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 × 8% (1) × 11/12 (1) = 132

(b) $000
Share Capital 25000
Share Premium 5000
Rev Reserve 1000
Gen Reserve Zero
Ret Earnings 2950 (1) row 33950 (1)
Total

Balance at 01 June 2013
Final dividend
01.09.13 (1000) (1) (1000)
Share issue 5000 (1) 500 (1) 5500
01.10.13 Rights issue 6000 (4) 6000
01.11.13 Revaluation 1500 (1) 1500
01.02.14 Interim dividend (1080) (5) (1080)
01.02.14 Transfer 500 (1) (500) (1)
01.03.14 Profit 2715 (1) 2715
31.05.14 Balance at 31 May 36000 5500 2500 500 3085 (1) OF row 47585 (1) OF 2014

Workings

Rights issue (25000 + 5000) (1) / 5 (1) × $1 (1) = $6000000 (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) × 0.03 (1) = $1 080 000 (1)
Final dividend (25 000 000 × 0.04 = $1 000 000 (1)

(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)

(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)
(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

[Total: 40]

2 (a) Contribution (50 – 31.1) (1) × 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

(b) 120 000 (1) + 150 000 (1) = 270 000 = 14 286 units (1) OF
18.9 (1)
18.9
14 286 × $50 = $714 300 (1) OF

(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)

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash flow</th>
<th>Discount factor</th>
<th>Discounted cash flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 0</td>
<td>(600 000)</td>
<td>1</td>
<td>(600 000)</td>
</tr>
<tr>
<td>Years 1–4</td>
<td>258 000</td>
<td>3.169 (1)</td>
<td>817 602 (1) OF</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>217 602 (1) OF</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>NPV</td>
</tr>
</tbody>
</table>

NPV = 217 602 (1) OF × 100 = 36.27% (2) OF

(e) 217 602 (1) OF × 100 = 36.27% (2) OF
600 000 (1)

(f) 217 602 (1) OF = 68 665.8 a year (1) OF
3.169 (1)

68 665.8 (1) OF = $3.43 per unit (1) OF
20 000 (1)

3.43 (1) OF × 100 = 6.86% (1) OF
50 (1)

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(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

<table>
<thead>
<tr>
<th>Jan</th>
<th>Feb</th>
<th>March</th>
<th>April</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Receipts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash sales</td>
<td>3000</td>
<td>2600</td>
<td>2800</td>
</tr>
<tr>
<td>Credit sales</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Month (90% × 50% × 96%)</td>
<td>11232</td>
<td>12960</td>
<td>11232</td>
</tr>
<tr>
<td>2 Months (90% × 50%)</td>
<td>10800</td>
<td>11700</td>
<td>13500</td>
</tr>
<tr>
<td>Loan received</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vehicle sale proceeds</td>
<td>10000 (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suppliers</td>
<td>16150 (1)</td>
<td>17100</td>
<td>14250 (1)</td>
</tr>
<tr>
<td>Vehicle purchase</td>
<td></td>
<td></td>
<td>12000 (1)</td>
</tr>
<tr>
<td>Rent</td>
<td></td>
<td></td>
<td>4500 (1)</td>
</tr>
<tr>
<td>Dividend</td>
<td>3100 (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales and administration</td>
<td>6200 (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>6200</td>
<td>6800</td>
<td>7100 (1) row</td>
</tr>
<tr>
<td>Difference</td>
<td>(418)</td>
<td>(540)</td>
<td>4482</td>
</tr>
<tr>
<td>Bank b/f</td>
<td>(1303)(1)</td>
<td>(1721)</td>
<td>(2261)</td>
</tr>
<tr>
<td>Bank c/f</td>
<td>(1721)</td>
<td>(2261)</td>
<td>2221</td>
</tr>
</tbody>
</table>

[15]
(b) Budgeted income statement for the four months ending 30 April 2015

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

(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) \[ \frac{56,750 \text{ (3)}}{9300 \text{ (1)}} = 6.1 \text{ times (1) OF} \]

Note: \[ \frac{56,750 \text{ (1) OF}}{0.4 \text{ (1)}} = 22,700 \text{ (1) OF} \] [5]

[Total: 40]