# 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.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

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1 (a)
Profit from operations
Depreciation
Profit on disposal
Increase in trade receivables
Increase in inventories
Increase in trade payables
Interest paid
Tax paid
Net cash from operating activities

## \$

345481
133365
(2 100) 2
(5 106) 1
(2 237) 1
41041
42545
(1600) 1
(4650) 3
$\underline{\underline{36295}} 10 F$

Depreciation:
Plant \& machinery
64900 * - 7900 10F + 35000 1OF - 82500 * 1 both $=9500$ 10F
Office equipment
$38355-34519=38361$
Total depreciation $=9500+3836=13336$
Tax paid:
4200 * $+58001-5350$ * 1 both $=4650$ 10F
(b)

Statement of cash flows for year ended 30 April 2012

Cash flow from operating activities
\$
36295 10F
(35000) 1

100001
(25 000) 1OF
Net cash used in investing activities
Cash flows from financing activities
Proceeds from issue of shares
300003
Redemption of debentures
$(\underline{20000)} 1$
Net cash used in financing activities
Net increase in cash and cash equivalents
Cash \& cash equ. at start of year
Cash \& cash equ. at end of year

| $\underline{10000}$ | 1OF |
| :--- | :--- |
| 21295 | $10 F$ |
| 6459 | 1 |
| $\underline{27754}$ | $10 F+10 F$ |

Proceeds from issue of shares:
$200001+100001=3000010 \mathrm{~F}$
(c) (i) $\frac{17623}{396672} \times 365$ days $\mathbf{1}=17$ days $\mathbf{1 0 F}$

$$
\frac{22758}{\underline{2593291} \times 365 \text { days } 1=33 \text { days } 10 F}
$$

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(ii) The trade receivables turnover days has reduced. 1 Debts are being paid faster. 1 Improved cash flow. 1
(iii) The trade payables turnover days has increased. 1 The company is taking longer to pay its debts. 1 Improved cash flow. 1

2 (a) Chipperfields Ltd Statement of Financial Position at 1 May 2012


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(b) ROCE $2012=\frac{82350}{324330} 1 \times 100 \%=25.39 \% 10 F$

ROCE $2013=\frac{1160001}{42933010 F} \times 100 \%=27.02 \% 10 F$
The ROCE has increased so Chipperfield Ltd has benefited from the acquisition. 10F
(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
(a) Year Inflow
\$
0
13200001
23960001
34356001
$4 \quad 2625001$

Outflow
\$ (250 000)
2600001
2860001
3388001
2450001

Net Cash Flow
\$
(250 000) 1
60000 10F
110000 10F
96800 10F
17500 10F
(b) $A R R=\frac{\text { Average profit }}{\text { Average investment }} \times 100 \%$

$$
\begin{align*}
& \frac{284300}{4} 1 \text { OF }-625001=\frac{8575}{125000} 10 F \times 100 \%=6.86 \% 10 F \\
& \frac{250000}{2}=1250002 \tag{7}
\end{align*}
$$

(c) Year Net Cash Flow

| 0 | (250 000) 10F | 1.000 | (250 000) 10F |
| :---: | :---: | :---: | :---: |
| 1 | 60000 10F | 0.909 | 54540 10F |
| 2 | 110000 10F | 0.826 | 90860 10F |
| 3 | 96800 10F | 0.751 | 72697 10F |
| 4 | 17500 10F | 0.683 | 11953 10F |


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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.
(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
(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.

