos **(1)** for adjustment and **(1)** for direction

(iii) $5 - \frac{8\,400}{42\,000}$ **(1)** **(1of)** = \$4.80 plus **(1)** for direction

(iv) $20\,000 + \frac{4\,500}{9} = 20\,500$ hours **(1)** for adjustment and **(1)** for direction

(v) $9 + \frac{2\,050}{20\,500}$ **(1)** **(1of)** = \$9.10 plus **(1)** for direction **[12]**

(c)

		\$	
Budgeted contribution	17 **(2)** × 10 000 **(1)** =	170 000	**(1)**
Total variances		11 850	**(2)**
Actual contribution		181 850	**(1of)**

[7]

(d) **(i)** Materials usage **(1)** A **(1)**

(ii) Materials price **(1)** A **(1)**

(iii) Sales price **(1)** A **(1)**

(iv) Labour efficiency **(1)** F **(1)**

(v) Materials price **(1)** A **(1)**
OR
Materials usage **(1)** F **(1)**

(vi) Labour rate **(1)** F **(1)** **[12]**

Credit will be given for other variances where appropriate.

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(e) Cost of purchase – purchase price
import duty
transport costs
handling costs
other directly attributable costs
Any 2 for 1 mark each

Cost of conversion – direct labour
direct materials
production overheads
Any 2 for 1 mark each **[4]**

[Total: 40]

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