

**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

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<b>Page 2</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>Cambridge International A Level – May/June 2015</b>	<b>9706</b>	<b>43</b>

1 (a)

Plantin plc  
Retained earnings at 31 March 2015

	\$000	
Retained earnings at 1 April 2014	110	(1)
Profit for the year	<u>52</u>	(1)
	162	
Preference dividend paid	<u>(4)</u>	(1)
Retained earnings at 31 March 2015	<u>158</u>	(1)OF

[4]

(b)

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

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

[7]

<b>Page 3</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>Cambridge International A Level – May/June 2015</b>	<b>9706</b>	<b>43</b>

(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)) 96171**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)OF438**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]

<b>Page 4</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>Cambridge International A Level – May/June 2015</b>	<b>9706</b>	<b>43</b>

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	<u>423 000</u>	<u>282 000</u>					
	<u>531 000</u>	<u>354 000</u>	<u>177 000</u>		<u>531 000</u>	<u>354 000</u>	<u>177 000</u>
				Balance b/d	423 000 (1OF)	282 000	(1)of
							<b>[10]</b>

(b) Statement of financial position at 1 May 2015

Assets	
Non-current assets	
Property	500 000
Equipment	132 000
Motor vehicles	<u>150 000</u>
	<u>782 000 (1)</u>
Current assets	
Inventories	38 000
Trade and other receivables	1 000
Cash and cash equivalents	<u>6 000 (1)</u>
	<u>45 000</u>
Total assets	<u>827 000</u>
Capital	
Capital – Abdul	423 000 (1)OF
Capital – Barry	<u>282 000 (1)OF</u>
	<u>705 000</u>
Liabilities	
Non-current liabilities	
Long-term loan – Chandra	117 000 (1)OF
Current liabilities	
Trade payables	<u>5 000</u>
Total capital & liabilities	<u>827 000</u>

[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]

<b>Page 5</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>Cambridge International A Level – May/June 2015</b>	<b>9706</b>	<b>43</b>

(d)

	Richards Limited		Sobers Limited	
Current ratio	1.61 : 1	<b>(1)</b>	2.11 : 1	<b>(1)</b>
Return on capital employed	19.13%	<b>(1)</b>	15.74%	<b>(1)</b>
Gearing ratio	21.74%	<b>(1)</b>	32.79%	<b>(1)</b>
Income gearing	9.09%	<b>(1)</b>	16.67%	<b>(1)</b>
Earnings per share	\$0.20	<b>(1)</b>	\$0.20	<b>(1)</b>
Price earnings ratio	9.00	<b>(1)</b>	12.00	<b>(1)</b>
Dividend yield	3.33%	<b>(1)</b>	3.75%	<b>(1)</b>

[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)  $684\ 000 \text{ (1)} \div 57 \text{ (1)OF} = 12\ 000 \text{ (1)OF}$

[3]

(b) (i)

	Process 1			Process 2	
	\$			\$	
Direct material $12\ 000 \times 24$	288 000	<b>(1)OF</b>	Process 2	684 000	<b>(1)</b>
Direct material $12\ 000 \times 20$	240 000	<b>(1)OF</b>			
Variable overhead $12\ 000 \times 4$	48 000	<b>(1)OF</b>			
Fixed overhead $12\ 000 \times 9$	<u>108 000</u>	<b>(1)OF</b>			
	<u>684 000</u>			<u>684 000</u>	

[5]

(ii)

	Process 2			Process 3	
	\$			\$	
Process 1	684 000	<b>(1)</b>	Scrap $1200 \times 50$	60 000	<b>(2)OF</b>
Direct material $12\ 000 \times 10$	120 000	<b>(1)OF</b>	Process 3	1 152 000	<b>(1)OF</b>
Direct labour $12\ 000 \times 24$	288 000	<b>(1)OF</b>			
Variable overhead $12\ 000 \times 4$	48 000	<b>(1)OF</b>			
Fixed overhead $12\ 000 \times 6$	<u>72 000</u>	<b>(1)OF</b>			
	<u>1 212 000</u>			<u>1 212 000</u>	

[8]

Scrap  $1200 \text{ (1)OF} \times 50 = 60\ 000 \text{ (1)OF}$

<b>Page 6</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>Cambridge International A Level – May/June 2015</b>	<b>9706</b>	<b>43</b>

(c) (i)  $12\,000 \times 90\%$  (1) = 10 800 (1)OF [2]

(ii)  $1\,152\,000$  (1)OF  $\div$  10 800 (1)OF = \$106.67 [2]

(d)

	\$	
Existing P2 cost	1 212 000	(1)OF
Extra material cost $12\,000 \times 2 \times 3$	<u>72 000</u>	(1)
Gross cost	1 284 000	(1)OF
Scrap	<u>(30 000)</u>	(1)OF
Net cost	1 254 000	(1)OF
Divided by units	<u>11 400</u>	(1)OF
Cost per unit	<u>\$110</u>	(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	<u>4 500</u>	(1)
	<u>362 750</u>	(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]