

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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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	
Cost				
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
Depreciation				
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
Net book value				
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]

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(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	147 000 (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
							[10]

(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]

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

[3]

(b) (i)

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

[5]

(ii)

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

[8]

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

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(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]