Cambridge Assessment International Education

Cambridge O Level

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER				

1344199802

ACCOUNTING **7707/21**

Paper 2 Structured Written Paper **May/June 2021**

1 hour 45 minutes

You must answer on the question paper.

No additional materials are needed.

INSTRUCTIONS

- Answer **all** questions.
- Use a black or dark blue pen. You may use an HB pencil for any diagrams or graphs.
- Write your name, centre number and candidate number in the boxes at the top of the page.
- Write your answer to each question in the space provided.
- Do **not** use an erasable pen or correction fluid.
- Do **not** write on any bar codes.
- You may use a calculator.
- International accounting terms and formats should be used as appropriate.
- You should show your workings.

INFORMATION

- The total mark for this paper is 100.
- The number of marks for each question or part question is shown in brackets [ ].
- Where you are asked to complete a layout, you may not need all the lines for your answer.

This document has **24** pages. Any blank pages are indicated.

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1 Rahat is a trader.

The following transactions took place in March 2021.

March	3	Cash sales, $580, were paid directly into Rahat's business bank account
	6	Paid insurance, $360, by direct debit
	9	Paid $196 to GH Limited by telephone transfer, having deducted 2% cash discount from the amount due
	13	Paid $75 cash for stationery
	17	Cash sales, $140
	27	Sold old office equipment to Burgess, who paid $50 by cheque in full settlement
	30	Paid $340 to Colin by cheque in full settlement of a debt of $350

REQUIRED

(a) Complete Rahat's cash book on the page opposite.
Balance the cash book and bring down the balances on 1 April 2021.

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Rahat
Cash Book

Date	Details		Discount allowed	Cash	Bank	Date	Details		Discount received	Cash	Bank
2021			$	$	$	2021			$	$	$
March 1	*Balance*	*b/d*	.....	*150*	.....	*March 1*	*Balance*	*b/d*	.....	.....	*1980*
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[11]

(b) Complete the following table by placing a tick (✓) in the correct column to indicate whether **each** item would be used to update the cash book **or** would appear in the bank reconciliation statement.

	Update the cash book	Bank reconciliation statement
Cheque from Burgess dishonoured		
Cheque to Colin unpresented		
Overdraft interest		
Standing order paid for rates		

[4]

Rahat is concerned about the level of her bank overdraft. She is considering applying for a bank loan. This would enable her to pay off her bank overdraft **and** to purchase new office furniture.

REQUIRED

(c) Advise Rahat whether she should apply for the bank loan. Justify your answer by providing **two** advantages and **two** disadvantages.

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..... [5]

[Total: 20]

PLEASE TURN OVER

2 John and Banu are partners.

The partners provided the following list of balances at 31 March 2021.

	$
Revenue	158 000
Inventory at 1 April 2020	9 400
Purchases	69 200
Rates and insurance	11 250
Wages	10 475
General expenses	9 675
Discount allowed	2 000
Commission receivable	4 800
Balance at bank	4 000
Trade receivables	14 150
Trade payables	5 835
Premises at cost	130 000
Fittings at cost	18 000
Provision for depreciation of fittings	8 100
Loan from John	10 000
Capital accounts	
John	75 000
Banu	50 000
Current accounts	
John	4 050
Banu	2 365
Drawings	
John	19 000
Banu	21 000

Additional information

1 Inventory at 31 March 2021 was valued at $9200.

2 Rates of $650 were unpaid at 31 March 2021.

3 Commission receivable of $300 was due at 31 March 2021.

4 Depreciation on fittings is to be charged at 15% per annum using the straight-line method.

5 The partnership agreement provides for:

interest on partner's loan of 5% per annum
interest on drawings of 6%
interest on capital of 3% per annum
a salary to John of $8500 per annum
residual profits and losses to be shared 40% to John and 60% to Banu.

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REQUIRED

(a) Prepare the income statement for John and Banu for the year ended 31 March 2021.

John and Banu
Income Statement for the year ended 31 March 2021

	$	$
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[9]

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[Turn over

(b) Prepare the appropriation account for John and Banu for the year ended 31 March 2021.

John and Banu
Appropriation Account for the year ended 31 March 2021

	$	$
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[5]

(c) State the purpose of:

(i) charging interest on the partners' drawings

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..... [1]

(ii) paying interest on the loan from John.

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..... [1]

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(d) Complete the table by placing a tick (✓) against **each** statement which describes an advantage to John of being in a partnership with Banu.

Continuity of existence of the business	
Banu may have skills and knowledge which John does not have	
John is only liable for business debts up to the amount he agreed to contribute	
Additional finance is available to the business	
Risks and responsibilities are shared	
John is bound by the actions of Banu carried out on behalf of the business	
John can discuss matters with Banu before making decisions	

[4]

[Total: 20]

3 TC Limited is a manufacturing company. The company's year end is 31 January.
On 31 January 2021, the company's ledger account balances included the following.

	$
Inventory at 1 February 2020	
Raw materials	7 500
Work in progress	11 220
Finished goods	925
Purchases	
Raw materials	91 400
Finished goods	6 850
Wages	
Factory operatives	52 000
Factory supervisor	23 100
Rent and rates	19 620
Insurance	4 600
General factory expenses	4 200
Carriage inwards on raw materials	6 280
Factory equipment at cost	90 000
Provision for depreciation of factory equipment	30 960

Additional information

1 Inventory at 31 January 2021

Raw materials	8 000
Work in progress	11 900
Finished goods	1 075

2 The factory equipment is to be depreciated at 20% per annum using the reducing balance method.

3 In December 2020, $3600 was paid for rent for the period 1 December 2020 to 28 February 2021.

4 At 31 January 2021 rates of $550 were unpaid.

5 Rent and rates are to be apportioned equally between the factory and the office.

6 Insurance is to be apportioned 75% to the factory and 25% to the office.

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REQUIRED

(a) Prepare the rent and rates account for TC Limited for the year ended 31 January 2021. Balance the account and bring down the balances on 1 February 2021.

TC Limited
Rent and rates account

Date	Details	$	Date	Details	$
.....	.....	.....	.....	.....	.....
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[5]

(b) Prepare the manufacturing account for TC Limited for the year ended 31 January 2021.

TC Limited
Manufacturing Account for the year ended 31 January 2021

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[10]

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The directors of TC Limited are considering the purchase of various low-value items of office equipment.

REQUIRED

(c) Advise the directors whether or not they should charge depreciation on these items. Justify your answer by providing **two** advantages and **two** disadvantages.

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..... [5]

[Total: 20]

4 Neith is a trader. Her financial year ends on 31 March.
Neith prepared the following trial balance which contains errors.

Neith
Trial Balance at 31 March 2021

	Debit	Credit
	$	$
Fixtures and equipment at cost	300 000	
Provision for depreciation of fixtures and equipment	120 000	
Inventory		9 100
Trade receivables		16 100
Provision for doubtful debts	322	
Petty cash	100	
Bank overdraft	11 400	
Trade payables		3 200
Capital at 1 April 2020		160 000
Sales		107 498
Purchases	41 520	
Rent and rates	16 000	
Office expenses	9 000	
General expenses	8 150	
Suspense		210 594
	506 492	506 492

Additional information

1 The value of inventory on 31 March 2021 was included in the trial balance.
On 1 April 2020 the inventory was valued at $8800.

2 On 30 March 2021, a motor vehicle was sold at book value, $2750. The disposal was correctly recorded but no entry was made in the account of the purchaser. The purchaser was expected to pay the amount due on 30 April 2021.

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REQUIRED

(a) Prepare the corrected trial balance at 31 March 2021.

Neith
Corrected Trial Balance at 31 March 2021

	Debit $	Credit $
Fixtures and equipment at cost	.....	.....
Provision for depreciation of fixtures and equipment	.....	.....
Inventory	.....	.....
Trade receivables	.....	.....
Provision for doubtful debts	.....	.....
Petty cash	.....	.....
Bank overdraft	.....	.....
Trade payables	.....	.....
Capital at 1 April 2020	.....	.....
Sales	.....	.....
Purchases	.....	.....
Rent and rates	.....	.....
Office expenses	.....	.....
General expenses	.....	.....
.....	_____	_____
	_____	_____

[6]

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[Turn over

Neith later discovered the following errors.

1 The total of the general expenses column of the petty cash book, $32, for May 2020 had been posted to the office expenses account.

2 A payment received, $75, from Anya, a credit customer, had been credited to the sales account.

3 A credit purchase, $120, from Samir had been omitted from the books of account.

4 A cheque payment, $19, for office expenses, had been recorded as $91.

5 An invoice for office cleaning, $235, had been debited to the fixtures and equipment account.

REQUIRED

(b) Prepare the journal entry to correct **each** of the above errors. Narratives are **not** required.

Neith
Journal

Error number	Details	Debit $	Credit $
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[10]

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(c) Complete the table by placing a tick (✓) to indicate the effect of **correcting each** error 2 to 5. Ignore depreciation of non-current assets.

The effect of correcting error 1 has been shown as an example.

Error number	Increases capital	Decreases capital	No effect on capital
1			✓
2			
3			
4			
5			

[4]

[Total: 20]

5 Omer is a trader. He provided the following information.

	$
For the year ended 30 April 2021	
Credit sales	191 000
Credit purchases	120 000
Gross profit	80 220
Commission receivable	20 280
Expenses	29 830
At 30 April 2021	
Trade receivables	12 400
Trade payables	7 000

REQUIRED

(a) Calculate the following ratios.

Trade receivables turnover (days)	
workings	answer (round up to next whole day)

Trade payables turnover (days)	
workings	answer (round up to next whole day)

[4]

The year ended 30 April 2021 was Omer's first year of trading. His main competitor is Ahu who has been trading for many years. Ahu has established a good reputation.

The following information relates to Ahu's business for the year ended 30 April 2021.

Trade receivables turnover	36 days
Trade payables turnover	31 days

REQUIRED

(b) (i) Suggest **two** reasons for the difference in the trade receivables turnover of the two businesses.

1 .....

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2 .....

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[2]

(ii) Suggest **two** reasons for the difference in the trade payables turnover of the two businesses.

1 .....

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2 .....

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[2]

Omer wants to increase sales and is considering employing a marketing manager who would be paid $28 000 per annum.

REQUIRED

(c) Advise Omer whether or not he should employ a marketing manager. Justify your answer. You may include reference to the possible effects on the income and expenses of the business.

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..... [5]

Omer is concerned that an increase in sales would lead to an increase in irrecoverable debts.

REQUIRED

(d) State **three** ways by which Omer could reduce the possibility of irrecoverable debts.

1 .....

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2 .....

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3 .....

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[3]

By writing off any irrecoverable debts, Omer would be applying the matching and prudence principles.

It is also important for Omer to apply other accounting principles.

REQUIRED

(e) State **why** Omer should apply **each** of the following accounting principles.

Matching

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Prudence

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Consistency

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Business entity

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[4]

[Total: 20]

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