



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

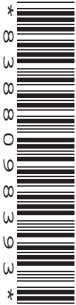
CANDIDATE  
 NAME

CENTRE  
 NUMBER

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 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	
<b>Total</b>	

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.

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Balance Sheet at 30 April 2011			
	\$	\$	\$
<b>Non-current assets</b>			
Buildings at valuation			300 000
Equipment at book value			540 000
Motor vehicles at book value			<u>330 000</u>
			1 170 000
<b>Current assets</b>			
Inventories		70 000	
Trade receivables		19 000	
Other receivables		2 000	
Cash and cash equivalents		<u>4 000</u>	
		95 000	
<b>Current liabilities</b>			
Trade payables	57 000		
Other payables	<u>3 000</u>	60 000	
<b>Net current assets</b>			
			<u>35 000</u>
			1 205 000
<b>Non-current liabilities</b>			
Loan			<u>200 000</u>
<b>Net assets</b>			
			<u><u>1 005 000</u></u>
<b>Financed by:</b>			
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><u>1 005 000</u></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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..... [4]

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

(i) current ratio

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..... [2]

(ii) liquid ratio (acid test).

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..... [2]

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

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.....[4]

(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.**







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 \$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.

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**[Total: 30]**

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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..... [2]

(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:

(i) the contribution per car (per unit)

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.....[2]

(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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.....[2]

(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.

For  
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Use

**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]**

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