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

CANDIDATE NAME	
CENTRE NUMBER	
CANDIDATE NUMBER	

8388098393

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	
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Total	

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

DC (NH) 31868/4

UNIVERSITY of CAMBRIDGE International Examinations

[Turn over

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			330 000
			1 170 000
Current assets			
Inventories		70 000	
Trade receivables		19 000	
Other receivables		2 000	
Cash and cash equivalents		4 000	
		95 000	
Current liabilities			
Trade payables	57 000		
Other payables	3 000	60 000	
Net current assets			35 000
			1 205 000
Non-current liabilities			
Loan			200 000
Net assets			1 005 000
Financed by:			
Capital at start			1 000 000
Add Profit for the year (net profit)			80 000
			1 080 000
Less Drawings			75 000
Capital at end			1 005 000

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 $3600, was declared bankrupt. It was decided to write off this amount in full. No record of this has been made in the accounts.

REQUIRED

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(a) Prepare a statement to show the corrected profit for the year (net profit) ended 30 April 2011.

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(b) Prepare the corrected balance sheet at 30 April 2011.

For Examiner's Use

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For Examiner's Use

(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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For Examiner's Use

(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]

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Question 2 is on the next page.

2 Robbie and Liza are in partnership with capitals of $90 000 and $60 000 respectively.

The following information is available for the year ended 30 April 2011.

Revenue	$240 000
Inventory (30 April 2011)	$9 000
Gross profit as a percentage of turnover	35%
Inventory turnover	12 times
Expenses ratio	15%

All purchases and sales of inventory are on credit.

REQUIRED

(a) Prepare a detailed income statement (profit and loss account) showing gross profit and profit for the year (net profit) for the year ended 30 April 2011.

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On 1 May 2010 the current account balances were Robbie $5000 (credit) and Liza $2000 (debit).

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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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For Examiner's Use

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 $9000 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 $3750 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 $1600, 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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(d) Give **three** reasons why the bank column balance in the cash book does not always agree with the balance shown in the bank statement at the same date.

For Examiner's Use

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[Total: 30]

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

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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 Car Wash, correct to **two** decimal places:

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(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.

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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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