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.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2014 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.
1 (a) Income statement for year ended 31 December 2013

<table>
<thead>
<tr>
<th></th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales ($85 000 + 20 000 (1) – 30 000 )</td>
<td>75 000</td>
<td>(1) of</td>
</tr>
<tr>
<td>Opening inventory</td>
<td>15 000</td>
<td></td>
</tr>
<tr>
<td>Purchases ($30 000 + 55 000 (1) – 25 000 ) (1) of</td>
<td>60 000</td>
<td>(1) both</td>
</tr>
<tr>
<td>Closing inventory</td>
<td>30 000</td>
<td>45 000</td>
</tr>
<tr>
<td>Gross profit</td>
<td>30 000</td>
<td></td>
</tr>
</tbody>
</table>

Expenses 20 500 (1)
Interest on loan – Tan 2 000 (1) 22 500
Profit for the year 7 500 (1) of [9]

(b) Current account Tan

<table>
<thead>
<tr>
<th></th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance b/d 4 000</td>
<td>2 500</td>
<td>(1) of</td>
</tr>
<tr>
<td>Share of profit</td>
<td>2 000</td>
<td>(1) of</td>
</tr>
<tr>
<td>Interest on loan</td>
<td>1 500</td>
<td></td>
</tr>
<tr>
<td>Drawings 2 000</td>
<td>6 000</td>
<td>6 000</td>
</tr>
<tr>
<td>Balance b/d 1 500</td>
<td>1 500</td>
<td>(1) of</td>
</tr>
</tbody>
</table>

(c) Capital accounts

<table>
<thead>
<tr>
<th></th>
<th>Ann $000</th>
<th>Jan $000</th>
<th>Tan $000</th>
<th>Ann $000</th>
<th>Jan $000</th>
<th>Tan $000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goodwill</td>
<td>12</td>
<td>6 (1) row</td>
<td>Bal b/d 40</td>
<td>40</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Motor vehicle</td>
<td>5</td>
<td>(1)</td>
<td>Gain on revaluation 10</td>
<td>10</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Current Alc</td>
<td>1.5 (1) of Goodwill 6</td>
<td>6</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank</td>
<td>67.5 (1) of Loan 30</td>
<td>30</td>
<td>(2)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bal c/d</td>
<td>44</td>
<td>50</td>
<td>56</td>
<td>56</td>
<td>76</td>
<td>Bal b/d 44 (1) of 50(1) of</td>
</tr>
</tbody>
</table>

(d) Dividend yield for XY limited

$$\frac{[100 000 \times 8\%] \times 100}{2 (1)} = \frac{$0.08}{2} \times 100 = 4\% (1) of$$ [4]

(e) Dividend cover for XY limited

$24 000 (1) + $8 000 (1) of = 3 times (1) of [3]
(f) Option 1 will provide Tan with a return on his investment of 4% of. He can buy $67,500 \div 2 \text{ share} = 33,750 \text{ shares} \text{ of which will give him income of}$
\[33,750 \times $0.08 = $2,700\] of.

Option 2 will provide him with no return until year 2. This will be just over 2.9% ($2,000 \div 67,500$).

Option 3 will give a return of 5% ($67,500 \times 5\% = $3,375$) of.

Option 1 may lead to both an increase in dividends in the future and also possible capital growth in the value of the share. The company looks reasonably secure with a dividend cover of 3 times. The shareholder would have voting rights but no management role. Dividends are not guaranteed but dependent on level of distributable profits. Limited liability.

Option 2 is less secure as his figures are only projections which may or may not happen. He will be his own boss but this comes with responsibilities. He can have all available profits but is also liable to all the losses.

Option 3 is a safe return but no chance of any growth of income or capital. Guaranteed return fixed return.

2 marks per option (1) per advantage (1) per disadvantage. (1) decision (0–2) justification. [Max 9]

[Total: 40]
2 (a) Bridlington PLC  
Income statement for year ended 30 September 2013

Revenue 936011 (1)  
Cost of sales (484263) (2)  
Gross profit 451748 (1) of (narr. req.)  
Distribution costs (112967) (4)  
Administrative expenses (262042) (5)  
Profit from operations 76739 (1) of (narr. req.)  
Tax (16730) (1)  
Profit for the year 60009 (1) of

Workings
Cost of sales: 177 838 + 479 352 – 172 927 (1) = 484 263 (1) of
Distribution costs
Trial balance 108376  
Prepayment (2760) (1)  
Loss 212 (1)  
Depreciation 7139  
Total 112967 (1) of

Profit from operations: 76739 (1) of (narr. req.)
Tax (16730) (1)  
Profit for the year 60009 (1) of

(b) Land Buildings Plant and Machinery Motor vehicle

Cost
Balance 1/10/2012 100000 280000 95000 81000 (1) row  
Additions 10000 (1)  
Disposal (16000) (1)  
Total 100000 280000 105000 65000

Depreciation
Balance 1/10/2012 Zero 78400 66500 44578 (1) row  
Disposal (7000) (1)  
Charge Zero 11200 (1) of 10500 (1) of 6856 (1) of  
Zero 89600 77000 44434

NBV at 30.09.13 100000 190400 28000 20566 (1) of ro  
NBV at 30.09.12 100000 201600 28500 36422 (1) row
(c) **Assets**

**Non-current assets**
- Property, plant and equipment: 338,966 (1) of

**Current assets**
- Inventories: 172,927
- Trade and other receivables: 135,672 (2)
- Cash and cash equivalents: Zero

**Total assets**: 647,565

**Equity and liabilities**

**Equity**
- Share capital: 400,000
- Share premium: 40,000
- Retained earnings: 117,395 (1) of

**Current liabilities**
- Trade and other payables: 55,768 (2)
- Tax liability: 16,730 (1)
- Bank overdraft: 17,672 (1)

**Total equity and liabilities** 647,565

**Working**

**Trade and other receivables:**
- Trade receivables from TB: 138,450
- Provision: (5,538)
- Prepayment: 2,760 (1)
- Total: 135,672 (1)

**Trade and other payables:**
- Trade payables from TB: 51,243
- Accrual: 4,525 (1)
- Total: 55,768 (1) [8]

(d) **Equity**

- Share capital: 495,000 (2)
- Share premium: 20,000 (2)
- Revaluation reserve: 100,000 (1)
- Retained earnings: 120,010 (1) of

**Total**: 735,010 [6]

**Working**

- Share capital: 400,000 + 50,000 (1) + 45,000 (1) = 495,000
- Share premium: 40,000 + 25,000 (1) – 45,000 (1) = 20,000
- Retained earnings: 117,395 + 2,615 = 120,010

[Total: 40]
3 (a)  

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Costs</th>
<th>Interest</th>
<th>Net cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>(200000)</td>
<td></td>
<td>(200000)</td>
<td>(1)</td>
</tr>
<tr>
<td>1</td>
<td>110000</td>
<td>40000</td>
<td>20000</td>
<td>50000 (1)</td>
</tr>
<tr>
<td>2</td>
<td>115500</td>
<td>41200</td>
<td>20000</td>
<td>54300 (1)</td>
</tr>
<tr>
<td>3</td>
<td>121275</td>
<td>42436</td>
<td>20000</td>
<td>58839 (1)</td>
</tr>
<tr>
<td>4</td>
<td>127339</td>
<td>43709</td>
<td>20000</td>
<td>63630 (1)</td>
</tr>
<tr>
<td>5</td>
<td>133706</td>
<td>45020</td>
<td>20000</td>
<td>68686 (1)</td>
</tr>
<tr>
<td>Total</td>
<td>407820</td>
<td>(212365)</td>
<td>(100000)</td>
<td>95455 (1)</td>
</tr>
</tbody>
</table>

(b)  

<table>
<thead>
<tr>
<th>Year</th>
<th>10% Factor</th>
<th>Net cash flow</th>
<th>Net present value</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>1.000</td>
<td>(200000)</td>
<td>(20000)</td>
</tr>
<tr>
<td>1</td>
<td>0.909</td>
<td>50000</td>
<td>45450 (1)</td>
</tr>
<tr>
<td>2</td>
<td>0.826</td>
<td>54300</td>
<td>44852 (1)</td>
</tr>
<tr>
<td>3</td>
<td>0.751</td>
<td>58839</td>
<td>44188 (1)</td>
</tr>
<tr>
<td>4</td>
<td>0.683</td>
<td>63630</td>
<td>43459 (1)</td>
</tr>
<tr>
<td>5</td>
<td>0.621</td>
<td>68686</td>
<td>42654 (1)</td>
</tr>
<tr>
<td>Net present value (1)</td>
<td></td>
<td></td>
<td>20603 (1)</td>
</tr>
</tbody>
</table>

(c) $95 455 (1) of / 5 (1) = $19 091 (1) of

\[
\frac{19 091}{(20 000 / 2)} \times 100 = 19.09\% (1) of
\]

(d)  

<table>
<thead>
<tr>
<th>Year</th>
<th>40% Factor</th>
<th>Net cash flow</th>
<th>Net present value</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>1.000</td>
<td>200000</td>
<td>−200000 (1)</td>
</tr>
<tr>
<td>1</td>
<td>0.714</td>
<td>50000</td>
<td>35700</td>
</tr>
<tr>
<td>2</td>
<td>0.510</td>
<td>54300</td>
<td>27693</td>
</tr>
<tr>
<td>3</td>
<td>0.364</td>
<td>58839</td>
<td>21417 (1) if 40% D.F used</td>
</tr>
<tr>
<td>4</td>
<td>0.260</td>
<td>63630</td>
<td>16544</td>
</tr>
<tr>
<td>5</td>
<td>0.186</td>
<td>68685</td>
<td>12775</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>−85870</td>
<td>(1) of</td>
</tr>
</tbody>
</table>

Internal rate of return 15.81%

\[
10\% (1) + [30\% (1) \times \frac{20 603}{(20 603 + 85 870)}] (1) of = 15.81\% (1) of
\]

(e) Drake should invest in Project Sylvania (1), because the accounting rate of return is greater (1) of, the net present value is greater (1) of, and the internal rate of return is greater (1) of than Project Utopia.
(f) Interest would not be charged to the project (1), therefore the profits should be higher (1). This will result in a higher accounting rate of return (1).
\[
\text{ARR} = \frac{195,455}{5} = 39,091 \text{ (1) of } \frac{1}{100,000} = 39.09\% \text{ (1) of. [6]}
\]

(g) Preference shares fixed dividend (1) in priority to ordinary shareholders (1). Debenture secured on the asset (1). Interest charged may be at a lower rate than on the bank loan (1). Interest is charged before dividend is paid to ordinary and preference shareholders (1).
Sale of surplus non current assets (1) as long as this does not affect trading (1). Venture capitalist could invest (1) but would require a return on his investment (1).

Accept other reasonable alternatives. [Max 4]

[Total: 40]