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

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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**

$\frac{22\,758}{259\,329}$ **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 = $\dfrac{82\,350 \ \mathbf{1}}{324\,330 \ \mathbf{1}} \times 100\% = 25.39\%$ **1OF**

ROCE 2013 = $\dfrac{116\,000 \ \mathbf{1}}{429\,330 \ \mathbf{1OF}} \times 100\% = 27.02\%$ **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 = $\dfrac{\text{Average profit}}{\text{Average investment}} \times 100\%$

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

$\dfrac{250\,000}{2} = 125\,000$ **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]