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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CAMBRIDGE
International Examinations

1 (a)

Plantin plc
Retained earnings at 31 March 2015

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

[4]

(b)

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

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

[7]

(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)**)	96	
	171	
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)OF**
	438	
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]

2 (a)

Capital accounts

	A	B	C		A	B	C
Bank			60 000 **(1)**	Balance b/d	441 000	294 000	147 0
Loan			117 000 **(1)of**	Goodwill	90 000 **(1)**	60 000 **(1)**	30 000
Goodwill	108 000 **(1)**	72 000 **(1)**					
Balance c/d	423 000	282 000	–				
	531 000	354 000	177 000		531 000	354 000	177 000
				Balance b/d	423 000 **(1OF)**	282 000	**(1)of**

[10]

(b) Statement of financial position at 1 May 2015

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

[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]

(d)

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

[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 **(1)** ÷ 57 **(1)OF** = 12 000 **(1)OF** **[3]**

(b) **(i)**

Process 1

	$			$	
Direct material 12 000 × 24	288 000	**(1)OF**	Process 2	684 000	**(1)**
Direct material 12 000 × 20	240 000	**(1)OF**			
Variable overhead 12 000 × 4	48 000	**(1)OF**			
Fixed overhead 12 000 × 9	108 000	**(1)OF**			
	684 000			684 000	

[5]

(ii)

Process 2

	$				
Process 1	684 000	**(1)**	Scrap 1200 × 50	60 000	**(2)OF**
Direct material 12 000 × 10	120 000	**(1)OF**	Process 3	1 152 000	**(1)OF**
Direct labour 12 000 × 24	288 000	**(1)OF**			
Variable overhead 12 000 × 4	48 000	**(1)OF**			
Fixed overhead 12 000 × 6	72 000	**(1)OF**			
	1 212 000			1 212 000	

[8]

Scrap 1200 **(1)OF** × 50 = 60 000 **(1)OF**

(c) (i) 12 000 × 90% **(1)** = 10 800 **(1)OF**

(ii) 1 152 000 **(1)OF** ÷ 10 800 **(1)OF** = $106.67 **[**

(d)

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