

CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the October/November 2013 series

9706 ACCOUNTING

9706/42

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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Page 2	Mark Scheme	Syllabus	Paper
	GCE A LEVEL – October/November 2013	9706	42

1 (a) Realisation account

	\$		\$	
Non-current assets	250 000	(1)	Trade payables	3 060 (1)
Inventories	89 345	(1)	Albech Ltd	475 000 (1)
Trade receivables	720	(1)		
Capital a/c A	68 998	(1) of		
	B	51 748 (1) of		
	C	17 249 (1) of		
				478 060
				478 060

[8]

(b) Bank account

	\$		\$	
Bal. b/d.	9 250	(1)	30 June 2013	
Trade receivables	52 765	(2)	Trade payables	45 675 (2)
Capital a/c A	27 995	(1) of	Capital a/c B	18 073 (1) of
			C	26 262 (1) of
				44 335
				90 010

[8]

Allocation of shares and cash:

Ordinary shares: \$200 000 split A \$100 000; B \$75 000; C \$25 000

Preference shares: \$100 000 split A \$33 333; B \$40 000; C \$26 667

Debenture = \$40 000 × 8% = \$3200 interest / 10% = \$32 000

Balance of cash : \$475 000 – (\$200 000 + \$100 000 + \$32 000) = \$143 000

(c) Partners' capital accounts

	A	B	C		A	B	C
	\$	\$	\$		\$	\$	\$
Albech Ltd				Bal. b/d	75 000	90 000	60 000 (1)
Ord. shares	100 000	75 000	25 000	Current a/c	24 840	44 950	18 555 (1)
Pref. shares	33 333	40 000	26 667	Realisation	68 998 (1) of	51 748 (1) of	17 249 (1) of
Debentures	32 000 (1)			Loan	40 000 (1)		
Cash	71 500	53 625	17 875				
Bank		18 073	26 262	Bank	27 995 (1) of		
	236 833	186 698	95 804		236 833	186 698	95 804

[8]

Page 3	Mark Scheme	Syllabus	Paper
	GCE A LEVEL – October/November 2013	9706	42

(d) Albech Ltd Statement of Financial Position at 1 July 2013

Assets			
Non-current assets			
Intangible (1) – goodwill		135 655	(1)
Tangibles		<u>250 000</u>	(1)
		385 655	
Current assets			
Inventories		<u>89 345</u>	(1)
Total assets		<u>475 000</u>	
Equity and liabilities			
Equity			
200 000 ordinary shares of \$1	(1)	200 000	(1)
200 000 8% pref. shares of \$0.50	(1)	<u>100 000</u>	(1)
		300 000	
Non-current liabilities			
10% debentures		32 000	(1)
Bank loan		<u>143 000</u>	(1)
		<u>175 000</u>	
		<u>475 000</u>	

[10]

[Total: 34]

Page 4	Mark Scheme	Syllabus	Paper
	GCE A LEVEL – October/November 2013	9706	42

2 (a)

Swiftsure plc

Statement of cash flows for the year ended 31 March 2013.

		\$000	
Profit/Loss from operations		(24)	(1)
Adjustments:			
Depreciation – buildings		55	(1)
– plant and equipment		28	(1)
– motor vehicles		12	(1)
Loss on sale of plant and equipment		3	(2)
Increase in inventories		(20)	(1)
Increase in trade receivables		(30)	(1)
Increase in trade payables		15	(1)
Cash from operations		39	
Interest paid		(12)	(1)
Tax paid		(25)	(1)
Net cash flow from operations		2	(10F)
<i>Investing activities</i>			
Purchase of non-current assets			
Buildings	(80)	(1)	
Plant and equipment	(68)	(1)	
Motor vehicles	(12)	(1)	
Proceeds of sale of non-current assets	5	(1)	
Income from investments	5	(1)	
		(150)	(1)OF
<i>Financing activities</i>			
Redemption of debentures	(50)	(1)	
Proceeds of issue of preference shares	20	(1)	
Proceeds of issue of ordinary shares	90	(1)	
Dividends paid (ordinary \$45 (\$36 (1) + \$9 (1)) + preference \$4 (1))	(49)	(3)	
		11	(1)OF
Net decrease in cash and cash equivalents		(137)	(1)OF
Cash and cash equivalents at 1 April 2012		76	(1)
Cash and cash equivalents at 31 March 2013		(61)	(1)

[28]

Page 5	Mark Scheme	Syllabus	Paper
	GCE A LEVEL – October/November 2013	9706	42

- (b) (i) Cash budget is prepared in advance (2) but a cash flow statement is prepared after the end of an accounting period (2). The cash budget is produced for management and does not have prescribed format (2). The cash flow statement is prepared using a prescribed format, IAS7 (2). Shareholders would review the statement of cash flows (2).

[Max 4]

- (ii) To give information in financial statements on link between cash and profit or loss
To give information on cash flows to management
To give information on cash flows to other interested parties e.g. bank
To take management decisions on
 Working capital
 Non-current asset investment
 Dividend policy
 Redeeming or issuing new shares or debentures
[other relevant points]

2 × 2 marks each [4]

- (c) Carrying value is compared to highest of (1) recoverable amount and value in use (1).
If this amount is lower than carrying value the asset is impaired (1). It is written off in the income statement (1).

[Max 4]

[Total: 40]

Page 6	Mark Scheme	Syllabus	Paper
	GCE A LEVEL – October/November 2013	9706	42

3 (a)

	Standard	Superior	Total
Contribution per unit	\$22	\$26	
Maximum units	4000	3000	
Total contribution	\$88 000 (2)	\$78 000 (2)	166 000
Fixed costs			<u>130 000 (1)</u>
Profit			<u>36 000 (1of)</u>

[6]

(b)

	Standard	Superior	Total
Contribution per kilo	$\frac{22}{5} = \$4.40$ (1)	$\frac{26}{6} = \$4.33$ (1)	
Ranking	1	2 (1of)	
Materials used	20 000 (1)	13 800 (1of)	33 800
Units produced	4 000 (1)	2 300 (1of)	
Total contribution	\$88 000 (1of)	\$59 800 (1of)	\$147 800
Less fixed costs			<u>\$130 000 (1)</u>
Profit			<u>\$17 800 (1of)</u>

[11]

(c)

	Standard	Superior	Total
New contribution per unit	\$22.07 (1)	\$27.74 (1)	
Contribution per kilo	$\frac{22.07}{4.55} = \$4.85$ (1of)	$\frac{27.74}{5.46} = \$5.08$ (1of)	
Ranking	2	1 (1of)	
Material used (kilos)	17 420 (1of)	16 380 (1)	33 800
Units produced	3 828 (1of)	3 000 (1)	
Total contribution	\$84 484 (1of)	\$83 220 (1of)	\$167 704
Less fixed costs			<u>\$131 000 (1)</u>
			<u>\$36 704 (1 of)</u>

[13]

Page 7	Mark Scheme	Syllabus	Paper
	GCE A LEVEL – October/November 2013	9706	42

(d) Yes (1of). Profit is higher (1of). [2]

(e) (i) Share issue, debentures, bank loan, disposal of surplus non-current assets, debt factoring [2]

- (ii) Public issue
- expensive
 - needs underwriting to ensure success
 - requires prospectus
 - dilutes control
 - no legal necessity to pay dividend in a bad year

Right issue

- no dilution of control
- generally cheaper
- no legal necessity to pay dividend in a bad year

Debenture issue/loan

- interest is always payable
- may require security/floating charge
- needs to be paid back/redeemed
- interest is charged against profit
- no votes in general meeting

Disposal of non-current assets

- no loss of control within ownership
- no costs/bank charges
- immediate cash
- but may lead to insufficient assets as business grows

Debt factoring

- immediate cash
- there is a cost associated with factoring and not all of the debt will be collected

[Max 6]

[Total: 40]