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Cambridge International Advanced Level

MARK SCHEME for the October/November 2014 series

9706 ACCOUNTING

9706/42 Paper 4 (Problem Solving – Supplement), maximum raw mark 120

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1 (a)

	$000	
Profit from operations	3752	**(1)**
Finance costs (W1)	(132)	**(2)**
Profit before tax	3620	**(1) OF**
Tax	(905)	**(1) OF**
Profit for the year	2715	**(1) OF**

W1: Finance costs:
1800 × 8% **(1)** × 11/12 **(1) =** 132

[6]

(b)

	Share Capital	Share Premium	Rev Reserve	Gen Reserve	Ret Earnings	Total
			$000			
Balance at 01 June 2013	25000	5000	1000	Zero	2950 **(1) row**	33950 **(1)**
Final dividend 01.09.13					(1000) **(1)**	(1000)
Share issue 01.10.13	5000 **(1)**	500 **(1)**				5500
Rights issue 01.11.13	6000 **(4)**					6000
Revaluation 01.02.14			1500 **(1)**			1500
Interim dividend 01.02.14					(1080) **(5)**	(1080)
Transfer 01.03.14				500 **(1)**	(500) **(1)**	
Profit 31.05.14					2715 **(1)**	2715
Balance at 31 May 2014	36000	5500	2500	500	3085 **(1) OF row**	47585 **(1) OF**

Workings

Rights issue (25000 + 5000) **(1)** / 5 **(1)** × $1 **(1)** = $6000000 **(1)**
Revaluation 7500000 – 6000000 **(1)** = $1500000 **(1)**
Interim dividend (25000000 + **(1)** + 5000000 **(1)** + 6000000 **(1)** × 0.03 **(1)** = $1080000 **(1)**
Final dividend (25000000 × 0.04 = $1000000 **(1)** **[20]**

(c) The final dividend is not a liability **(1)** at the statement of financial position date. **(1)**
It is therefore disclosed as a note to the accounts. **(1)** Non adjusting event **(1)**
treated in next financial year **(1)** **[max 4]**

(d) A bonus issue would result in 1 share for each 5 held being given to the existing shareholders. **(1)**
This is a bookkeeping exercise and a reserve is debited **(1)** and no cash is raised. **(1)**
Therefore, the expansion plans of Aston plc would not be assisted. **(1)** **[4]**

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(e) (i) When the carrying amount of property, plant and equipment exceeds the recoverable amount impairment has occurred. **(1)**
The recoverable amount is the higher of the net realisable value and the value in use. **(1)**
[2]

(ii)

Asset 1	310	**(1)**
Asset 2	No impairment	**(1)**
Asset 3	55	**(1)**
Total loss to income statement = 310 + 0 + 55 = 365		**(1) OF**

[4]

[Total: 40]

2 (a) Contribution (50 – 31.1) **(1)** × 20 000 = $378 000 **(1)**

Net cash flow 378 000 – 120 000 **(1)** = $258 000 **(1) OF**

Profit 258 000 – 150 000 **(1)** = 108 000 **(1) OF** **[6]**

(b) $\frac{120\,000\ \textbf{(1)} + 150\,000\ \textbf{(1)}}{18.9\ \textbf{(1)}} = \frac{270\,000}{18.9}$ = 14 286 units **(1) OF**
14 286 × $50 = $714 300 **(1) OF** **[5]**

(c) Purchase of machinery should be included in year 0 **(1)** as that is when the cash flow arises **(1)**.
The annual cash flows to be discounted should not include depreciation **(1)** as depreciation does not involve the movement of funds **(1)**.
NPV based on net cash flows and not profit **(1)**. **[max 4]**

(d)

	Cash flow	Discount factor	Discounted cash flow	
Year 0	(600 000)	1	(600 000)	**(1)**
Years 1 – 4	258 000 **(2) OF**	3.169 **(1)**	817 602	**(1) OF**
		NPV	217 602	**(1) OF**

[6]

(e) $\frac{217\,602\ \textbf{(1) OF}}{600\,000\ \textbf{(1)}} \times 100 = 36.27\%$ **(2) OF** **[4]**

(f) $\frac{217\,602\ \textbf{(1) OF}}{3.169\ \textbf{(1)}}$ = 68 665.8 a year **(1) OF**

$\frac{68\,665.8\ \textbf{(1) OF}}{20\,000\ \textbf{(1)}}$ = $3.43 per unit **(1) OF**

$\frac{3.43\ \textbf{(1) OF}}{50\ \textbf{(1)}} \times 100 = 6.86\%$ **(1) OF** **[9]**

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(g) IAS16 **(1)**
import duties and taxes
site preparation
delivery and handling costs
installation and assembly
costs of testing/inspection
fees
regularly replaced parts

any five × **(1)** each **[6]**

[Total: 40]

3 (a)

Cash budget 2015

	Jan $	Feb $	March $	April $	
Receipts					
Cash sales	3 000	2 600	2 800	3 200	**(1) row**
Credit sales					
1 Month (90% × 50% × 96%)	11 232	12 960	11 232	12 096	
2 Months (90% × 50%)	10 800 **}(1)**	11 700 **}(1)**	13 500 **}(1)**	11 700 **}(1)**	
Loan received			10 000 **(1)**		
Vehicle sale proceeds				1 100 **(1)**	
	25 032	27 260	37 532	28 096	
Payments					
Suppliers	16 150 **(1)**	17 100	14 250 **(1)**	18 050	**(1) any 3**
Vehicle purchase			12 000 **(1)**		
Rent		4 500 **(1)**			
Dividend	3 100 **(1)**				
Sales and administration	6 200	6 200	6 800	7 100	**(1) row**
	25 450	27 800	33 050	25 150	
Difference	(418)	(540)	4 482	2 946	
Bank b/f	(1 303) **(1)**	(1 721)	(2 261)	2 221	
Bank c/f	(1 721)	(2 261)	2 221	5 167	**(1) OF**

[15]

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(b)

Budgeted income statement for the four months ending 30 April 2015

	$	$	
Revenue		116 000	**(1)**
Opening inventory	2 100		
Purchases	65 000	**(1)**	
	67 100		
Closing inventory	3 800	**(1) both**	
Cost of sales		63 300	
Gross profit		52 700	**(1) OF**
Discount received 69 000 **(1)** × 5% **(1)**		3 450	
Less:			
Administration costs	26 800	**(1)**	
Discount allowed 110 000 **(1)** × (45% × 4%) **(1)**	1 980		
Loss on disposal	1 000	**(1)**	
Depreciation	540	**(1)**	
Interest	130	**(1)**	
Rent	3 000	**(1)**	
		33 450	
Profit for the period		22 700	**(1) OF**

[14]

(c) Capital expenditure appears in the cash budget but not in the income statement. **(1)**
Capital receipts appear in the cash budget but not in the income statement. **(1)**
Non-cash items appear in the income statement but not in the cash budget. **(1)**
Credit items are recorded in the income statement but not in the cash budget. **(1)**
Examples **(max 2)** **[4]**

(d) To plan for cash surpluses so that money can be wisely invested or used. **(1)**
To plan for cash shortages so that alternative sources of finance may be found. **(1)** **[2]**

(e) $\frac{56\,750}{9\,300}$ **(3)** = 6.1 times **(1) OF**
(1)

Note: 56 750 **(1) OF** = $\frac{22\,700}{0.4}$ **(1) OF** **[5]**
(1)

[Total: 40]

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