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.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the October/November 2013 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

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**	137 995				
	478 060			478 060	

[8]

(b)

Bank account

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

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

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

[10]

[Total: 34]

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	**(1OF)**
Investing activities				
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**
Financing activities				
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]

(b) **(i)** Cash budget is prepared in advance **(2)** but a cash flow statement is prepare end of an accounting period **(2)**. The cash budget is produced for management a not have prescribed format **(2)**. The cash flow statement is prepared using a presc 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]

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</u> **(1)**
Profit			<u>36 000</u> **(1of)**

[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</u> **(1)**
Profit			<u>$17 800</u> **(1of)**

[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</u> **(1)**
			<u>$36 704</u> **(1 of)**

[13]

(d) Yes **(1of)**. Profit is higher **(1of)**.

(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]