

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**  
Cambridge International Advanced Level

**MARK SCHEME for the October/November 2014 series**

**9706 ACCOUNTING**

**9706/43**

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

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1 (a) Finance costs = 75 000  
 $5625 (1) \times 8\% (1) \times 2/12 (1) = 75$  [3]

(b) Profit before tax = 3296 – 75 = 3221 (1)OF  
 Profit attributable to equity holders = 3221 – 782 = 2439 (1)OF [2]

(c)

Profit from operations	3296	(1)	
Depreciation	2050	(1)	
Gain on disposal	(395)	(1)	
Dividends received	(750)	(1)	
Increase in inventories	(389)	(1)	
Increase in trade receivables	(404)	(1)	
Increase in trade payables	<u>939</u>	(1)	
	4347		
Interest paid	(75)	(1)OF	
Tax paid	<u>(579)</u>	(3)	
Net cash from operating activities	<u>3693</u>	(1)OF	
609 * + 782 (1) – 812 * 1 both = 579 (1) of			

[12]

(d) Statement of cash flows for year ended 30 June 2014

	\$		\$	
Cash flow from operating activities			3693	(1)OF
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment (W1)	(11 401)	(4)		
Proceeds from property, plant and equipment	520	(1)		
Dividends received	<u>750</u>	(1)		
Net cash used in investing activities			(10 131)	(1)OF
<b>Cash flows from financing activities</b>				
Proceeds from share issue	1500	(1)		
Proceeds from issue of debentures	5625	(1)		
Dividends paid	<u>(150)</u>	(1)		
Net cash from financing activities			<u>6975</u>	(1)OF
<b>Net increase in cash and cash equivalents</b>			537	(1)OF
<b>Cash and cash equivalents at start of year</b>			<u>(83)</u>	(1)
<b>Cash and cash equivalents at end of year</b>			<u>454</u>	(1)OF
W1				(+1)CF
Purchase of property, plant and equipment				
Property, plant and equipment at start of period	10 509	(1)		
Depreciation	(2050)	(1)		
NBV of disposed property, plant and equipment	(125)	(1)		
Property, plant and equipment at end of period	<u>(19 735)</u>	(1)		
		both)		
Property, plant and equipment additions	<u>(11 401)</u>	(1)OF		

[16]

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- (e) (i) Non-adjusting. (1) Note to the accounts. (1)
- (ii) Adjusting. (1) Write off in the accounts. (1)
- (iii) Non-adjusting. (1) The dividend of \$120 000 (1) should be treated as a note to the accounts. (1) [7]

[Total: 40]

2 (a) Budgeted income statement for year ended 30 June 2015

	\$	\$	
Revenue ( $\$3\,000\,000 \times 1.6 \times 1.1$ )		5 280 000	(1)
Cost of goods sold (60% of sales)		<u>3 168 000</u>	(1)OF
Gross profit (40% of sales)		2 112 000	(2)OF
Less: Operating expenses			
Administrative salaries ( $\$700\,000 \times 1.05$ )	735 000		(1)
Heating and lighting ( $\$98\,000 \times 1.05$ )	102 900	}	
Rent and rates ( $\$340\,000 \times 1.05$ )	357 000		(1)
Sundry expenses ( $\$72\,000 \times 1.05$ )	75 600		
Depreciation:			
Plant and machinery ( $\$300\,000 + \$220\,000$ ) $\times 20\%$	104 000		(1)
Motor vehicles ( $\$240\,000 + \$130\,000$ ) $\times 20\%$	74 000		(1)
Provision for doubtful debt ( $\$5\,280\,000 / 12$ ) (1) $\times 2\%$ (1)	8 800		
Salaries to salesmen	123 000		(1)
Commission to salesmen ( $5\,280\,000 \times 3\%$ )	158 400		(1)OF
Loan interest $\$100\,000 \times 10\%$	<u>10 000</u>		(1)
	1 748 700		
Bonus ( $\$2\,112\,000 - \$1\,748\,700$ ) (1) $\times (5 / 105)$ (1)	<u>17 300</u>	<u>1 766 000</u>	
Budgeted net profit for the year		<u>346 000</u>	(1)OF

[16]

Gross profit for 2014 is 45% ( $\$1\,350\,000 / \$3\,000\,000$ ). It will be reduced by 5% in 2015, which is 40% ( $45\% - 5\%$ ).

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<b>(b)</b>	Bank account (for the year 2015)		
	\$		\$
Balance b/d	86 000	Plant & machinery	220 000 <b>(1)</b>
Trade receivables		Motor vehicles	130 000
(\$5 280 000 × 11/12)	5 085 000	Trade payables	
<b>(1)OF</b>			
+ \$245 000 <b>(1)</b>			
Loan	100 000 <b>(1)</b>	(\$3 228 000 × 10 / 12) <b>(1)OF</b>	2 876 000
		+ \$186 000) <b>(1)</b>	
Share capital	250 000	Administrative salaries	744 000 <b>(1)</b>
		(\$735 000 + \$9 000)	
		Heating and lighting	102 900
		Rent and rates	357 000
		Sundry expenses	75 600
		Salaries to salesmen	123 000
		Balance c/d	892 500 <b>(1)OF</b>
	<u>5 521 000</u>		<u>5 521 000</u>

Calculation of purchases:

Given that opening inventory \$120 000; closing inventory \$180 000 and cost of goods sold \$3 168 000, purchases for the year is:

$$\$3\,168\,000 + \$180\,000 - \$120\,000 = \$3\,228\,000$$

**[8]**

(c) Budgeted statement of financial position at 30 June 2015

Assets	\$000		\$000
<b>Non-current assets</b>			
Plant and machinery	520	(1)	
Accumulated provision for depreciation	<u>264</u>	(1)OF	256
Motor vehicles	370	(1)	
Accumulated provision for depreciation	<u>224</u>	(1)OF	<u>146</u>
			402
<b>Current assets</b>			
Inventory	180		
Trade receivables	431.2	(1)OF	
Cash and cash equivalent	<u>892.5</u>	(1)OF	<u>1503.7</u>
Total assets			<u>1905.7</u>
<b>Equity and liabilities</b>			
Equity			
Ordinary shares			450
Retained earnings (\$286 + \$346)			<u>632</u>
			1082
<b>Non-current liabilities</b>			
Loan			100 (1)
<b>Current liabilities</b>			
Trade payables	538	(1)OF	
Accrued commission	158.4	(1)OF	
Accrued bonus	17.3	(1)OF	
Accrued interest	<u>10</u>	(1)OF	<u>723.7</u>
Total equity and liabilities			<u>1905.7</u>

[12]

- (d) 1 For planning purpose – a budget serves as a blueprint; it sets the direction/target for the business to achieve
- 2 For controlling purpose – a budget serves as a yardstick; it sets the standard/frame and the managers are aware that the actual expenditure will not exceed the budgeted expenditure.
- 3 For performance evaluating purpose – the actual result is compared to the budgeted; the managers are accountable to any departure from the budget (i.e. actual expenditure in excess of the budgeted expenditure). [4]

Any 2 points, 2 marks each

[Total: 40]

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3 (a) Annual profit = [6 000 000 – 5 600 000 – 300 000] = \$100 000 (1)

Years to clear loss (2014, 2015, 2016, 2017) = 4 (1)

First year for dividend 2018 (1)

[3]

(b) Capital reduction scheme (1). Face value of each share is reduced (1) to eliminate the debit balance on retained earnings (1).

Face value = 1.6m / 2m = \$0.80 (2)

[5]

(c)

Year	Cash flows \$000	Discount factor	Net cash flow \$000	
0 (2014)	(400) (1)	1	(400.00)	(1)OF
1 (2015)	500 – 300 (1) = 200 (1)	0.909	181.80	(1)OF
2 (2016)	700 – 490 (1) = 210 (1)	0.826	173.46	(1)OF
3 (2017)	1100 – 740 (1) = 360 (1)	0.751	270.36	(1)OF
4 (2018)	300 – 610 (1) = (310) (1)	0.683	<u>(211.73)</u>	(1)OF
			13.89	(1)OF

[15]

(d)

$$\text{IRR} = 10\% (1) + 5\% (1) \left( \frac{13\,890 (1) \text{OF}}{13\,890 + 7\,830 (1) \text{OF}} \right)$$

$$= 13.2\% (1) \text{OF}$$

[5]

(e) Average profit =  $\frac{(200 + 210 + 360 - 310) (1) \text{OF} - 400 (1)}{4 (1)}$

= 15 000 per annum (1)OF

Average capital = 200 (1)

ARR = 15 / 200 = 7.5% (1)OF

[6]

(f) The directors should purchase the machinery (1). NPV is positive (1). IRR is greater than cost of capital (1).

Directors might consider stopping project at the end of year 3 (1) to avoid the loss making year (1). Stopping early might mean there is a second hand value to the machinery (1).

[6]

[Total: 40]