

**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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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	<u>4 104</u>	1
		42 545	
	Interest paid	(1 600)	1
	Tax paid	<u>(4 650)</u>	3
	Net cash from operating activities	<u>36 295</u>	10F

Depreciation:

Plant & machinery

$$64\,900 * - 7\,900 \text{ 10F} + 35\,000 \text{ 10F} - 82\,500 * \text{ 1 both} = 9\,500 \text{ 10F}$$

Office equipment

$$38\,355 - 34\,519 = 3\,836 \text{ 1}$$

$$\text{Total depreciation} = 9\,500 + 3\,836 = 13\,336$$

Tax paid:

$$4\,200 * + 5\,800 \text{ 1} - 5\,350 * \text{ 1 both} = 4\,650 \text{ 10F} \quad [16]$$

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

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

Proceeds from issue of shares:

$$20\,000 \text{ 1} + 10\,000 \text{ 1} = 30\,000 \text{ 10F} \quad [13]$$

(c) (i) $\frac{17\,623}{396\,672} \times 365 \text{ days } \text{ 1} = 17 \text{ days } \text{ 10F}$

$$\frac{22\,758}{259\,329 \text{ 1}} \times 365 \text{ days } \text{ 1} = 33 \text{ days } \text{ 10F}$$

[5]

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(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	<u>31 250</u>		1
		353 500	
Current assets			
Inventories	66 950		*
Trade receivables	22 630		1
Bank	<u>14 675</u>		6
		<u>104 255</u>	
Total assets		461 955	
Current liabilities			
Trade payables		(32 625)	1
Non-current liabilities			
10% Debenture 2020		<u>(18 000)</u>	3
Net assets		<u>411 330</u>	
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		<u>99 300</u>	1
		<u>411 330</u>	[22]

Workings:

Goodwill	160 000 1 – [169 750 1 – 13 950 1] = 4 200	10F
Bank	69 675 1 – [160 000 1 – 18 000 1 – 72 000 1 – 15 000 1] = 14 675	10F
Debenture	12 000 1 + 6 000 1 = 18 000	10F
Ordinary shares	150 000 + 60 000 1 = 210 000	10F
Share premium	75 000 + 12 000 1 = 87 000	10F

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

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

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

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

$\frac{250\ 000}{2} = 125\ 000\ 2$ [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	<u>11 953</u> 1OF
			<u>(19 950)</u> 1OF

[11]

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(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]