

## **MARK SCHEME for the October/November 2014 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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1 (a)

	\$000	
Profit from operations	3 752	(1)
Finance costs (W1)	(132)	(2)
Profit before tax	3 620	(1) OF
Tax	(905)	(1) OF
Profit for the year	2 715	(1) OF

W1: Finance costs:

$$1\,800 \times 8\% (1) \times 11/12 (1) = 132$$

[6]

(b)

			\$000				
	Share Capital	Share Premium	Rev Reserve	Gen Reserve	Ret Earnings		Total
Balance at 01 June 2013	25 000	5 000	1 000	Zero	2 950	(1) row	33 950 (1)
Final dividend 01.09.13					(1 000)	(1)	(1 000)
Share issue 01.10.13	5 000 (1)	500 (1)					5 500
Rights issue 01.11.13	6 000 (4)						6 000
Revaluation 01.02.14			1 500 (1)				1 500
Interim dividend 01.02.14					(1 080)	(5)	(1 080)
Transfer 01.03.14				500 (1)	(500)	(1)	
Profit 31.05.14					2 715	(1)	2 715
Balance at 31 May 2014	36 000	5 500	2 500	500	3 085	(1) OF row	47 585 (1) OF

#### Workings

Rights issue  $(25\,000 + 5\,000) (1) / 5 (1) \times \$1 (1) = \$6\,000\,000 (1)$

Revaluation  $7\,500\,000 - 6\,000\,000 (1) = \$1\,500\,000 (1)$

Interim dividend  $(25\,000\,000 + (1) + 5\,000\,000 (1) + 6\,000\,000 (1) \times 0.03 (1) = \$1\,080\,000 (1)$

Final dividend  $(25\,000\,000 \times 0.04 = \$1\,000\,000 (1)$  [20]

- (c) The final dividend is not a liability (1) at the statement of financial position date. (1)  
It is therefore disclosed as a note to the accounts. (1) Non adjusting event (1)  
treated in next financial year (1)

[max 4]

- (d) A bonus issue would result in 1 share for each 5 held being given to the existing shareholders. (1)  
This is a bookkeeping exercise and a reserve is debited (1) and no cash is raised. (1)  
Therefore, the expansion plans of Aston plc would not be assisted. (1)

[4]

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- (e) (i) When the carrying amount of property, plant and equipment exceeds the recoverable amount impairment has occurred. (1)  
The recoverable amount is the higher of the net realisable value and the value in use (1)

(ii)	Asset 1	310	(1)	
	Asset 2	No impairment	(1)	
	Asset 3	55	(1)	
	Total loss to income statement = 310 + 0 + 55 = 365			(1) OF [4]

[Total: 40]

- 2 (a) Contribution  $(50 - 31.1) (1) \times 20\,000 = \$378\,000 (1)$   
Net cash flow  $378\,000 - 120\,000 (1) = \$258\,000 (1) OF$   
Profit  $258\,000 - 150\,000 (1) = 108\,000 (1) OF [6]$

- (b)  $\frac{120\,000 (1) + 150\,000 (1)}{18.9 (1)} = \frac{270\,000}{18.9} = 14\,286 \text{ units } (1) OF$   
 $14\,286 \times \$50 = \$714\,300 (1) OF [5]$

- (c) Purchase of machinery should be included in year 0 (1) as that is when the cash flow arises (1).  
The annual cash flows to be discounted should not include depreciation (1) as depreciation does not involve the movement of funds (1).  
NPV based on net cash flows and not profit (1). [max 4]

- (d)
- |             | Cash flow      | Discount factor | Discounted cash flow |            |
|-------------|----------------|-----------------|----------------------|------------|
| Year 0      | (600 000)      | 1               | (600 000)            | (1)        |
| Years 1 – 4 | 258 000 (2) OF | 3.169 (1)       | 817 602              | (1) OF     |
|             |                | NPV             | 217 602              | (1) OF [6] |

- (e)  $\frac{217\,602 (1) OF}{600\,000 (1)} \times 100 = 36.27\% (2) OF [4]$

- (f)  $\frac{217\,602 (1) OF}{3.169 (1)} = 68\,665.8 \text{ a year } (1) OF$

$$\frac{68\,665.8 (1) OF}{20\,000 (1)} = \$3.43 \text{ per unit } (1) OF$$

$$\frac{3.43 (1) OF}{50 (1)} \times 100 = 6.86\% (1) OF [9]$$

(g) IAS16 (1)

import duties and taxes  
 site preparation  
 delivery and handling costs  
 installation and assembly  
 costs of testing/inspection  
 fees  
 regularly replaced parts

any five × (1) each

[6]

[Total: 40]

3 (a)

	Cash budget 2015			
	Jan \$	Feb \$	March \$	April \$
Receipts				
Cash sales	3 000	2 600	2 800	3 200 (1) row
Credit sales				
1 Month				
(90% × 50% × 96%)	11 232	12 960	11 232	12 096
2 Months	10 800 } (1)	11 700 } (1)	13 500 } (1)	11 700 } (1)
(90% × 50%)				
Loan received			10 000 (1)	
Vehicle sale proceeds				1 100 (1)
	<u>25 032</u>	<u>27 260</u>	<u>37 532</u>	<u>28 096</u>
Payments				
Suppliers	16 150 (1)	17 100	14 250 (1)	18 050 (1) any 3
Vehicle purchase			12 000 (1)	
Rent		4 500 (1)		
Dividend	3 100 (1)			
Sales and administration	6 200	6 200	6 800	7 100 (1) row
	<u>25 450</u>	<u>27 800</u>	<u>33 050</u>	<u>25 150</u>
Difference	(418)	(540)	4 482	2 946
Bank b/f	(1 303) (1)	(1 721)	(2 261)	2 221
Bank c/f	<u>(1 721)</u>	<u>(2 261)</u>	<u>2 221</u>	<u>5 167 (1) OF</u>

[15]

(b)

Budgeted income statement for the four months ending 30 April 2015

	\$	\$
Revenue		116 000 (1)
Opening inventory	2 100	
Purchases	<u>65 000 (1)</u>	
	67 100	
Closing inventory	<u>3 800 (1) both</u>	
Cost of sales		<u>63 300</u>
Gross profit		52 700 (1) OF
Discount received 69 000 (1) × 5% (1)		3 450
Less:		
Administration costs	26 800 (1)	
Discount allowed 110 000 (1) × (45% × 4%) (1)	1 980	
Loss on disposal	1 000 (1)	
Depreciation	540 (1)	
Interest	130 (1)	
Rent	<u>3 000 (1)</u>	
		<u>33 450</u>
Profit for the period		<u>22 700 (1) OF</u>

[14]

- (c) Capital expenditure appears in the cash budget but not in the income statement. (1)  
 Capital receipts appear in the cash budget but not in the income statement. (1)  
 Non-cash items appear in the income statement but not in the cash budget. (1)  
 Credit items are recorded in the income statement but not in the cash budget. (1)  
 Examples (max 2)

[4]

- (d) To plan for cash surpluses so that money can be wisely invested or used. (1)  
 To plan for cash shortages so that alternative sources of finance may be found. (1)

[2]

- (e)  $\frac{56\,750}{9\,300} (3) = 6.1 \text{ times } (1) \text{ OF}$

Note:  $56\,750 (1) \text{ OF} = \frac{22\,700 (1) \text{ OF}}{0.4 (1)}$

[5]

[Total: 40]