

**MARK SCHEME for the October/November 2011 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) Ashburton Ltd. Statement of financial position after acquisition of the partnership

	\$	\$
<b>ASSETS</b>		
<b>Non-current assets</b>		
Goodwill		26 950 (4)
Land & buildings	240 000	(1)
Fixtures & fittings	99 750	(1)
Motor vehicles	<u>39 975</u>	(1)
		<u>406 675</u>
<b>Current assets</b>		
Inventories		44 875 (1)
Trade receivables	27 863	(1)
Bank	<u>962</u>	(3)
		<u>73 700</u>
<b>Total assets</b>		<u><u>480 375</u></u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Ordinary shares of \$1	300 000	(2)
Share premium	70 000	(2)
Retained profit	<u>48 795</u>	(1)
<b>Total equity</b>		<u>418 795</u>
<b>Non-current liabilities</b>		
8% debentures 2020	<u>37 500</u>	(4)
		<u>37 500</u>
<b>Current liabilities</b>		
Trade payables	<u>24 080</u>	(1)
		<u>24 080</u>
<b>Total liabilities</b>		<u>61 580</u>
<b>Total liabilities and equity</b>		<u><u>480 375</u></u>

Goodwill: 215 000 (1) – 197 500 (1) + 9 450 (1) = 26 950 (1 of)

Bank: 28 462 (1) – 27 500 (1) = 962 (1 of)

Debentures: 3 000 (1) / 0.08 (1) = 37 500 (1 of) + (1 cf)

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**(b) Ashburton Ltd.  
Income statement for the year ended 30 June 2012**

	\$		
Turnover	617 194	(1)	
Cost of sales	<u>344 859</u>	(1)	
Gross profit	272 335	(1 of)	
Expenses	<u>137 599</u>	(1)	
Operating profit	134 736	(1 of)	
Interest payable (1)	<u>3 000</u>	(1)	
Profit before taxation	131 736		
Taxation	<u>33 500</u>	(1)	
Profit after taxation	98 236	(1 of)	
Dividend paid	<u>15 000</u>	(2)	
Retained profit for yr.	<u>83 236</u>	(1)	[12]

- (c)** E.p.s. 2011 = 28 217 (1) / 200 000 (1) = 14.1c (1 of)  
E.p.s. 2012 = 98 236 (1) / 300 000 (1) = 32.7c (1 of) [6]

**2 (a) Reconciliation of operating profit to net cash inflow from operating activities**

	\$000		
Operating profit	686	(1)	
Depreciation	786	(1)	
Profit on disposal of non current assets	(15)	(1)	
Increase in inventories	(214)	(1)	
Increase in trade receivables	(278)	(1)	
Increase in trade payables	<u>60</u>	(1)	
Cash from operations	1 025		
Interest paid	(225)	(1)	
Tax paid	<u>(94)</u>	(1)	
Net cash from operating activities	<u>706</u>	(1 of)	[9]

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**(b) Cash Flow Statement of Sabrina plc for the year ended 30 June 2011**

	\$000	\$000	
Net cash from operating activities		706	<b>(1 of)</b>
<b>Cash flows from investing activities</b>			
Non-current assets			
Payments	(3 439)		<b>(5)</b>
Receipts	<u>30</u>		<b>(2)</b>
Net cash used in investing activities		(3 409)	
<b>Cash flows from financing activities</b>			
Equity dividends paid	(120)		<b>(4)</b>
Debentures	1 500		<b>(1)</b>
Share capital	<u>1 050</u>		<b>(2)</b>
Net cash from financing activities		<u>2 430</u>	
<b>Net increase in cash and cash equivalents</b>		(273)	<b>(1 of)</b>
<b>Cash and cash equivalents at beginning of period</b>		<u>78</u>	
<b>Cash and cash equivalents at end of period</b>		<u>(195)</u>	<b>(1) both</b> [17]

**(c)**

	2011		2010		
1) Return on equity	11.7%	<b>(1)</b>	17.1%	<b>(1)</b>	
2) T.R. turnover	91.6 days	<b>(1)</b>	90.4 days	<b>(1)</b>	
3) T.P. turnover	237.8 days	<b>(1)</b>	204.6 days	<b>(1)</b>	
4) Income gearing	3.0 times	<b>(1)</b>	6.1 times	<b>(1)</b>	
5) Gearing ratio	44.9%	<b>(1)</b>	35.4%	<b>(1)</b>	[10]

- (d)** The bank is not likely to authorise the loan. **(1)**  
All of the ratios have worsened:  
The company is generating less profit from the equity invested. **(1)**  
Its collection period has worsened. **(1)**  
It is taking longer to pay its debts and the period is now so long that it may lose its credit facilities. **(1)**  
Although the company can pay interest 3 times from profits it has deteriorated and if this continued it may be unable to service interest in future. **(1)**  
Gearing has increased to further indicate that should profits fall the interest payments may be at risk. **(1)** [4]  
*(One mark for decision and then maximum three marks for reasons.)*

**3 (a)**

Year	Cash flow		Discount factor	NPV	
0	(800 000)	{	1.000	(800 000)	<b>(1)</b>
1	235 000	{ <b>(1 of) both</b>	0.926	217 610	<b>(1)</b>
2	258 500	<b>(1cf)</b>	0.857	221 535	<b>(1 of)</b>
3	284 350	{	0.794	225 774	<b>(1 of)</b>
4	312 785	{ <b>(1 of) both</b>	0.735	229 897	<b>(1 of)</b>
5	160 000	<b>(1 cf)</b>	0.681	<u>108 960</u>	<b>(1 of)</b>
				<u>203 776</u>	<b>(1 of)</b>

Project is feasible **(1)** of because there is a positive NPV. **(1 of)** [13]

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- (b) Payback occurs between years 3 & 4 (1)  
 3 yrs + 135 081 / 229 897 (1 of) × 365 (1)  
 3 yrs & 214 days (1 of)

$$800\,000 - 664\,919 = 135\,081$$

(1)      (1 of)      (1 of)

[7]

- (c) The internal rate of return is the rate which gives a zero net present value. (1)  
 Discount rates below the IRR will result in a feasible project and vice versa. (1)

[2]

(d)

Year	Cash flow	Discount factor	NPV	
0	(800 000)	1.000	(800 000)	(1)
1	235 000	0.870	204 450	(1)
2	258 500	0.756	195 426	(1 of)
3	284 350	0.658	187 102	(1 of)
4	312 785	0.572	178 913	(1 of)
5	160 000	0.497	<u>79 520</u>	(1 of)
	(1 of)		<u>45 411</u>	(1 of)

$$\text{IRR} = 8\% (1) + \frac{203\,776 (1)}{203\,776 (1) - 45\,411 (1)} \times 7 (1)$$

$$= \underline{17.0\%} (1 \text{ of})$$

[14]

- (e) Environmental issues.  
 Political issues.  
 Is initial finance available – or can it be raised?  
 How reliable is forecast for long term projects?  
 Are existing projects being affected?  
 Any other reasonable point to be given credit.  
 1 mark for each point to maximum 4.

[4]