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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Cambridge is publishing the mark schemes for the May/June 2015 series for most Cambridge IGCSE®, Cambridge International A and AS Level components and some Cambridge O Level components.
1  (a)

Plantin plc
Retained earnings at 31 March 2015

<table>
<thead>
<tr>
<th></th>
<th>$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retained earnings at 1 April 2014</td>
<td>110</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>52</td>
</tr>
<tr>
<td></td>
<td>162</td>
</tr>
<tr>
<td>Preference dividend paid</td>
<td>(4)</td>
</tr>
<tr>
<td>Retained earnings at 31 March 2015</td>
<td>158</td>
</tr>
</tbody>
</table>

(b)

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

<table>
<thead>
<tr>
<th>Property, plant and equipment</th>
<th>Land and buildings $000</th>
<th>Plant and equipment $000</th>
<th>Total $000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at 1 April 2014</td>
<td>260</td>
<td>152</td>
<td>412</td>
</tr>
<tr>
<td>Purchases</td>
<td>80</td>
<td>80</td>
<td>160</td>
</tr>
<tr>
<td>Balance at 31 March 2015</td>
<td>340</td>
<td>232</td>
<td>572</td>
</tr>
</tbody>
</table>

| **Depreciation**              |                          |                          |            |
| Balance at 1 April 2014       | 90                       | 87                       | 177        |
| Charge for the year           | 28                       | 33                       | 61         |
| Balance at 31 March 2015      | 118                      | 120                      | 238        |

| **Net book value**            |                          |                          |            |
| Balance at 31 March 2015      | 222                      | 112                      | 334        |
| Balance at 31 March 2014      | 170                      | 65                       | 235        |
(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

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>60,000</td>
<td>(1)</td>
<td>Balance b/d</td>
<td>441,000</td>
<td>294,000</td>
<td>147,000</td>
<td>(1)</td>
</tr>
<tr>
<td>Loan</td>
<td>117,000</td>
<td>(1)</td>
<td>Goodwill</td>
<td>90,000</td>
<td>60,000</td>
<td>30,000</td>
<td>(1)</td>
</tr>
<tr>
<td>Goodwill</td>
<td>108,000</td>
<td>(1)</td>
<td>72,000</td>
<td>(1)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance c/d</td>
<td>423,000</td>
<td>282,000</td>
<td>531,000</td>
<td>354,000</td>
<td>177,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>531,000</td>
<td>354,000</td>
<td>177,000</td>
<td></td>
<td>531,000</td>
<td>354,000</td>
<td>177,000</td>
</tr>
<tr>
<td></td>
<td>Balance b/d</td>
<td>423,000</td>
<td>(1)</td>
<td>282,000</td>
<td>(1)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(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 |

(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)
(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)

Total: 14 marks

(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)

Total: 6 marks

3 (a) (i) \[24 + 20 + 4 + 9 = 57 \] (1)

(ii) \[684,000 \div 57 = 12,000 \text{ (1)OF} \] (3 marks)

(b) (i) Process 1

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct material</td>
<td>$288,000</td>
<td>(1)OF</td>
</tr>
<tr>
<td>Direct material</td>
<td>$240,000</td>
<td>(1)OF</td>
</tr>
<tr>
<td>Variable overhead</td>
<td>$48,000</td>
<td>(1)OF</td>
</tr>
<tr>
<td>Fixed overhead</td>
<td>$108,000</td>
<td>(1)OF</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$684,000</td>
<td>(1)OF</td>
</tr>
</tbody>
</table>

(ii) Process 2

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process 1</td>
<td>$684,000</td>
<td>(1)OF</td>
</tr>
<tr>
<td>Direct material</td>
<td>$120,000</td>
<td>(1)OF</td>
</tr>
<tr>
<td>Direct labour</td>
<td>$288,000</td>
<td>(1)OF</td>
</tr>
<tr>
<td>Variable overhead</td>
<td>$48,000</td>
<td>(1)OF</td>
</tr>
<tr>
<td>Fixed overhead</td>
<td>$72,000</td>
<td>(1)OF</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,212,000</td>
<td>(1)OF</td>
</tr>
</tbody>
</table>

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

[14 marks]

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(c) (i) \[ 12000 \times 90\% \times 10800 \] OF = \[ 10800 \] OF \[ [2] \]

(ii) \[ 1152000 \div 10800 = 106.67 \] OF \[ [2] \]

(d)

\[
\begin{align*}
\text{Existing P2 cost} & \quad 1212000 \text{ OF} \\
\text{Extra material cost} & \quad 12000 \times 2 \times 3 = 72000 \text{ OF} \\
\text{Gross cost} & \quad 1284000 \text{ OF} \\
\text{Scrap} & \quad (30000) \text{ OF} \\
\text{Net cost} & \quad 1254000 \text{ OF} \\
\text{Divided by units} & \quad 11400 \text{ OF} \\
\text{Cost per unit} & \quad $110 \text{ OF} \\
\end{align*}
\]

Cost per unit has increased \[ (1) \text{ OF} \]
New materials should not be used \[ (1) \text{ OF} \] \[ [9] \]

(e) Work-in-progress

\[
\begin{align*}
\text{Process 2} & \quad 320000 \text{ OF} \\
\text{Direct materials} & \quad 6750 \text{ (1) } \\
\text{Direct labour} & \quad 31500 \text{ (1) } \\
\text{Variable overhead} & \quad 4500 \text{ (1) } \\
\end{align*}
\]

\[ 362750 \text{ OF} \] \[ [5] \]

(f) Costs to date

Expected costs to completion
Estimated total costs
Percentage complete at report date
Time analysis of costs
Other reasonable point \[ (1 \text{ each to max 5}) \] \[ [5] \]

[Total: 40]