



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Subsidiary Level and Advanced Level

CANDIDATE
NAME

CENTRE
NUMBER

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CANDIDATE
NUMBER

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ACCOUNTING

9706/23

Paper 2 Structured Questions

May/June 2011

1 hour 30 minutes

Candidates answer on the Question Paper.

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

Write your Centre number, candidate number and name on all the work you hand in.

Write in dark blue or black pen.

You may use a soft pencil for rough working.

Do not use staples, paper clips, highlighters, glue or correction fluid.

DO NOT WRITE IN ANY BARCODES.

Answer **all** questions.

All accounting statements are to be presented in good style.

International accounting terms and formats should be used as appropriate.

Workings must be shown.

You may use a calculator.

At the end of the examination, fasten all your work securely together.

The number of marks is given in brackets [] at the end of each question or part question.

For Examiner's Use	
1	
2	
3	
Total	

This document consists of **14** printed pages and **2** blank pages.



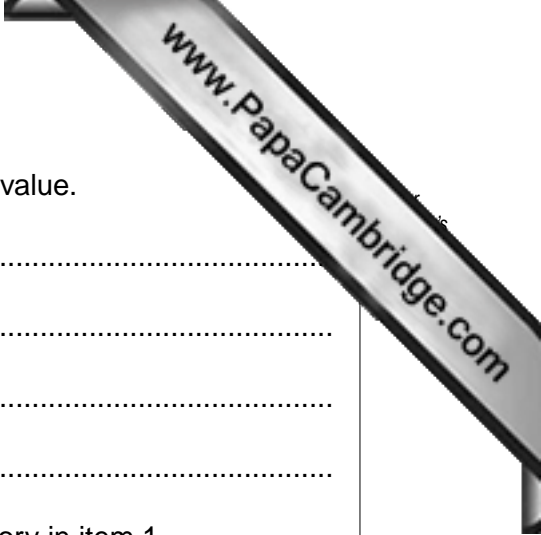
- 1 The following is the draft balance sheet of Marshall Klingsman, a sole trader, at 30 April 2011.

Balance Sheet at 30 April 2011			
	\$	\$	\$
Non-current assets			
Buildings at valuation			300 000
Equipment at book value			540 000
Motor vehicles at book value			<u>330 000</u>
			1 170 000
Current assets			
Inventories	70 000		
Trade receivables	19 000		
Other receivables	2 000		
Cash and cash equivalents	<u>4 000</u>		
		95 000	
Current liabilities			
Trade payables	57 000		
Other payables	<u>3 000</u>	60 000	
Net current assets			<u>35 000</u>
			1 205 000
Non-current liabilities			
Loan			<u>200 000</u>
Net assets			<u>1 005 000</u>
Financed by:			
Capital at start			1 000 000
Add Profit for the year (net profit)			<u>80 000</u>
			1 080 000
Less Drawings			<u>75 000</u>
Capital at end			<u>1 005 000</u>

Additional information:

After preparation of the draft balance sheet the following errors were found.

- 1 Goods in inventory at 30 April 2011, valued at cost \$15 000, were found to be damaged. The estimated net realisable value is \$8 000.
- 2 Loan interest of 4% per annum had been omitted from the accounts.
- 3 No provision for depreciation on equipment had been made for the year. Depreciation should have been provided at 5% per annum using the reducing balance method.
- 4 Motor vehicles are depreciated by 10% per annum. During the year vehicle repairs of \$10 000 had been incorrectly debited to the motor vehicles account.
- 5 On 28 April 2011 a credit customer, who owed \$3 600, was declared bankrupt. It was decided to write off this amount in full. No record of this has been made in the accounts.



(c) (i) Explain **two** differences between cost and net realisable value.

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(ii) Discuss the accounting treatment of the damaged inventory in item 1.

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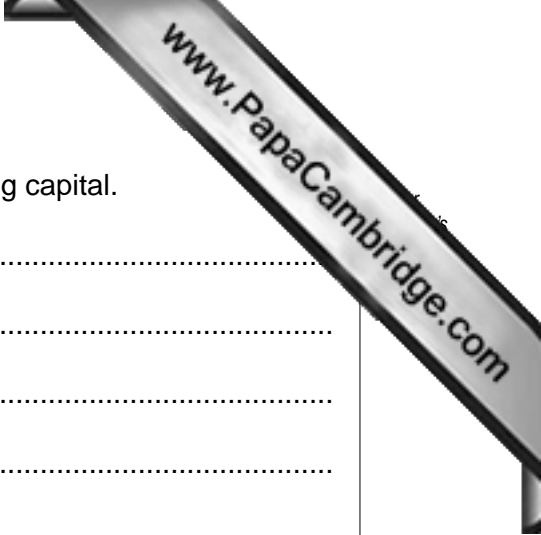
(d) Using your answers to (a) and (b) calculate the following ratios to **two** decimal places:

(i) current ratio

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(ii) liquid ratio (acid test).

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(e) State **four** ways in which Klingsman could improve his working capital.

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(f) Explain why the liquid ratio (acid test) is a more reliable indicator of liquidity than the current ratio.

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[Total: 30]



Question 2 is on the next page.

On 1 May 2010 the current account balances were Robbie \$5000 (credit) and Liza (debit).

The partnership agreement provides for the following:

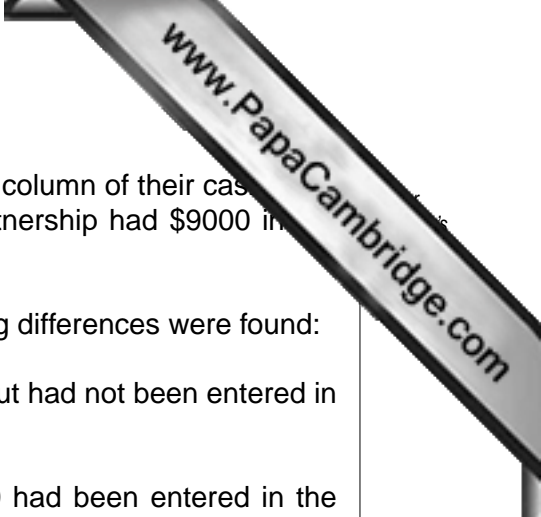
- 1 Partners are permitted to withdraw up to a maximum of 20% of capital invested.
- 2 Interest is charged on drawings at 8% per year.
- 3 Interest on capital is payable at 5% per year.
- 4 Liza is to receive a salary of \$1250 per month.
- 5 Profits and losses are shared in the ratio of capital invested.

Both partners withdrew the maximum amount of drawings permitted during the year.

REQUIRED

(b) Prepare the appropriation account of the partnership for the year ended 30 April 2011.

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At 30 April 2011 Robbie and Liza had a debit balance in the bank column of their cash book of \$12 000. Their bank statement, however, showed that the partnership had \$9 000 in the bank at that date.

On comparing the cash book with the bank statement the following differences were found:

- 1 Bank charges of \$250 appeared in the bank statement but had not been entered in the cash book.
- 2 Cheques received from customers amounting to \$3 750 had been entered in the cash book but had not been credited by the bank.
- 3 A cheque for \$600 received from a debtor had been entered in the cash book but had been returned by the bank marked 'insufficient funds for payment'.
- 4 Cheques issued by the business amounting to \$1 600, recorded in the cash book, did not appear in April's bank statement.

REQUIRED

(c) (i) Update Robbie and Liza's cash book for the month of April 2011.

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(ii) Prepare a bank reconciliation statement at 30 April 2011 to reconcile the bank statement balance with the updated cash book balance.

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3 Paul owns two car wash businesses, called City Centre Car Wash and Suburban Car Wash.

City Centre Car Wash has the following monthly costs:

Per car	\$
Detergent	1.00
Electricity	0.50
Water costs	0.05
Wage costs	1.25
Per month	\$
Insurance of site	800
Lease of equipment	2040
Manager's salary	1000

Additional information:

Both car wash businesses are open for 400 hours every month.

The cars are washed one at a time.

The average time taken to wash each car is 10 minutes.

City Centre Car Wash is currently operating at 80% capacity and Suburban Car Wash at 70% capacity.

REQUIRED

(a) For City Centre Car Wash, calculate the following correct to **two** decimal places:

(i) the total number of cars washed per month

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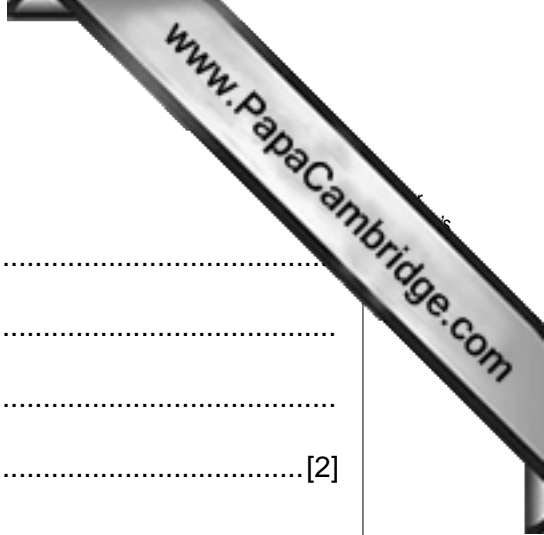
(ii) the total variable operating cost per month

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(iii) the total operating cost per month

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(iv) the average cost per car wash

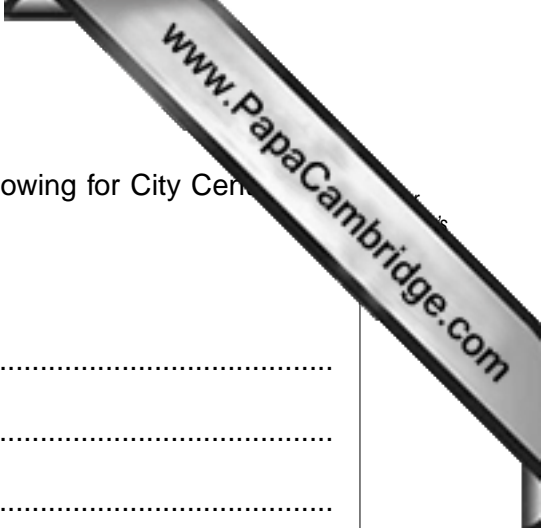
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(v) the price to be charged per car to give a profit margin of 20%

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(vi) the total profit per month.

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(b) Using the price calculated in (a)–(v) above, calculate the following for City Centre Wash, correct to **two** decimal places:

(i) the contribution per car (per unit)

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(ii) the break-even point in units

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(iii) the margin of safety, in dollars, when operating at 80% capacity

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(iv) the margin of safety, in dollars, if operating efficiency falls to 60% capacity

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(v) the contribution/sales (C/S) ratio when operating at 80% capacity.

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Suburban Car Wash charges the same price as City Centre Car Wash.

At that price Suburban Car Wash shows a contribution to sales (C/S) ratio of 40%. Fixed costs are \$3240.

REQUIRED

(c) Calculate, for Suburban Car Wash

(i) the break-even point in units **and** in dollars

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(ii) the total monthly profit when operating at 70% capacity.

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[Total: 30]

