

MARK SCHEME for the May/June 2011 question paper
for the guidance of teachers

9706 ACCOUNTING

9706/23

Paper 2 (Structured Questions – Core),
maximum raw mark 90

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)		\$	\$	
	Net profit		80 000	1
	LESS			
	1 Inventory	7 000		2
	2 Interest	8 000		1
	3 Depreciation	27 000		1
	4 Repairs	10 000		1
	5 Bad debts	<u>3 600</u>		1
			<u>55 600</u>	
			24 400	
	ADD			
	4 Depreciation		<u>1 000</u>	2
	<u>CORRECTED NET PROFIT</u>		25 400	[9]

(b) Corrected balance sheet at 30 April 2011

		\$	\$	\$
	Non-current assets			
	Buildings at valuation		300 000	
	Equipment (54000 – 27000)		513 000	1
	Motor vehicles (330000 – 10000 + 1000)		<u>321 000</u>	2
			1 134 000	
	Current Assets			
	Inventory (70000 – 7000)	63 000		1
	Trade receivables (19000 – 3600)	15 400		1
	Other receivables	2 000		
	Cash and cash equivalents	<u>4 000</u>	84 400	
	Current liabilities			
	Trade payables	57 000		
	Other payables (3000 + 8000)	<u>11 000</u>	68 000	
	Net current assets		<u>16 400</u>	
			1 150 400	
	Non-current liabilities			
	Loan		<u>200 000</u>	
	Net assets		<u>950 400</u>	
	Financed by:			
	Capital at start		1 000 000	
	Add Profit for the year (Net profit)		<u>25 400</u>	1 (OF)
			1 025 400	
	Less drawings		<u>75 000</u>	
	Capital at end		<u>950 400</u>	[7]

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- (c) (i) The cost comprises the cost of purchase plus other costs incurred in bringing the inventory to its present location and condition.
Net realisable value is the estimated selling price less estimated selling costs
- (ii) Inventory should never be valued at more than cost.
Valuing stock at cost observes the principles of realisation, matching and prudence.

Any 2 relevant points for 2 marks each [4]

- (d) (i) Current ratio = $84\,400 : 68\,000$ 1.24:1 **2(OF)**
- (ii) Liquid ratio (acid test) = $21\,400 : 68\,000$ 0.31:1 **2(OF)** [4]

- (e) Injection of cash/additional capital
Long term loan
Sales of **surplus** non-current assets
Reduction in drawings
Factor debt
Effective inventory management to reduce damage to inventory

Any four suitable points for 1 mark each [4]

- (f) Inventory is regarded as the least liquid asset
A buyer has to be found
Some goods may prove to be unsaleable
The quick ratio shows if the business would have any surplus liquid funds if all the current liabilities were paid immediately

Any two suitable points 1 mark each [2]

[Total: 30]

2 (a) Income statement for the year ended 30 April 2011

	\$	\$	
Revenue		240 000	
LESS			
Inventory (1/5/2010)	17 000		3
Purchases	<u>148 000</u>		1
	165 000		
Inventory (30/4/2011)	<u>9 000</u>	<u>156 000</u>	
Gross profit		84 000	2
Expenses		<u>36 000</u>	1
Net profit		48 000	[7]

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(b) Appropriation account for the year ended 30 April 2011

	\$		\$	
Net profit			48 000	
Add interest on drawings				
Robbie (18 000 × 8%)	1 440	2		
Liza (12 000 × 8%)	<u>960</u>	2	<u>2 400</u>	
			50 400	
Less interest on capital				
Robbie (90 000 × 5%)	4 500	1		
Liza (60 000 × 5%)	<u>3 000</u>	1		
			<u>(7 500)</u>	
			42 900	
Less Salary – Liza			<u>(15 000)</u>	1
			27 900	
Share of profit				
Robbie (3/5 × \$27 900)	16 740	1(OF)		
Liza (2/5 × \$27 900)	<u>11 160</u>	1(OF)		
			27 900	[9]

(c) (i) Cash book

	\$		\$	
Balance	12 000	1	Bank charges	250
			Dishonoured cheque	600
			Corrected CB balance	<u>11 150</u>
	<u>12 000</u>			<u>12 000</u>

(ii) Bank reconciliation statement at 30 April 2011

	\$	
Bank statement balance	9 000	1
Less cheques not yet presented	(1 600)	1
Add cheques lodged not yet credited	3 750	1
Cash book balance	<u>11 150</u>	1

OR REVERSED (CB bal 1 150 – 3 750 + 1 600 = 9 000)

[8]

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(d) Two marks for valid explanation to a maximum of 6 marks

Standard practice to enter the following in the cash book after receipt of the bank statement:

- Direct debits
- Standing orders
- Bank charges
- Interest on overdrafts
- Cheques dishonoured

Timing differences

- Money lodged with the bank near the end of the month
- Cheques paid but not yet presented for payment
- Cheques received but not yet credited by the bank
- Errors in recording by the bank and/or the business

[6]

[Total: 30]

3	(a)	(i) $(400 \text{ hours} \times 6) \times 80\% =$	1,920 cars	2	
		(ii) $\$(1.00 + 0.50 + 0.05 + 1.25) = \$2.80 \times 1,920 \text{ cars} =$	\$5 376	2	
		(iii) $(\text{Variable costs } 5376 + \text{Fixed costs } 3840) =$	\$9 216	2	
		(iv) $\$9216 / 1920 \text{ cars} =$	\$4.80 per car	2	
		(v) $\text{Price per car} = \$(4.80 + 25\%)$	\$6.00	2	
		(vi) $(6 \times 1920) = 11\,520 - 9216$	\$2 304	2	[12]
	(b)	(i) $\text{SP} - \text{VC} = \$(6.00 - 2.80) = \$3.20 \text{ per car wash}$		2	
		(ii) $\text{BEP} = \$3840 / \$3.20 = 1200 \text{ cars}$		2	
		(iii) $\text{In dollars} = (1920 - 1200) = 720 \text{ cars} \times \$6 = \$4320$		2OF	
		(iv) $\text{In cars} = 1440 \text{ cars less } 1200 \text{ cars} = 240 \times \$6 = \$1440$		2OF	
		(v) $\$(3.20 / 6.00) \times 100 = 53.33\%$		2OF	[10]

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- (c) (i) BEP = FC/c = \$3240 / 2.40 = 1350 cars 2
 BEP in dollars = 1350 cars × \$6 = \$8100 2 [4]

1

(ii) $(400 \text{ hours} \times \$6) \times 70\% = \frac{2400 \times 70}{100} = 1\,680 \text{ cars}$

Profit = Actual – Break-even
 $(1680 - 1350) = 330 \times c$

1 1 1

$= 330 \times \$2.40 = \792 [4]

ALTERNATIVE

	\$
Sales	10 080
VC 6048	
FC <u>3240</u>	<u>9288</u>
 PROFIT	 792

[Total: 30]