UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the May/June 2012 question paper

for the guidance of teachers

9706 ACCOUNTING

9706/43 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.

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UNIVERSITY of CAMBRIDGE International Examinations

1 (a)

	$	
Profit from operations	34 548	**1**
Depreciation	13 336	**5**
Profit on disposal	(2 100)	**2**
Increase in trade receivables	(5 106)	**1**
Increase in inventories	(2 237)	**1**
Increase in trade payables	4 104	**1**
	42 545	
Interest paid	(1 600)	**1**
Tax paid	(4 650)	**3**
Net cash from operating activities	36 295	**1OF**

Depreciation:

Plant & machinery

64 900 * – 7 900 **1OF** + 35 000 **1OF** – 82 500 * **1 both** = 9 500 **1OF**

Office equipment

38 355 – 34 519 = 3 836 **1**

Total depreciation = 9 500 + 3 836 = 13 336

Tax paid:

4 200 * + 5 800 **1** – 5 350 * **1 both** = 4 650 **1OF** [16]

(b) Statement of cash flows for year ended 30 April 2012

	$		$	
Cash flow from operating activities			36 295	**1OF**
Cash flows from investing activities				
Purchase of machinery	(35 000)	**1**		
Proceeds from sale of machinery	10 000	**1**		
Net cash used in investing activities			(25 000)	**1OF**
Cash flows from financing activities				
Proceeds from issue of shares	30 000	**3**		
Redemption of debentures	(20 000)	**1**		
Net cash used in financing activities			10 000	**1OF**
Net increase in cash and cash equivalents			21 295	**1OF**
Cash & cash equ. at start of year			6 459	**1**
Cash & cash equ. at end of year			27 754	**1OF + 1OF**

Proceeds from issue of shares:

20 000 **1** + 10 000 **1** = 30 000 **1OF** [13]

(c) (i) $\frac{17\,623}{396\,672} \times 365$ days **1** = 17 days **1OF**

$\frac{22\,758}{259\,329\ \mathbf{1}} \times 365$ days **1** = 33 days **1OF** [5]

(ii) The trade receivables turnover days has reduced. **1** Debts are being paid faster. **1** Improved cash flow. **1** [3]

(iii) The trade payables turnover days has increased. **1** The company is taking longer to pay its debts. **1** Improved cash flow. **1** [3]

[Total: 40]

2 (a)

Chipperfields Ltd
Statement of Financial Position at 1 May 2012

	$		$		
Non current assets					
Intangible					
Goodwill			4 200	**4**	
Tangible					
Property	240 000	*			
Fixtures and fittings	82 250	*			
Plant and machinery	31 250	**1**			
			353 500		
Current assets					
Inventories	66 950	*			
Trade receivables	22 630	**1**			
Bank	14 675	**6**			
			104 255		
Total assets			461 955		
Current liabilities					
Trade payables			(32 625)	**1**	
Non-current liabilities					
10% Debenture 2020			(18 000)	**3**	
Net assets			411 330		
Equity					
420 000 Ordinary shares of $0.50			210 000	**2**	
30 000 6% non-redeemable preference shares of $0.50 (1)			15 000	**1**	
Share premium			87 000	**2**	
Retained earnings			99 300	**1**	
			411 330		[22]

Workings:

Goodwill	160 000 **1** – [169 750 **1** – 13 950 **1**] = 4 200	**1OF**
Bank	69 675 **1** – [160 000 **1** – 18 000 **1** – 72 000 **1** – 15 000 **1**] = 14 675	**1OF**
Debenture	12 000 **1** + 6 000 **1** = 18 000	**1OF**
Ordinary shares	150 000 + 60 000 **1** = 210 000	**1OF**
Share premium	75 000 + 12 000 **1** = 87 000	**1OF**

(b) ROCE 2012 = $\frac{82\,350\ \mathbf{1}}{324\,330\ \mathbf{1}} \times 100\% = 25.39\%$ **1OF**

ROCE 2013 = $\frac{116\,000\ \mathbf{1}}{429\,330\ \mathbf{1OF}} \times 100\% = 27.02\%$ **1OF**

The ROCE has increased so Chipperfield Ltd has benefited from the acquisition. **1OF** [7]

(c) **Bonus issue**: Not a feasible option **1** since cash will not be raised **1**

Issue of 10% debentures: Interest payments must be made even if the company makes a loss **1** but if the company makes higher profits than anticipated they will not be required to increase the interest payments **1**.

Cash will be required for the redemption **1**

New share issue: The issue of new shares could affect control **1**.

Dividends would only be paid if sufficient profits are available **1**.

Rights issue: The issue would not affect control **1**. Dividends would only be paid if sufficient profits are available **1**.

Conclusion with a reason **2** [11]

3 **(a)**

Year	Inflow	Outflow	Net Cash Flow
	$	$	$
0		(250 000)	(250 000) **1**
1	320 000 **1**	260 000 **1**	60 000 **1OF**
2	396 000 **1**	286 000 **1**	110 000 **1OF**
3	435 600 **1**	338 800 **1**	96 800 **1OF**
4	262 500 **1**	245 000 **1**	17 500 **1OF**

[13]

(b) ARR = $\frac{\text{Average profit}}{\text{Average investment}} \times 100\%$

$\frac{284\,300\ \mathbf{1OF}}{4\ \mathbf{1}} - 62\,500\ \mathbf{1} = \frac{8\,575}{125\,000}$ **1OF** $\times 100\% = 6.86\%$ **1OF**

$\frac{250\,000}{2} = 125\,000$ **2** [7]

(c)

Year	Net Cash Flow		
0	(250 000) **1OF**	1.000	(250 000) **1OF**
1	60 000 **1OF**	0.909	54 540 **1OF**
2	110 000 **1OF**	0.826	90 860 **1OF**
3	96 800 **1OF**	0.751	72 697 **1OF**
4	17 500 **1OF**	0.683	11 953 **1OF**
			(19 950) **1OF**

[11]

(d) The directors should not proceed with the proposal **1** because the NPV is negative **1**. The calculated ARR, however, is poor and is below the cost of capital **1**. Other factors may also affect the decision **1**. [4]

(e) **(i)** The internal rate of return is the rate which gives a zero net present value. **2**

or

Discount rates below the IRR will result in a feasible project and vice versa. **2** [2]

(ii) If it is lower. **1** the proposal should be rejected **1** and vice versa **1** Since the NPV is negative at 10% **1** the IRR is lower than the cost of capital **1**. [Max 3]

[Total: 40]