CAMBRIDGE INTERNATIONAL EXAMINATIONS

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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Page 2		Mark Scheme			Paper	
		Cambridge Internation	al A Level – October/November 2014	9706	42	
1	(a)		\$ 000			
		Drofit from operations	\$000 2,752 (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 (*				
			,		[6]	

(b)

			\$000			
	Share	Share	Rev	Gen	Ret Earnings	Total
	Capital	Premium	Reserve	Reserve		
Balance at 01 June	25000	5000	1 000	Zero	2950 (1) row	33 950 (1)
Final dividend					(1000) (1)	(1000)
01.09.13						
Share issue	5000 (1)	500 (1)				5 500
01.10.13						
Rights issue	6000 (4)					6000
01.11.13						
Revaluation			1 500 (1)			1 500
01.02.14						
Interim dividend					(1 080) (5)	(1080)
01.02.14						
Transfer				500 (1)	(500) (1)	
01.03.14 Drofit					2715 (1)	2715
					2715 (1)	2715
Balance at 31 May	36 000	5500	2 500	500	3085 (1) OF row	47 585 (1) OF
2014						

<u>Workings</u>

Rights issue $(25\,000 + 5000)$ (1) / 5 (1) × \$1 (1) = \$6\,000\,000 (1) Revaluation 7 500 000 - 6 000 000 (1) = \$1 500 000 (1) Interim dividend (25 000 000 + (1) + 5 000 000 (1) + 6 000 000 (1) × 0.03 (1) = \$1 080 000 (1) Final dividend (25 000 000 × 0.04 = \$1 000 000 (1) (25 000 00

- (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)
- (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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Page 3	3			Syllabus	Paper	
		Cambridge	International A Level – October/Novem	ber 2014	9706	42
(e)	(i)	When the ca amount imp The recover	ment excee	ds the recound the value	verable in use. (1) [2]	
	(ii)	Asset 1 Asset 2 Asset 3	310 No impairment 55	(1) (1) (1)		
		Total loss to	o income statement = 310 + 0 + 55 = 365	(1) OF		[4]
						[Total: 40]
2 (a)	Сс	ontribution	(50 - 31.1) (1) × 20000 = \$378000 (1)			
	Ne	et cash flow	378000 - 120000 (1) = \$258000 (1) OF			
	Pr	ofit	258000 - 150000 (1) = 108000 (1) OF			[6]
(b)	<u>12</u>	<u>20000 (1) + 150000 (1)</u> = <u>270000</u> = 14286 units (1) OF 18.9 (1) 18.9				
	14	286 × \$50 = \$	\$714300 (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	(600000)	1	(600000)	(1)
Years 1 – 4	258 000 (2) OF	3.169 (1)	<u>817602</u>	(1) OF
		NPV	217602	(1) OF

- (e) $\frac{217602}{600000}$ (1) OF \times 100 = 36.27% (2) OF 600000 (1)
- (f) <u>217602</u> (1) OF = 68665.8 a year (1) OF 3.169 (1)

<u>68665.8</u> (1) OF = \$3.43 per unit (1) OF 20000 (1)

 $3.43 (1) \text{ OF} \times 100 = 6.86\% (1) \text{ OF}$ 50 (1)

[9]

[6]

[4]

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Page 4	Mark Scheme	Syllabus	Paper	
	Cambridge International A Level – October/Nov	ember 2014 9706	42	
(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 \times (1) each		[6]	
			[Total: 40]	

3 (a)

	Cas	sh budget 2015	5		
	Jan \$	Feb \$	March \$	April \$	
Receipts					
Cash sales	3000	2600	2800	3200 (1) row	
Credit sales 1 Month					
(90% imes50% imes96%)	11232	12960	11232	12096	
2 Months	10800	11700 ////	13500	11700 / ' /	
(90% × 50%)					
Loan received			10 000 (1)		
Vehicle sale proceeds	05.000	07.000	07500	<u>1100 (1)</u>	
Dovmonto	25032	27260	37 532	28096	
Suppliers	16150 (1)	17100	14 250 (1)	18.050 (1) any 3	
Vehicle purchase	10100(1)	17 100	12000 (1)	10000 (1) ally 5	
Rent		4 500 (1)			
Dividend	3 100 (1)				
Sales and administration	6200	6200	6800	7 100 (1) row	
	25450	27800	33050	25 1 50	
Difference	(418)	(540)	4482	2946	
Bank b/f	<u>(1303)</u> (1)	<u>(1721)</u>	<u>(2261)</u>	2221	
Bank c/f	<u>(1721)</u>	<u>(2261)</u>	2221	<u>5 167 (1) OF</u>	
					[15]

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Page 5	Mark Scheme	Syllabus	Paper		
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(b)	Budgeted income statement for the four	April 2015			
	Revenue Opening inventory Purchases Closing inventory Cost of sales Gross profit Discount received 69000 (1) \times 5% (1) Less: Administration costs Discount allowed 110000 (1) \times (45% \times 4%) (1) Loss on disposal Depreciation Interest Rent Profit for the period	\$ 2100 <u>65000</u> (1) <u>67100</u> <u>3800</u> (1) both 26800(1) 1980 1000(1) 540(1) 130(1) <u>3000</u> (1)	\$ 116 000 (1) <u>63 300</u> 52 700 (1) 3 450 <u>3 450</u> <u>3 3 450</u> <u>22 700 (1)</u>	OF OF	
(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)				
(d)	To plan for cash surpluses so that money can be To plan for cash shortages so that alternative sou	wisely invested or u irces of finance may	used. (1) / be found. (1)	[2]	
(e)	<u>56750</u> (3) = 6.1 times (1) OF 9300 (1)				
I	Note: 56 750 (1) OF = <u>22 700</u> (1) OF 0.4 (1)			[5]	
				[Total: 40]	