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.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

- Cambridge will not enter into discussions or correspondence in connection with these mark schemes.

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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	3 600 **1**	55 600	
		24 400	
ADD			
4 Depreciation		1 000 **2**	
CORRECTED NET PROFIT		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)			321 000	**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	4 000	84 400		
Current liabilities				
Trade payables	57 000			
Other payables (3000 + 8000)	11 000 **1**	68 000		
Net current assets			16 400	
			1 150 400	
Non-current liabilities				
Loan			200 000	
Net assets			950 400	
Financed by:				
Capital at start			1 000 000	
Add Profit for the year (Net profit)			25 400	**1 (OF)**
			1 025 400	
Less drawings			75 000	
Capital at end			950 400	[7]

(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	148 000	**1**		
	165 000			
Inventory (30/4/2011)	9 000		156 000	
Gross profit			84 000	**2**
Expenses			36 000	**1**
Net profit			48 000	[7]

(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%)	960 **2**	2 400	
		50 400	
Less interest on capital			
Robbie (90 000 × 5%)	4 500 **1**		
Liza (60 000 × 5%)	3 000 **1**		
		(7 500)	
		42 900	
Less Salary – Liza		(15 000) **1**	
		27 900	
Share of profit			
Robbie (3/5 × $27 900)	16 740 **1(OF)**		
Liza (2/5 × $27 900)	11 160 **1(OF)**		
		27 900	[9]

(c) (i) Cash book

	$				$	
Balance	12 000	**1**	Bank charges		250	**1**
			Dishonoured cheque		600	**1**
			Corrected CB balance		11 150	**1**
	12 000				12 000	

(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	11 150	**1**

OR REVERSED (CB bal 1 150 – 3 750 + 1 600 = 9 000) [8]

(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 hours × 6) × 80% =   1,920 cars   **2**

     (ii) $(1.00 + 0.50 + 0.05 + 1.25) = $2.80 × 1,920 cars = $5 376   **2**

    (iii) (Variable costs 5376 + Fixed costs 3840) = $9 216   **2**

    (iv) $9216 / 1920 cars = $4.80 per car   **2**

     (v) Price per car = $(4.80 + 25%) $6.00   **2**

    (vi) (6 × 1920) = 11 520 – 9216 $2 304   **2**   [12]

  (b) **(i)** SP – VC = $(6.00 – 2.80) = $3.20 per car wash   **2**

    (ii) BEP = $3840 / $3.20 = 1200 cars   **2**

    (iii) In dollars = (1920 – 1200) = 720 cars × $6 = $4320   **2OF**

    (iv) In cars = 1440 cars less 1200 cars = 240 × $6 = $1440   **2OF**

     (v) $(3.20 / 6.00) × 100 = 53.33%   **2OF**   [10]

(c) **(i)** BEP = FC/c = \$3240 / 2.40 = 1350 cars   **2**

BEP in dollars = 1350 cars × \$6 = \$8100   **2**   [4]

(ii) (400 hours × \$6) × 70% = $\dfrac{2400 \times 70}{100}$ = 1 680 cars

Profit = Actual – Break-even

(1680 – 1350) = 330 × c

= 330 × \$2.40   = \$792   [4]

ALTERNATIVE

		\$
Sales		10 080
VC	6048	
FC	3240	9288
PROFIT		792

[Total: 30]